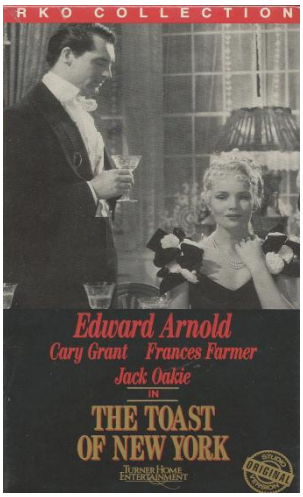
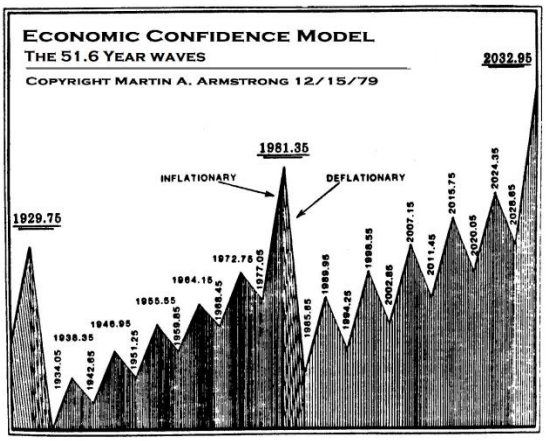
Martin A. Armstrong

Martin Armstrong was born in New Jersey the son of a lawyer and Lt. Col under **General Patton** in World War II. **Martin** was encouraged by his father to get involved in computers during the mid-1960s. He completed engineering both in hardware and software but after being offered positions by a government contractor **RCA** in Thule Greenland, Guam, or Vietnam, he decided to go back to gold business that he had first began working while in High School to earn money for a family trip to Europe in 1964 for the summer. He continued to work on weekends through high school finding the real world exciting for this was the beginning of the collapse of the gold standard. Silver was removed from the coinage in 1965 and by 1968 gold began trading in bullion form in London. The gold standard collapse entirely in the summer of 1971 and gold became legal to trade in America during 1975 in bullion form. Previously, the market for gold had always been in coin form as long as they were dated prior to 1948.

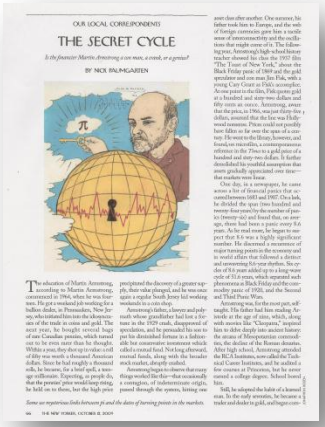


Armstrong began his studies into market behavior when first becoming fascinated by the events during the **Crash of 1966**. Working through this period exposed him to the real world compared to the theories offered in school. When his history teacher showed an old black & white film, ***The Toast of New York***, starting **Edward Arnold** and **Cary Grant**, which portrayed the gold manipulation of **Jim Fisk** that resulted in the ***Panic of 1869***, his perception of the world was changed forever. This was the Panic when the term “Black Friday” was coined because the mob stormed Wall Street and was dragging the bankers from their offices and hanging them. The riot prompted troops to be sent in to restore peace. A scene in this movie showed **Cary Grant** reading the prices of gold from the tickertape as it hit $162 in 1869. Since gold was $35 in the 1960s, there was clearly something wrong with the whole linear thought process of economic history. **Armstrong** became captivated by this shocking revelation that there were not just booms and busts, but also peaks and valleys that would last centuries.

Armstrong pursued his studies of economics searching for answers behind the cycle of boom and busts that plagued society both in Princeton and in London. He began to do forecasting as a service to institutional cash market players in gold that included Swiss banks. As currency also began to float in 1971, **Armstrong** found the gyrations thought-provoking and began to notice the same oscillations that appeared in stocks in 1966, real estate into 1970, and gold as it rose to $42 in 1968 and fell below the official price of $35 in 1970, were manifesting in the rise and fall of currency prices. **Armstrong** became one of the very first to being forecasting currencies.



1979 hand drawing

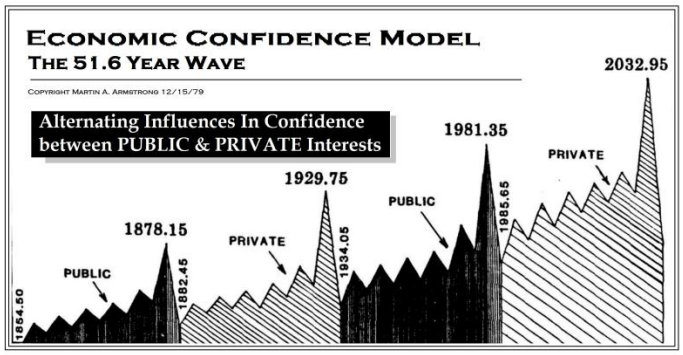

OUR LOCAL CORRESPONDENT

THE SECRET CYCLE

Is the financier Martin Armstrong a con man, a crook, or a genius?

BY NICK PAUMGARTEN

Having the background in computers, the dream of most programmers was to create ***Artificial Intelligence*** in the 1960s to early 1970s that led to a lot of Sci-Fi movies and books. **Armstrong** had the unusual background in computer science in hardware and software and was perhaps the first to begin to apply his diverse knowledge from two fields together. He began creating a global model in the mid-70s and was publishing the results from about 1972. His search for answers to the oscillations of the economy led him to conclude it was what people believed more so than realty. Of this maxim has been stated as ***SELL THE RUMOR, BUY THE NEWS***. He named the major long-term global model the **Economic Confidence Model,** which fine-tuned the business cycle to 8.6 years, when most, including former Fed Chairman Paul Volker, accepted that the business cycles was about 8 years. This model has become famous for since the subsequent discovery that its accuracy may be based upon the fact that it is the perfect business cycle [(365.25 days x 8.6 = 3141.15 days) = Pi] ***(See "The Secret Cycle"*** *by* **Nick Paumgarten;** ***The New Yorker Magazine*** *Oct 2009 10 Page Article on* ***Armstrong's*** *discovery****)***



Because gold was making a high in 1980 that **Armstrong** believed would last for the typical 26 year period, he decided to retire from making markets. He had been one of the first to establish over-night markets before there were such trading desks. Relying on friends in Hong Kong and London, **Armstrong** had made markets after New York closing when no one else would. With people lining up at all sorts of stores to sell gold for cash, those dealers needed someone to buy the scrap gold. **Armstrong** was one of the top three buyers in the country as small dealers sent their purchases to Armstrong who then contracted with Englehard in New Jersey to refine the gold pouring it into acceptable exchange traded bars. Most assumed he was speculating, but in fact, with Francis Lee, he would sell in Hong Kong, but in the cash markets, delivery was then required in London the next day. Friends would make the delivery in London in the morning and by New York opening, **Armstrong** would exchange that position with a New York contract. Getting by on at best 4 hours sleep, when his model proved to be correct on gold project both the price and time to the precise day of January 21, 1980, he announced his retirement. It was at this time that his many clients around the world requested that he still publish his analysis. He was not interested in this idea, but client eventually convinced him they would pay $2,000 and hour for his work. Princeton Economics was thus born as the research was spun off as a separate company.

THE WALL STREET JOURNAL.

June 27, 1983

Front Page 2nd Section

For $33.50, You Can Have a Minute With This Commodities Adviser

Plenty of Customers

On June 27, 1983, **Joseph Perkins** Staff Reporter of **Wall Street Journal** had heard about **Armstrong** and the rate people were paying to obtain his analysis and wrote a story entitled "For $33.50 You Can Have a Minute with This Commodity Adviser." **Armstrong** eventually raised his rate to $10,000 an hour trying more to restrict business, than attract it.

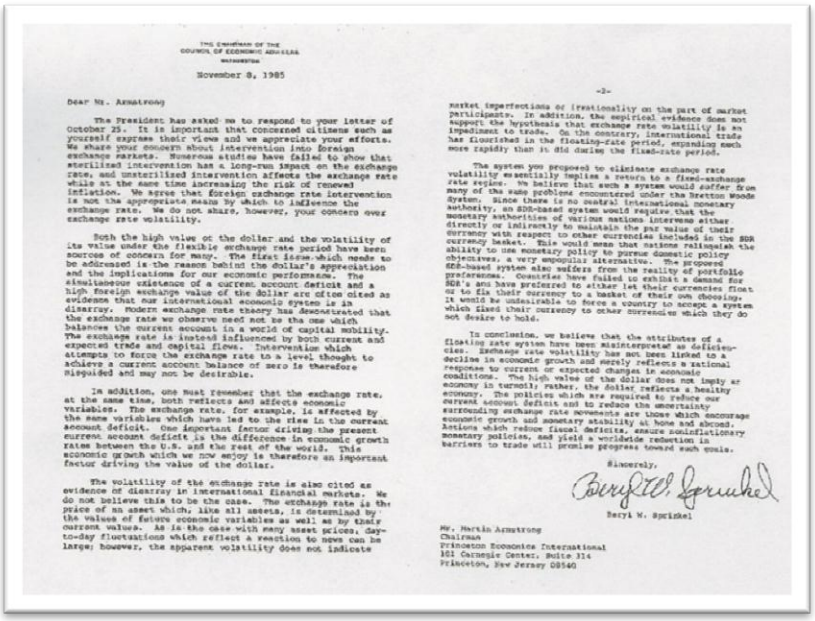
Since **Armstrong** was providing forecasting for clients generally three times during the course of each trading day, it began on a closed-circuit telex system - a forerunner to the internet among professional dealers. Eventually, the reports were transmitted by **Western Union**, and the cost

to deliver such reports could be as high as $75 each. A client taking all the all markets would have to pay up to $250,000 annually just in communication costs. For this reason, the analysis tended to be institutional due to the high cost. This prompted the opening of offices overseas to reduce the costs of delivery. Trying to manage overseas offices from the United States was impossible, and **Armstrong** began to take in partners in each country. As a consequence **Princeton Economics International, Ltd** was born. **Armstrong** became the chairman focusing on the research while the partners became the managing directors around the globe.

1985 Plaza Accord

From left are Gerhard Stoltenberg of West Germany, Pierre Bérégovoy of France, James A. Baker III of the United States, Nigel Lawson of Britain and Noboru Takeshita of Japan

By 1985, **Armstrong** was certainly one of the top premier Foreign Exchange analysts in the world. He stepped up in 1985 when **James Baker** was convincing **President Ronald Reagan** to create the G5 (Group of 5 now G20) nations to manipulate the currency values to affect the trade deficit, which became known as the ***Plaza Accord***. In Britain, this meant the abandoning of monetarism and the adoption of a *de facto* exchange-rate target of 3 deutsche marks to the pound (ruling out interest-rate rises), and excessive fiscal laxity (in particular the 1988 budget) unleashed an inflationary spiral. This also set the stage for the eventual attack on the pound in 1992 to break that peg to the Deutsche mark.



November 8, 1985

Dear Mr. Armstrong

The President has asked me to respond to your letter of October 25. It is important that concerned citizens such as yourself express their views and we appreciate your efforts. We share your concern about intervention into foreign exchange markets. Numerous studies have failed to show that sterilized intervention has a long-run impact on the exchange rate, and unsterilized intervention affects the exchange rate while at the same time increasing the risk of renewed inflation. We agree that foreign exchange rate intervention is not the appropriate means by which to influence the exchange rate. We do not share, however, your concern over exchange rate volatility.

Both the high value of the dollar and the volatility of its value under the flexible exchange rate period have been sources of concern for many. The first issue which needs to be addressed is the reason behind the dollar's appreciation and the implications for our economic performance. The simultaneous existence of a current account deficit and a high foreign exchange value of the dollar are often cited as evidence that our international economic system is in disarray. Modern exchange rate theory has demonstrated that the exchange rate we observe need not be the one which balances the current account in a world of capital mobility. The exchange rate is instead influenced by both current and expected trade and capital flows. Intervention which attempts to force the exchange rate to a level thought to achieve a current account balance of zero is therefore misguided and may not be desirable.

In addition, one must remember that the exchange rate, at the same time, both reflects and affects economic variables. The exchange rate, for example, is affected by the same variables which have led to the rise in the current account deficit. One important factor driving the present current account deficit is the difference in economic growth rates between the U.S. and the rest of the world. This economic growth which we now enjoy is therefore an important factor driving the value of the dollar.

The volatility of the exchange rate is also cited as evidence of disarray in international financial markets. We do not believe this to be the case. The exchange rate is the price of an asset which, like all assets, is determined by the values of future economic variables as well as by their current values. As is the case with many asset prices, day-to-day fluctuations which reflect a reaction to news can be large; however, the apparent volatility does not indicate

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market imperfections or irrationality on the part of market participants. In addition, the empirical evidence does not support the hypothesis that exchange rate volatility is an impediment to trade. On the contrary, international trade has flourished in the floating-rate period, expanding much more rapidly than it did during the fixed-rate period.

The system you proposed to eliminate exchange rate volatility essentially implies a return to a fixed-exchange rate regime. We believe that such a system would suffer from many of the same problems encountered under the Bretton Woods System. Since there is no central international monetary authority, an SDR-based system would require that the monetary authorities of various nations intervene either directly or indirectly to maintain the par value of their currency with respect to other currencies included in the SDR currency basket. This would mean that nations relinquish the ability to use monetary policy to pursue domestic policy objectives, a very unpopular alternative. The proposed SDR-based system also suffers from the reality of portfolio preferences. Countries have failed to exhibit a demand for SDR's and have preferred to either let their currencies float or to fix their currency to a basket of their own choosing. It would be undesirable to force a country to accept a system which fixed their currency to other currencies which they do not desire to hold.

In conclusion, we believe that the attributes of a floating rate system have been misinterpreted as deficiencies. Exchange rate volatility has not been linked to a decline in economic growth and merely reflects a rational response to current or expected changes in economic conditions. The high value of the dollar does not imply an economy in turmoil; rather, the dollar reflects a healthy economy. The policies which are required to reduce our current account deficit and to reduce the uncertainty surrounding exchange rate movements are those which encourage economic growth and monetary stability at home and abroad. Actions which reduce fiscal deficits, ensure noninflationary monetary policies, and yield a worldwide reduction in barriers to trade will promise progress toward such ends.

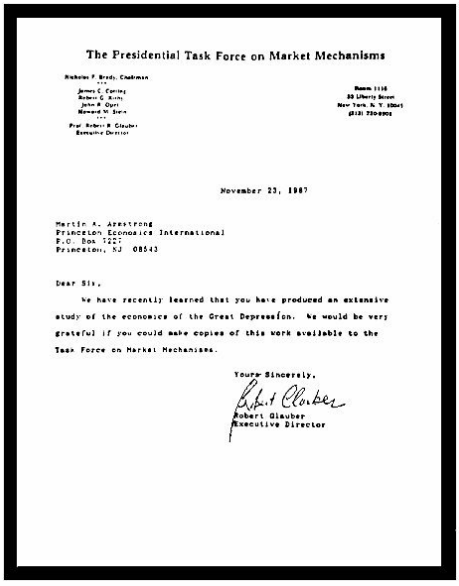
Sincerely,

Beryl W. Sprinkel

Mr. Martin Armstrong
Chairman
Princeton Economics International
101 Carnegie Center, Suite 314
Princeton, New Jersey 08540

Armstrong's work into previous floating exchange rate systems (including the American Civil War and the ***Panic of 1869*** when gold traded on the NYSE), led him to then warn the **President** that artificial manipulation of currency values would lead to greater instability and give birth to rising volatility. In a response from the White House on November 8, 1985, on the one hand agreed currency manipulation was not the way to go, but on the other hand, they failed to agree with the concern about increasing volatility: ***"We do not share, however, your concern over exchange rate volatility,"*** wrote Economic Advisor **Beryl Sprinkel.**

In 1986, **Armstrong** published ***The Greatest Bull Market In History***. This was the first study ever written that put the entire world events together demonstrating that the Great Depression of the 1930s was a Global Capital Flow problem set in motion largely by sovereign debt issues that led to a massive capital flight into the dollar the created a tidal wave of deflation. By the 1987 Crash, the **Presidential Task Force *(Brady Commission)*** was then calling upon **Armstrong** for help recognizing that volatility had become the number one problem. Because **Armstrong** had then forecast that the low was in place and that new highs would be seen in the stock markets before new lows, institutional brokerage houses were begging **Armstrong** to address their retail audiences. He agreed given the fact that most analysts were calling for a Great Depression. **Armstrong** then appeared before audiences exceeding 25,000 around the world from Europe, Canada, Australia, New Zealand to Hong Kong, Singapore and Japan.



The Presidential Task Force on Market Mechanisms

Robert F. Brady, Chairman

November 23, 1987

Martin A. Armstrong
Princeton Economics International
P.O. Box 1227
Princeton, NJ 08543

Dear Sir,

We have recently learned that you have produced an extensive study of the economics of the Great Depression. We would be very grateful if you could make copies of this work available to the Task Force on Market Mechanisms.

Yours Sincerely,

Robert Glauber
Executive Director

Armstrong warned that the capital flows had been shifted with the 1987 Crash much like there were after-shocks following an earthquake. He warned that the **G5** had made an egregious error trying to manipulate currency values to reduce the trade deficit. He warned that by lowering the dollar value by 40% from the 1985 high, not merely made American goods cheaper overseas, it also devalued American assets held by foreign investors and that was what caused the ***1987 Crash*** as they panicked and sold. Now money was being repatriated and the new capital concentration was taking place in Japan. **Armstrong** then warned would peak in December 1989. When that took place with the Nikkei reaching its high on the last day of 1989, the bubble burst and Japan would begin its Great Depression that would again last for about 26 years, the same time duration that took place in the United States after 1929. The American boom postwar began 1955. Now central bankers were calling **Armstrong** personally wanting to know if this would be a depression outside of Japan or would be another short-lived even like that of 1987?

Capital flows again shifted and now turned toward Southeast Asia. By 1994.25, that trend peaked and capital began to shift once more back to America and Europe with the approach of creating the Euro and the handing back of Hong Kong to China. Indeed, the S&P 500 bottomed precise again to the day on 1994.25 as it did in 1987. About 3.14 years from the 1994.25 shift in capital flows, the ***Asian Currency Crisis*** appeared on target. **Armstrong** was being called upon by many governments in the West. Committees working out the plans for the Euro sought the results of this global model. But in 1997, **Armstrong** was requested by the **Central Bank of China** to fly to Beijing for a meeting. **Armstrong** was perhaps the first independent Western analyst ever to be invited to China. Princeton Economics had entered an agreement with China to do all the forecasting within its economy. China was keeping track of 249 varieties of tea alone and the diversity of prices around the nation for the same tea.

Sir Alan Walters
(1926-2009)

Armstrong's friendship with **Sir Allan Walters,** who was former Prime Minister **Lady Margaret Thatcher's** personal economic advisor, was instrumental in several ways. **Alan** was well familiar with the Princeton computer models and when the British pound was under attack in 1992, **Armstrong** was called to ask what the model was projecting for the pound. **Alan** and **Armstrong** dined often together in London and **Alan** also flew in to Princeton. **Armstrong** relayed that the computer was projecting the decline in the pound and recommended it should be devalued or allowed to float. Since then Prime Minister **John Major** had vowed not to devalue the pound, the only solution was to allow it to float to seek its own level. While it is true that Armstrong knew former Prime Minister Thatcher of Great Britain and had even visited her at her office in Victoria on trips to London, it was not true that he regularly advised **Lady Thatcher**. It is true that he named a report "It's Just Time" based upon his political discussions with the Prime Minister who made that remark regarding the upcoming elections in which she believed **John Major** would lose because the conservatives held power long enough and respected that there was a cyclical rhythm to politics.

Armstrong's work has become world renown. This model has successfully pinpointed not merely major specific days who events well in advance, but it has provided one of the most consistent guides for understanding the turning points in the global economy and thus the business cycle not merely within a domestic economy, but within the global economy on a collective basis. This has been demonstrated by numerous articles.

Not merely did we use the back cover of the Economist Magazine in July 1985 to announce a break new change in trend and the end of deflation, but again Barrons just reported in June 2011 that the model was once again called for a change in trend that would manifest itself in stocks and they approach new highs once again.


Has the dollar peaked and gold bottomed at last?

PRINCETON ECONOMICS INTERNATIONAL LTD.

Princeton · London · Geneva

Back Page of the Economist July 1985 ran for 3 weeks to announce the turning point in the world economy

Barrons reported June 25, 2011:

REVIEW | SATURDAY, JUNE 25, 2011

Circular Reasoning: A Market for Pi in the Sky?

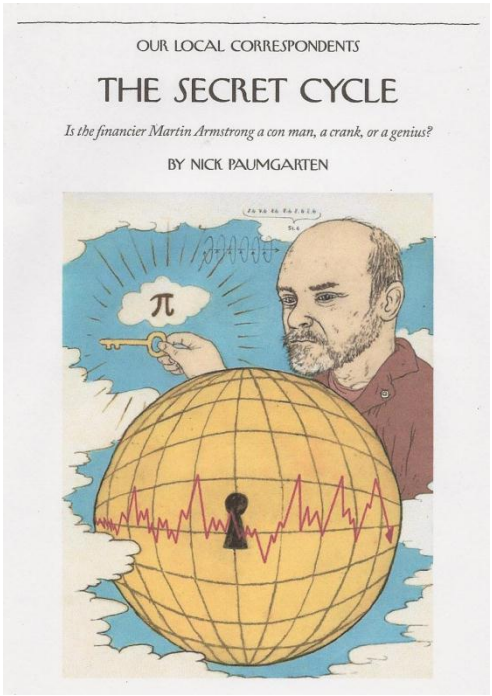
By ROBIN GOLDWYN BLUMENTHAL | MORE ARTICLES BY AUTHOR

The man who called the '87 crash is now calling for a long-term market rise.

"Armstrong is the developer of the Armstrong Economic Confidence Model, best known for calling the crash of 1987 to the very day. The model pegged June 13-June 14, 2011 as the start of a long-term upward trend in the market; the market obliged by notching its first weekly rise since April 29."

Time Magazine, November 30th, 2009, Justin Fox wrote:

Armstrong's model "***made several eerily on-the-mark calls using a formula based on the mathematical constant pi.***" (Pg 30; Nov. 30, 2009).



OUR LOCAL CORRESPONDENTS

THE SECRET CYCLE

Is the financier Martin Armstrong a con man, a crank, or a genius?

BY NICK PAUMGARTEN

The New Yorker Magazine, October 12th, 2009, The Secret Cycle, by Nick Paumgarten

"His model singled out, in advance, the day of the October, 1987, crash. … Pi suggested some future turning points which Armstrong watched carefully as they approached. Among them was December, 1989, which marked the Nikkei's peak before it crashed. This call earned him the magazine Equity's award as the top North American economist, and a big following in Japan, where the idea of cycles, a tenet of Eastern belief, did not seem so far-fetched. He presided over conferences in the ballroom of the Imperial Hotel in Tokyo and began investing billions of dollars on behalf of Japanese clients. He boasted that the Japanese called him Mr. Yen. Another big pi date was July 20, 1998, which turned out to mark the high point in the S. & P. just before a Russian default broke the giant hedge fund Long Term Capital Management and nearly wrecked the financial system. Armstrong by now was running a couple of hedge funds, and the Magnum Hedge Fund Reporter named him Fund Manager of the Year.

Not long afterward, he claims, the C.I.A. telephoned his firm, eager to get a closer look at his model. Agents had been watching him and were curious about how he had managed to call the collapse of the ruble. They asked if he would come to Washington, he said, and build his model for them. He declined. Finally, in 1999, he published a report—his last at Princeton Economics—explaining the part that pi had played in his calculations."

Bloomberg News Sept 28th, 2011 by Zeke Faux and David Glovin

"In Armstrong's view of the world where boom-bust cycles occur like clockwork every 8.6 years, what matters is his record as a forecaster. … He called Russia's financial collapse in 1998, using a model that also pointed to a peak just before the Japanese stock market crashed in 1989. These days, as the European sovereign-debt crisis roils markets worldwide, he reminds readers of his October 1997 prediction that the creation of the euro "will merely transform currency speculation into bond speculation," leading to the system's eventual collapse."