

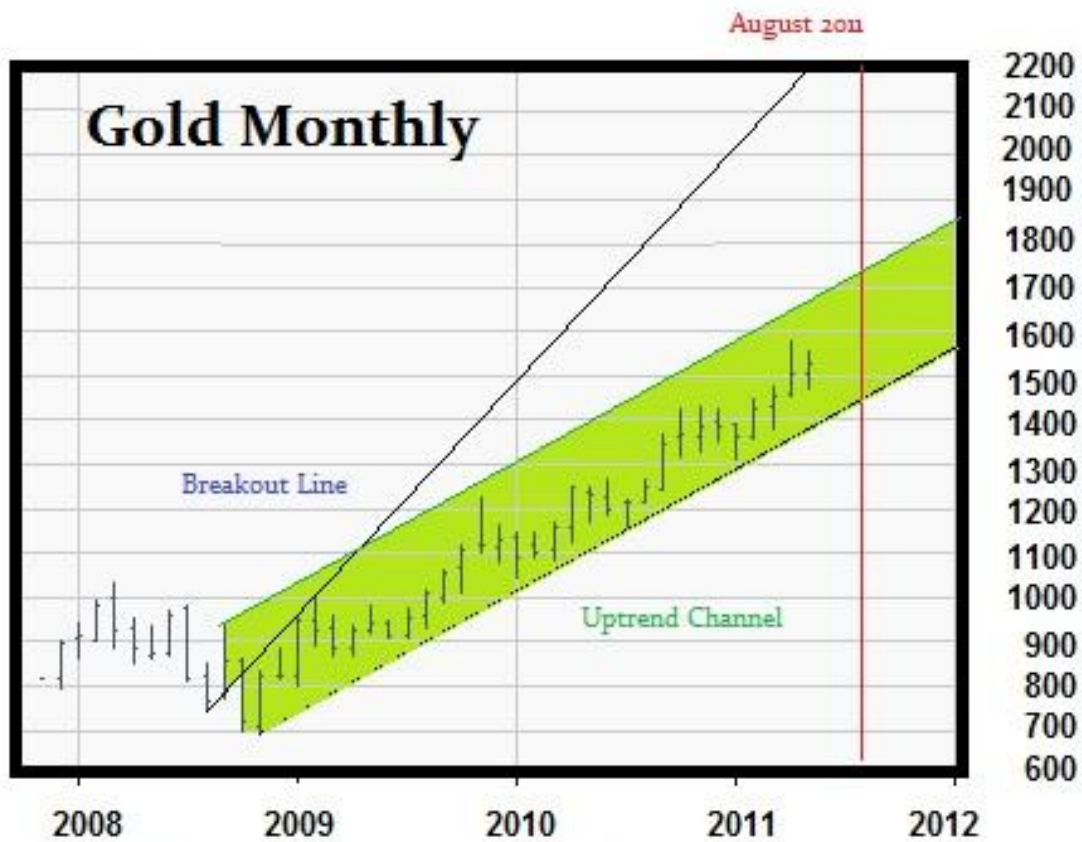
ARMSTRONG ECONOMICS FORECASTING THE WORLD

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Financial-Capital-Equity-Commodity & Political Trends
History Is a Catalogue of Solutions

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Gold - The Final Frontier?

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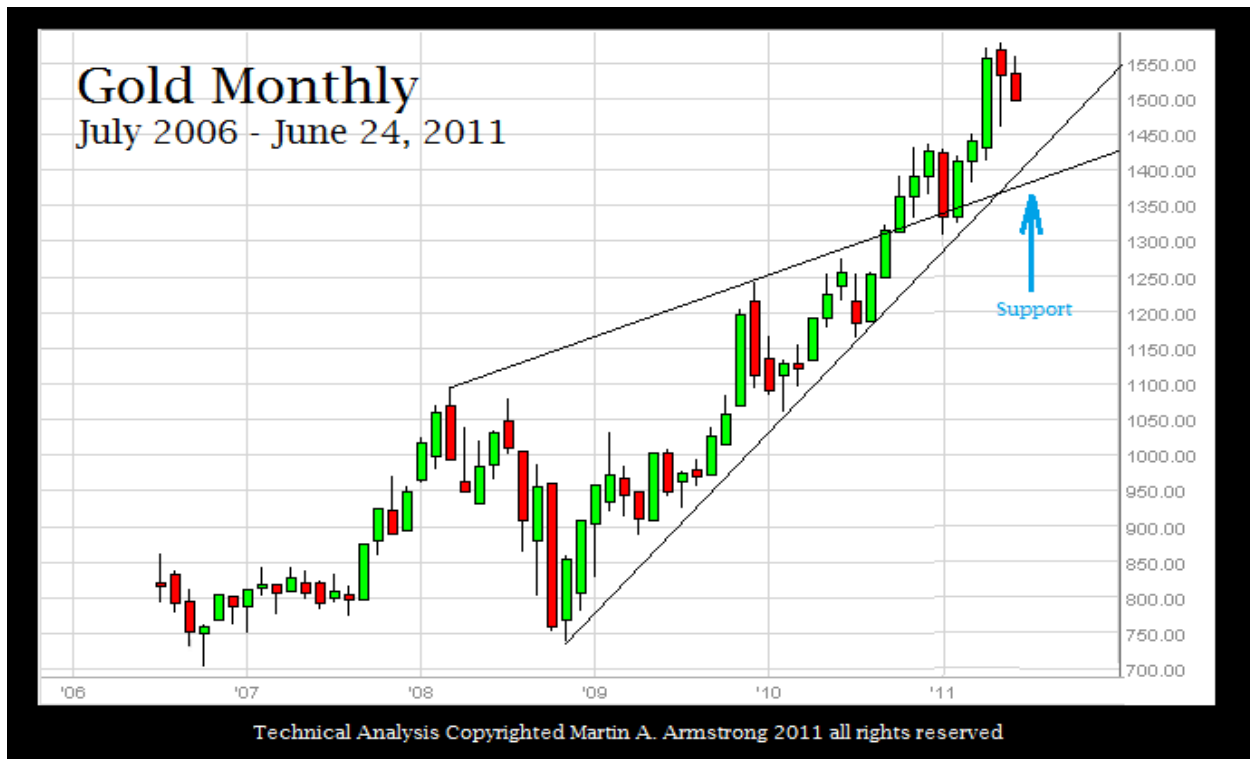
**By: Martin A. Armstrong
former Chairman of Princeton Economics International, Ltd.**

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P**OLITICIANS** just don't get what is going on. They are living in a dream world where they are so wrapped up in themselves that they fail to realize (1) they are the problem, and (2) the emperor truly has no clothes. They said Nero fiddled while Rome burned. They are jousting for position only to be able to blame the other party for the next election and to **HELL** with our future. The majority of politicians are so wrapped up in themselves they are completely disconnected from the people. They rant and rave over pointless dogma but are clueless to how the real world actually functions. They must be living under a rock because they are completely void of any common sense whatsoever and are oblivious to the future. They assume that government is exempt from **EVERY** law and economic principle and can actually manipulate their way out of anything. Some are just lining their pockets and getting theirs before it is too late.



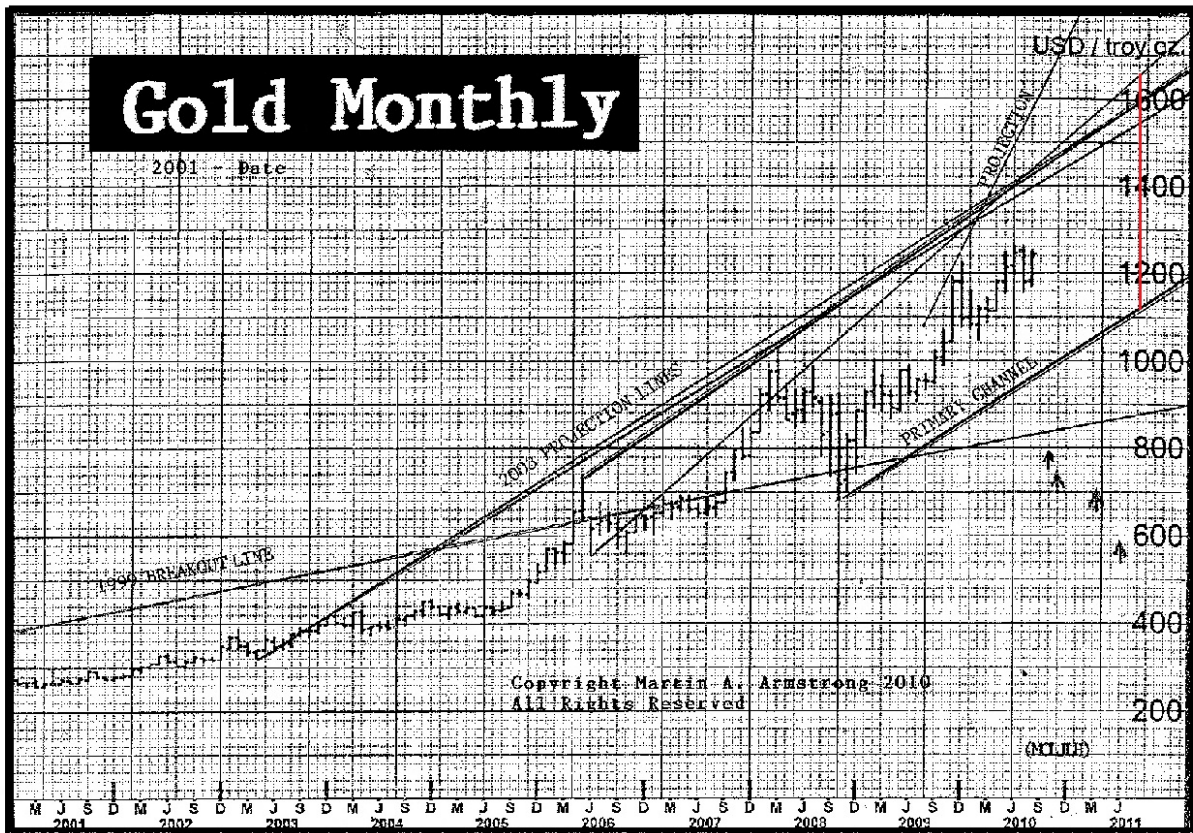


Gold is approaching August and what happens after **Labor Day** is going to be very interesting. Gold so far has not rallied as did silver. It lacked the energy stored up within it to have any real meaningful crash without going up first. As I have been warning, support in gold seems fairly solid at the 1000-1300 level. This in itself suggests that we are likely to see a final burst to the upside perhaps going into the last week of August before there is a correction, but still there appears to be support at the 1000-1300 level regardless of how high gold could rally.

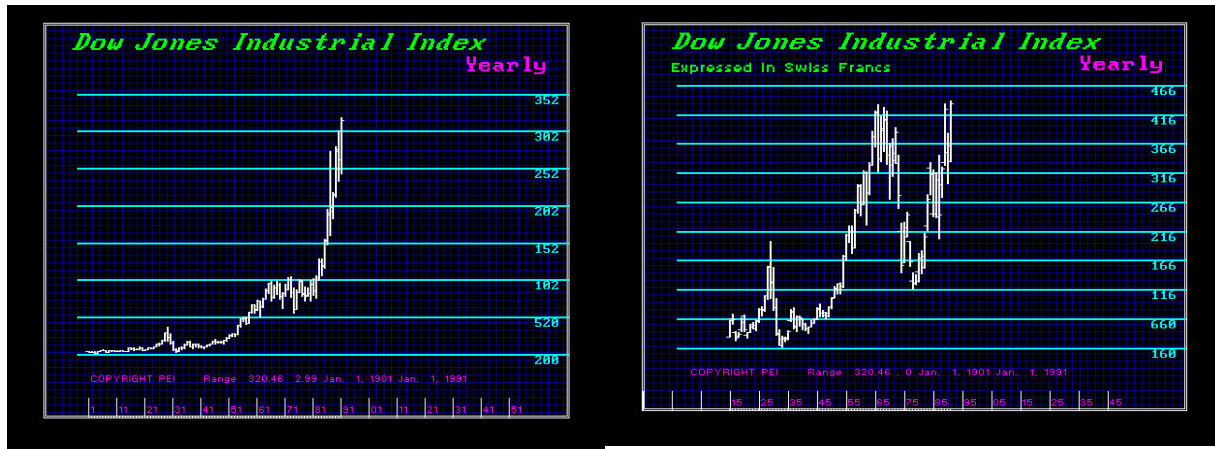
The **Weekly Breakout Line** stands at \$2550 for the last week of August, which would be the maximum resistance target that is still within a **NORMAL** trading cycle. Even the **Projection Line** from the 1999 low now stands at \$2600 for this same time period. The more contained resistance will stand at the \$1700-1730 area defined by the 2009 uptrend channel pictured above and slightly lower on the **Monthly Primary Channel**. The exponential price rally in gold still appears waiting in the wings for the years ahead.

The key area to watch for year-end will be last year's close of \$1421.40. A close below this area would imply a retest of support for 2012 before a surge back to the upside. A close **ABOVE** this level will warn that 2012 will produce a new high, but we could then retest support for up to two years into 2014 and rebuild again with the high being extended even further out most likely into January 2020. That would be forming at an astronomical new price level depending solely upon the monetary system. The dollar as we know it will disappear. The default will involve a new currency swapped for the old as was the case with the **Continental Currency** when the US was formed. That was Europe's problem. They retained the old debts, revalued them with the new higher currency the **Euro**, and now wonder why **Greece, Italy, Portugal, and Ireland** are in trouble? **Hello!** Does anybody understand currency?

Timing wise, a high is ideally due in August with a shift in trend thereafter taking place in September. It would perhaps be tied to hope triumphing over experience like Liz Taylor and her many husbands - too many to recall. Many may be enticed into believing the sovereign debt crisis is solved, and this will set the stage for the inevitable correction that lies of the horizon. Such triumph of hope over experience will not last that long. If gold were to exceed the top of the **Uptrend Channel** and exceed the \$2000 level, then we could see a 7 month decline thereafter where the socialism will proclaim victory over economic and accounting reality. That would call for a low in Feb/March 2012.



Pictured here is the hand drawn chart I published back in September 2010. I have added a red vertical line showing August 2011. The arrows indicating timing changes seemed to have worked well with the high forming in December 2010 at \$1431 that was followed by a drop to \$1307 in January 2011. Gold has remained nicely contained within that **Primary Channel** showing this is **STILL** nothing out of the ordinary. I have been warning **ALL** along, that there is **NO BUBBLE TOP** as long as gold is still in the **Primary Channel**. This is an advance, but **NOTHING** abnormal whatsoever. The real bull market will appear blasting to new levels most refuse to believe because that will only be an indication that the Marxist world in the West is coming to an end just as it did in Russia and China. Centralized planning failed for them just as it is failing in the West. It is not even the social programs, just mismanagement.



Those who keep espousing the Gold Standard as the way out do not understand much about history. There has **NEVER** been a gold standard that has ever lasted very long. People **CONFUSE** the concept that gold may be used as the **MEDIUM OF EXCHANGE** and rise to the **UNIT OF ACCOUNT** for brief periods as well with the idea that somehow money has to be a constant. This line of thinking is highly dangerous. It even invited confiscation when in fact gold is simply a commodity as is everything else right down to labor.

WHAT IS MONEY?

Perhaps the single greatest misconception is the definition of **MONEY** being some fixed concept. That is leading people to demand a return to a gold standard that would impose deflation upon the whole world and probably war. Returning to the gold standard would do the same thing that Greece is experiencing and Italy is about to suffer. All your old debts would now be denominated in gold increasing the debt burden.

What is or has been **MONEY** throughout the course of time has been ignored by those in power as well as those who must use it. If we chart anything for the 20th century such as the Dow Jones Industrials, what was actually **MONEY** had changed **twice** during the time period covered by this chart! We forgot what **MONEY** actually is and how to measure it. We have forgotten that it is **NOT** a constant measure of value. It would be like trying to speak yet the language changes every minute. Pictured here is the Dow in dollars compared to the Dow expressed in Swiss francs. There is **NO** constant in money because money is simply another variable in the entire economic-mix. Gold is a **COMMODITY** that is rare enough to provide a **STORE-OF-WEALTH** that is recognized universally on a global scale. **REAL ESTATE** has no international value because it cannot be transported outside the domestic economy. **LABOR** has no true international value because it fluctuates among nations dependent upon a host of other factors. Gold is a commodity that is the same in all nations, yet its value varies internationally because it is a hedge against the fiscal mismanagement of government. There is **ABSOLUTELY** no government that has not defaulted upon its debt except Romania during the 1980s.

The idea of a gold standard is flawed. Just because people used gold as a **MEDIUM OF EXCHANGE** since biblical times does **NOT** mean there was a **gold standard**. There was **NO** such standard implying some settled constant value among nations. The statement is just absurd.



Napoleon 20 franc Issued 1807-1813

There was a gold standard that emerged under Napoleon, not by economic design, but by the desire to show authority and to facilitate trade. Napoleon did revise the French monetary system. The kings used

a currency called the “ecu” and eventually they became known as a “Loui” named after the king. Napoleon introduced a new denomination the “franc” and as he conquered Europe, he standardized the monetary system. In other words, the French gold 20 franc coin was struck at a weight of 3.86 grams amounting to a fine gold content of .1867 of a troy ounce. In Italy, 20 lire now equaled French 20 francs and in Spain 80 reales also equaled French 20 francs. A gold standard was created among the French occupied countries. Both Belgium and Switzerland also adopted this issue of a gold 20 franc coin with the same weight.



EUROPEAN GOLD COINAGE 1803-1947



Napoleon Kingdom of Naples 20 Lira
1800-1827 3.86 grams



Napoleon Kingdom of Spain 80 Reales
1809-1848 3.86 grams



Belgium 20 Francs
1835-1914 3.86 grams



British Sovereign 1 Pound
1817-1979 4.87 grams



Switzerland 20 Francs
1871-1947 3.86 grams



United States \$5 Gold Piece
1834-1929 5 grams



The USA issued \$5 gold coins with a weight of 5 grams at .89925 fine equal to .2417 of a troy ounce that were issued between 1834 and 1836. There was a slight refinement to .900 fine raising the net weight to .2419. The first issue of \$5 gold coins 1795-1833 was 5.34 grams at .91666 fine amounting to .2578 of a troy ounce. The US was not on the same standard as the French. What gold purchases in one country compared to another varied widely. Those who advocate a return to the gold standard do not quite comprehend what they are really asking for.



BRITISH BANK NOTE 1797 ISSUED DURING THE ABANDONMENT OF GOLD COINAGE (1797-1812)

The British, who stopped minting gold in 1797, resumed in 1817 with a new gold sovereign (pound) that weighed of 4.87 grams and a fineness amounting to .2354 of a troy ounce. The Greeks issued a 20 drachms from 1833 until 1967 at the French weight of 3.86 grams. Germany eventually issued a 20 mark



Greek Gold 20 drachma 1833 - 1967 at the French weight of 3.86 grams

coin between 1871 and 1915 at 4.78 grams or .2305 of a troy ounce following the British. Japan issued a 5 yen coin at 4.98 grams between 1870 and 1897 that was .2411 of a troy ounce. So yes they used gold, but there was no **STANDARD** insofar as a single world currency unit was concerned.

Time of Kroisos 560BC First Monetary Reform

Creating Bmetallic Coin System



Gold and Silver Staters

Standards are largely a myth and have endured only for brief periods of time as **MONEY** reverts always to its raw form – a tangible commodity. This is important to understand for in your own mind, you will base your decisions on your perception of value. This not merely is centered upon what nation you are in denominating your thoughts in your local currency, but then there is also a time warp factor. We are accustomed to what things generally cost in our 20s and 30s. As time passes by, you will hear grandparents complain about how bread use to be 5 cents during the Depression. Our perception of value also tends to drag in time as to what we believe to be normal.



**Highly Worn Stater
with 9 countermarks**

Changing standards is **NEVER** easy. We are plagued with biases that interfere with our observations. For example, **April Fool's Day** emerged because Americans were stubborn and refused to follow the revision of the calendar by Pope Gregory XIII (1572-1585) who not merely corrected the 11 minute error of the Julian calendar, he made January 1st the first day of the year instead of April 1st. Those who refused to follow the calendar based solely on religious reasons because the Puritans hated the Catholics simply became commonly known as "**April Fools.**" Clinging to the Pagan Roman calendar where April 1st began the New Year was somehow better than following the Pope. Obviously, standards are never easy to establish in anything, no less maintain.

The idea of coins was to facilitate trade by certifying the weight of the metal, **NOT** declaring that metal was **MONEY**. This invention of a bimetal monetary system emerged because for the prior ECM cycle of 51.6 years, the gold coinage was actually a natural alloy known as "**electrum**" that was a mixture of gold and silver. Because it was natural coming in the Sardis River, the amount of gold content varied widely. Pictured here is a worn electrum stater with nine countermarks illustrating the business of a foreign exchange broker goes back quite some time. Perhaps prostitution might be the oldest profession with lawyers coming second to ensure she was paid and third the foreign exchange broker to test the quality

of the payment. Whatever the sequence of professions, after 52 years of these issues that still required certification by a broker, it was King Kroisos who invented refining the electrum and separating the gold and silver.

From the very beginning, **MONEY** has been a commodity – nothing more. When the Lydian King Kroisos (561-546BC) created the first bimetal monetary system, a gold stater was about 10.71 grams and the silver-gold ratio was 13.33:1 because gold was common in the Turkey. The inflation caused by war led to a weight reduction to 8.71 grams. Fiscal mismanagement existed from the very beginning. This would have been no different than FDR revaluing gold in 1934 from \$20.67 to \$35 per ounce.

There were competing standards from the very beginning. The Lydian/ Milesian standard began with an electrum stater at 14.2 grams. The stater as minted under the Euboic Standard was 17.2 grams of electrum. There was the Phokaic Standard placing the electrum stater at 16.1 grams. Obviously, foreign exchange dealers became necessary for international trade among the city states.

I can find no evidence of a single standard that dominates the nations at this time. By 530BC, the invention of coins spreads to Greece and now the first city state begins to strike a silver stater at 12.6 grams – the Isle of Aigina. In Greece, silver was common and gold was rare.



Aigina (Aegina)
Silver Stater 12.6 grams 530-490BC

In Athens they established the Attic Standard based on a silver didrachm (2 drachms) of 8.6 grams, but as inflation emerged, the standard coin became the tetradrachms (4 drachms) at 17.2 grams. So you can

see there may have been gold and silver used as **MONEY**, but by no means was there a unified standard agreement as to weight. In Corinth, they set their stater at 8.5 grams and divided it into three drachms. Standardization comes only with conquest as was the case with Napoleon. Athens dominated many city states and in 449BC issued its famous enigmatic "**Coinage Decree**" promulgated by Perikles that restricted other city states from striking coins making their coins a single currency. Perhaps it was just a power play. On the other hand, it was most likely over the profit earned over the raw metal cost known as seigniorage. In other words, the coins once minted purchase more in goods than the raw metal.



Didrachm 560-510BC

Tetradrachm 510-157BC

MONEY is by far not a fixed entity **EVEN** under a fixed exchange rate system or gold standard. **MONEY** has always been just a commodity – and nothing more. It fluctuates in value and thus it really screws up our perspective of everything thinking its value is fixed. It is an economic language that simply replaces barter. Our concept of **VALUE** becomes increasingly complex with time and circumstance.

If a loaf of bread was 25 cents in 1937 and it is \$2 today, the real comparison as to whether that is cheap or expensive cannot be determined by merely looking at the nominal price trends of bread. We have to correlate bread against everything else to understand if it was raised in **VALUE** terms in excess of the general decline in the purchasing power of the currency (inflation). What if the common wage in 1937 was 50 cents an hour and today it is \$10. Bread would have taken half an hourly wage to buy in 1937 yet today it is just 12 minutes, or a 40% reduction in real price.

Above you will see a yearly chart of the Dow Jones Industrials expressed in Swiss Francs up until 1991. Compare this to the chart of the Dow in dollar terms for the same period! The collapse during the mid-1970s to the foreign investor fell well below the 1929 high. That was not the case in dollars. So now perhaps those brain cells are starting to work overtime.

We are nothing but an **April Fool** clinging to pagan rituals if we continue to judge everything purely in nominal **MONEY** constants. Everyone judges **VALUE** in terms of their native currency. Failure to understand **MONEY** is simply a metal calculator, the language of economics, is highly dangerous to our concept of the **FUTURE**.

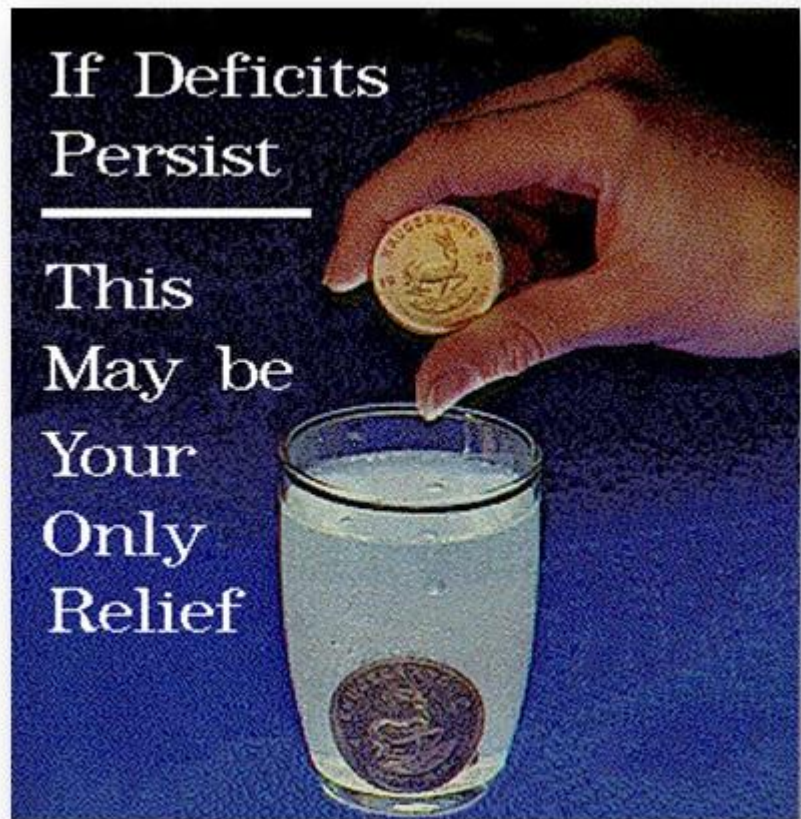
If we returned to the gold standard we would create a **GREAT DEPRESSION**. Deflation would be imposed and the nations that adopted such a system would go into catastrophic collapse because our politicians would no doubt make the same mistake that Europe did. This would revalue **ALL** outstanding debt and make it now payable in gold. There is no practical way to return to a gold standard without defaulting on everything outstanding.

Search on the internet Supreme Court cases of the post 1934 era. When gold was confiscated, all outstanding contracts that were payable in gold could no longer be enforced. The Supreme Court held in a series of cases that the government had the right, of course, to alter private contracts at will. Your mortgage, credit cards, outstanding loans, would all now be subject to be paid in gold. The sheer economic chaos would be devastating. Those who call for a return to a gold standard are trying to end deficits. How about you just eliminate the right of government to borrow except in time of war and never again unless it paid off what it previously borrowed? There is far more at stake than most have dared to investigate. We just do not need the whole world to end up in another European economic nightmare. Italy's debt is the third largest in the world just behind the US and Japan. Is Germany and France going to pay off the Italian debt too? Just how long is it going to take before the world wakes up and realizes that the advice offered by the Investment Bankers is **BIASED**, lethal to the long-term survival of society, and at the end of the day, will destroy everything in its path as it **HAS ALWAYS DONE BEFORE THROUGHOUT TIME**.

The Investment Bankers have done far more damage to society than just the **Mortgage Crisis**. They have talked the government into being a perpetual debtor, rolling that debt with no intent upon **EVER** paying

off anything, and at the end of the day, we are all doomed. The **IMF** tells Greece it has to impose austerity upon its own people, lowering their standard of living and costing every Greek family \$4,000, because Greece, GOD FORBID, shall not default upon the **Investment Bankers!** ***Enough is enough!*** Returning to the gold standard would cause all debts to then be repaid in gold. And this will solve exactly what?

The recent polls are showing that there is a growing feeling among Americans that the end is here. The New York Times/CBS poll found that now 39% believed we are entering a “long-term permanent decline and the economy will never fully recover.” The CNN poll found that 48% of Americans now believe that another major Great Depression is possible. The key indicator of whether people believe their children will have it better shows that 57% no longer believe in such trends. All the politicians can do is argue, blame each other to win the next election, and not do a damn thing until the ***shit-hits-the-fan.*** Welcome to the real world we now live in.



Gold - The Final Frontier?

We **NEED** gold to remain a **FREE MARKET** so that (1) we do not have to pay the **Investment Bankers** in gold to our own poverty, and (2) the decision to believe the government or not remains a personal choice. The **Investment Bankers** would **LOVE** a gold standard. There would be no government confiscation of gold. The **Investment Bankers** would end up with it all. As I have written before, two people are on top of the Sears Tower in Chicago. A gust of wind blows both off the top; one a pessimist and the other an optimist. The pessimist immediately starts to pray realizing he is about to die. The optimist, as in this case, merely says as he is passing the 4th floor – ***Well so far so good!*** The two weeks ahead seem to be that of July 17th and August 28th. It does not appear that this is the dawn of the **New Frontier** in gold just yet. We are getting close. As always, the period after **Labor Day** September 5th, looks like it will not be as calm as the first part of this year. We indeed live in interesting times and now that the **ECM** turned on June 13th, this is a whole new ball game.