

Technical Analysis

An Introduction



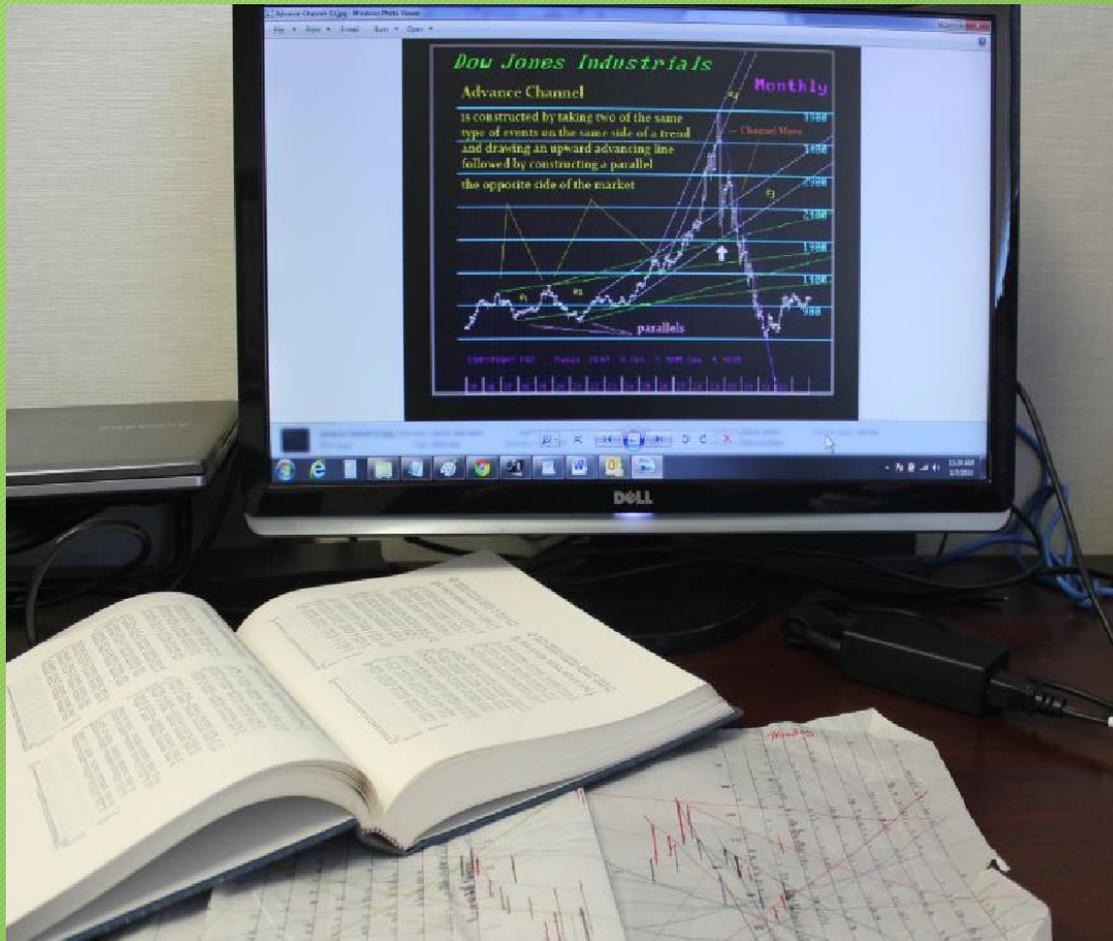
**Princeton
Economics
International Ltd**

Charting



- Perhaps the most misunderstood form of analysis is Charting followed by Technical Analysis. Nonetheless, you would not travel into an unknown region without at least a map. Charting is a roadmap of where the market has been. Charting is not actually plotting an instrument. A chart is truly a picture of human interaction with that particular object be it a stocks, bond, commodity, or economic statistic. When we understand what we are actually charting, suddenly we are confronted with patterns that can emerge on a repetitive nature across all markets in all countries. There may be reoccurring patterns that are restricted to certain sectors such as agriculture where crop cycles are impacted also by nature.

Charting



- We also find cycles in economic statistics impacted by also seasonality within weather and the environment. Many businesses conduct as much as 40% of their retail sales for the year during the fourth quarter caused by Hanukkah and Christmas. Consequently, charting allows us to see where any instrument has been and how it trades traditionally as its nature. Hence agriculture markets have must greater swings and shorter trends than do stocks and real estate. Every sector has its own unique character.

Channel Move

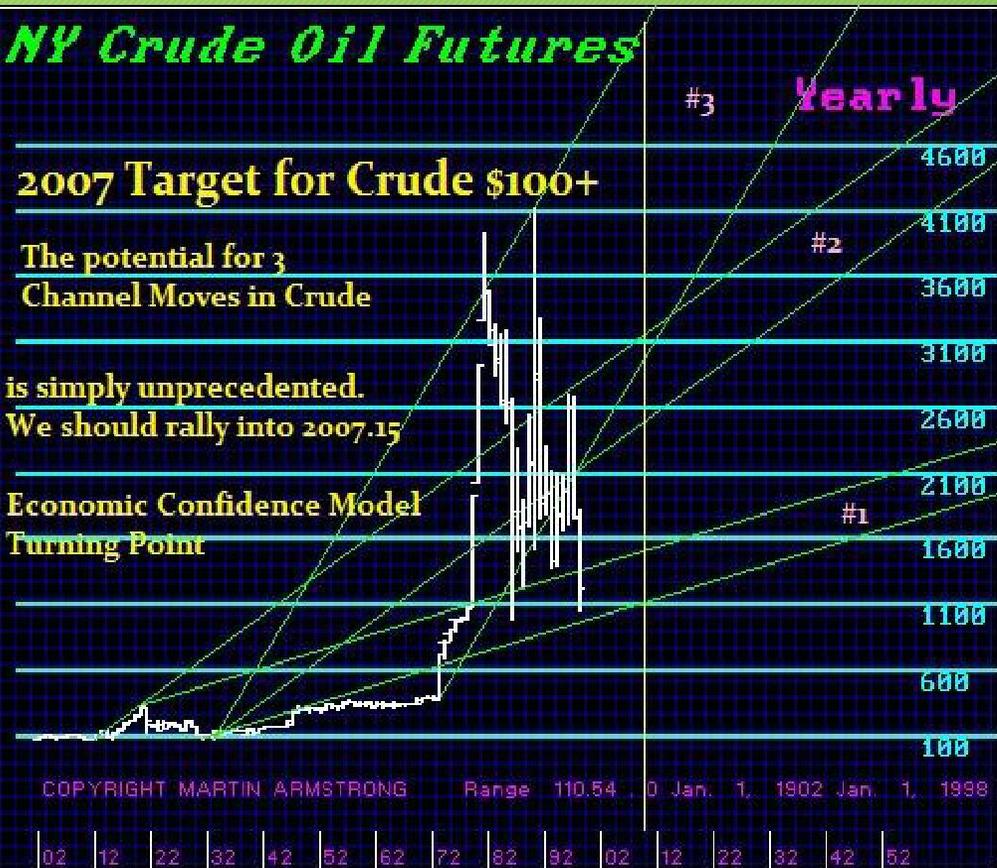
NY Crude Oil Futures

2007 Target for Crude \$100+

The potential for 3
Channel Moves in Crude

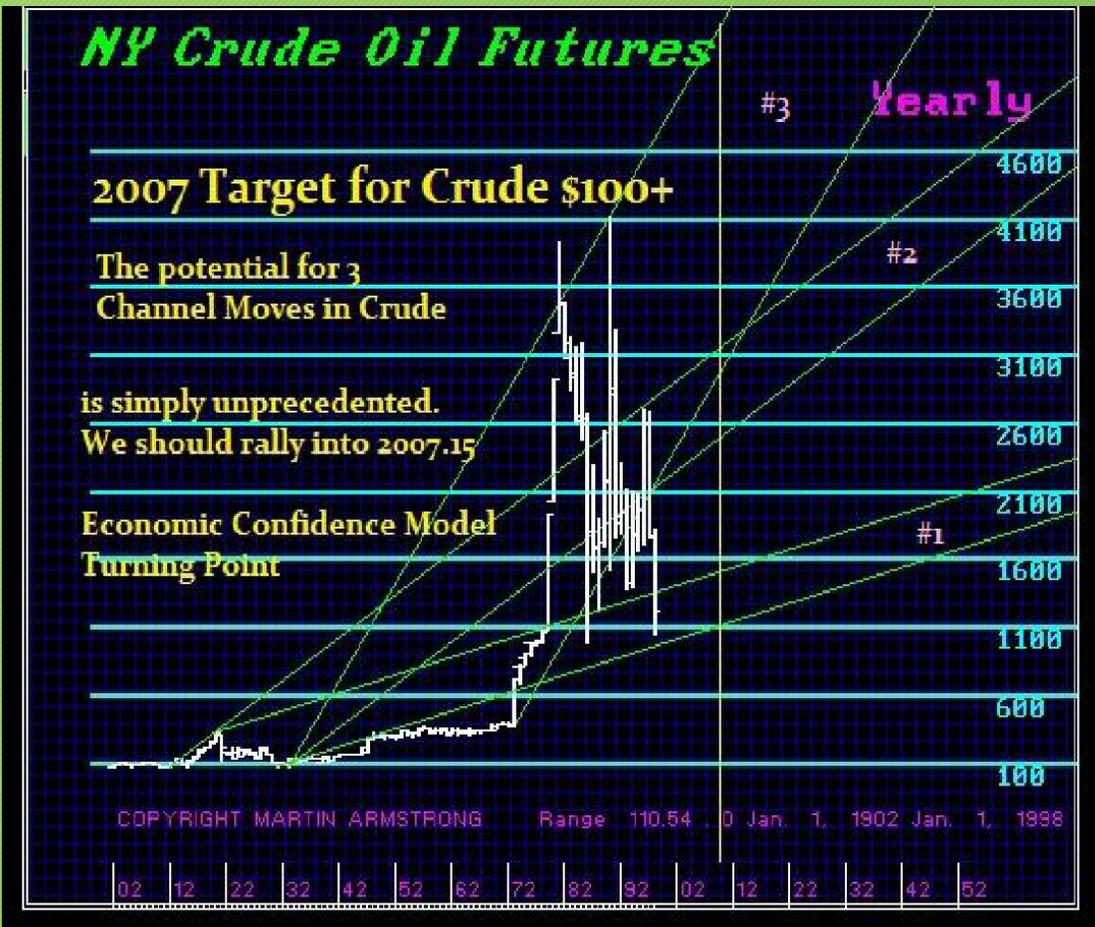
is simply unprecedented.
We should rally into 2007.15

Economic Confidence Model
Turning Point



- Technical Analysis is a roadmap that allows you to see where you have been and where you are going. Presented here is a Yearly forecast in Crude Oil that became widely broadcast to the extent even the Department of Energy wanted us to provide a forecast for them. Crude Oil had exceeded \$3 in 1920 and fell to 66 cents in 1933. This 1933 event established a nice Breakout Channel #1 from that low which provided the highs for oil during the 1950s and 1960s. The previous low took place in 1911 from which an 8.6 year rally into 1920 took place. Breakout Channel #2 from the 1911 low was even a steeper angle which was in the mid-\$20 range for the 1970s. After OPEC, it became clear that oil had been greatly suppressed. A third Breakout Channel #3 was constructed from the 1933 low to the 1990 high. While it was clear on our timing models that oil would retest the \$10 level going into 1998, we still had three dramatic channels that were showing anything BUT a nice calm future ahead in addition to our timing models.

Channel Move



We then put out our forecast that crude oil would test \$100 by 2007. With crude falling to test \$10, that sounded nuts to a lot of people. But the more one swings to the down side, the powerful the rally in the opposite side - it's a pendulum. Our computer models were widely respected and everyone was taking notice. Even Marc Pitman of Bloomberg News was compelled to report that forecast. This was one of the most powerful technical setups one can have - a . Channel Move

Downtrend Line



- The **DOWNTREND LINE** is typically constructed by connecting two isolated descending highs. The **DOWNTREND LINE** is normally thought to represent the overall immediate trend of a given market. The popular misconception involving the **DOWNTREND LINE** is that an upside penetration of this line signals the beginning of an Uptrend and the end of the Downtrend. As illustrated here, that is not always correct. For example, occasionally you will see a **DOWNTREND LINE** actually perform the way it was ideally claimed as in #1 from the 1980 spike high in gold. The second **DOWNTREND LINE** in #2 was drawn connecting the 1980 and 1983 highs. This time the line failed to provide resistance confining the downtrend. Instead, the market flips back above the **DOWNTREND LINE** and then follows it down as it provides a guide to support. The **DOWNTREND LINE** #3 performs in the same manner eventually providing support in 1991. So what worked under ideal conditions 1980-1982 is not consistent, which can present some problems. However, that does not make the **DOWNTREND LINE** useless.
- Additionally, more often than not, when this **DOWNTREND LINE** is applied to recent isolated highs rather than to major highs, it seldom provides a change in trend. When a market exceeds a **DOWNTREND LINE**, many traders automatically buy the market only to find that they have been led into what is commonly referred to as a "**Bullish Failure**" or a "**Bull Trap**". This term applies to a penetration of the **DOWNTREND LINE** that fails to follow through with a change in trend to the upside, and is quickly followed by a resumption of the downtrend itself.

Downtrend Line

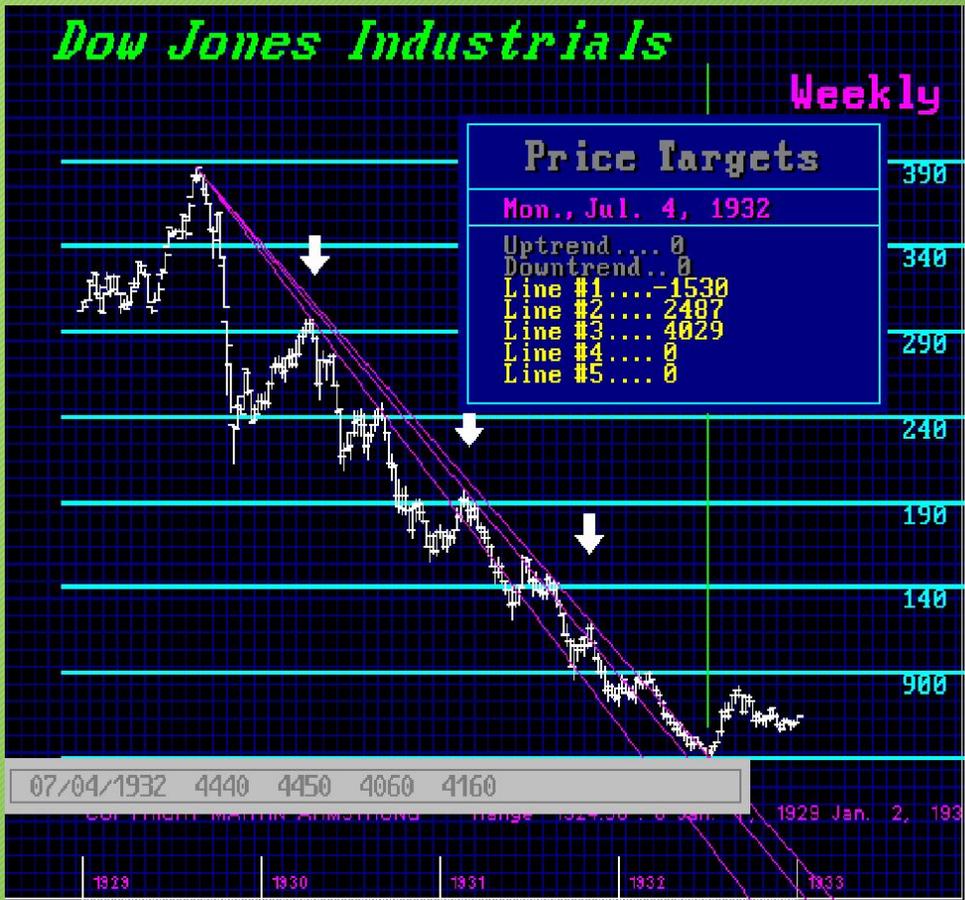


Figure #2

- The proper use of the **DOWNTREND LINE** demands caution and patience. If as in the case of #1 this line has contained the decline nicely, then there is a higher probability that there will be a shift in the trend. It is wise to use this as a confirming tool with other indicators.
- The **DOWNTREND LINE** should provide support once the market is above it. The market in question must bounce off of the line and quickly exceed the last high within 3 trading sessions. If the market fails to exceed the immediate high after breaking above this line, then it may act like #2 or #3 and follow this line lower as it is now converted into a support target.
- If the **DOWNTREND LINE** fails to provide any support during any subsequent correction, then the downtrend will normally resume and the market is shifting the angle most likely following the Break Line or Breakout Line angle. To avoid getting caught up in these "*Bullish Failures*" or "*Bull Traps*", look to buy on a decline back to the **DOWNTREND LINE** using a stop on a closing basis just below. Preferably, use this only as a confirming tool.
- Another important characteristic of the **DOWNTREND LINE** centers on how markets actually bottom. Many major bear markets tend to eventually exceed the **DOWNTREND LINE** when constructed from the major high. However, the market will often continue lower following the **DOWNTREND LINE** until it bottoms almost precisely on it from above #2 on our illustration.
- On occasion, new **DOWNTREND LINES** may need to be drawn from the major high to the reaction highs created during the false breakouts. Using the famous Crash of 1929 on the Dow Jones Industrials (*Figure #2*), we can see that three major separate **DOWNTREND LINES** were required until the 1932 low eventually found support as was the case for gold in 1985.

The (5) Downtrend Line Rule



- THE FIVE (5) DOWNTREND LINE RULE
- Looking at a lot of major bear markets, one curious rule has emerged. We call it the **FIVE DOWNTREND LINE RULE**. There appears to be a total of FIVE (5) false breakouts in a major bear market. The sixth breakout seems to be the charm. Pictured above is gold. You can see clearly the **FIVE DOWNTREND LINE RULE**. How do we qualify a real breakout from just another false move? This seems to be easily distinguished when the current rally finally exceeds the high of the previous false break out. Even the rally in gold into 1987 failed to exceed the 1983 high by a few dollars. Therefore, we have to eliminate human subjective guessing if the glass is half full or half empty. This seems to be the best rule that appears to work with few exceptions. If we look at the Nikkei in real time, the 5 lines are in place, but we not flip back above and find it to provide support. Here when it is exceeded, the trend may change

The (5) Downtrend Line Rule

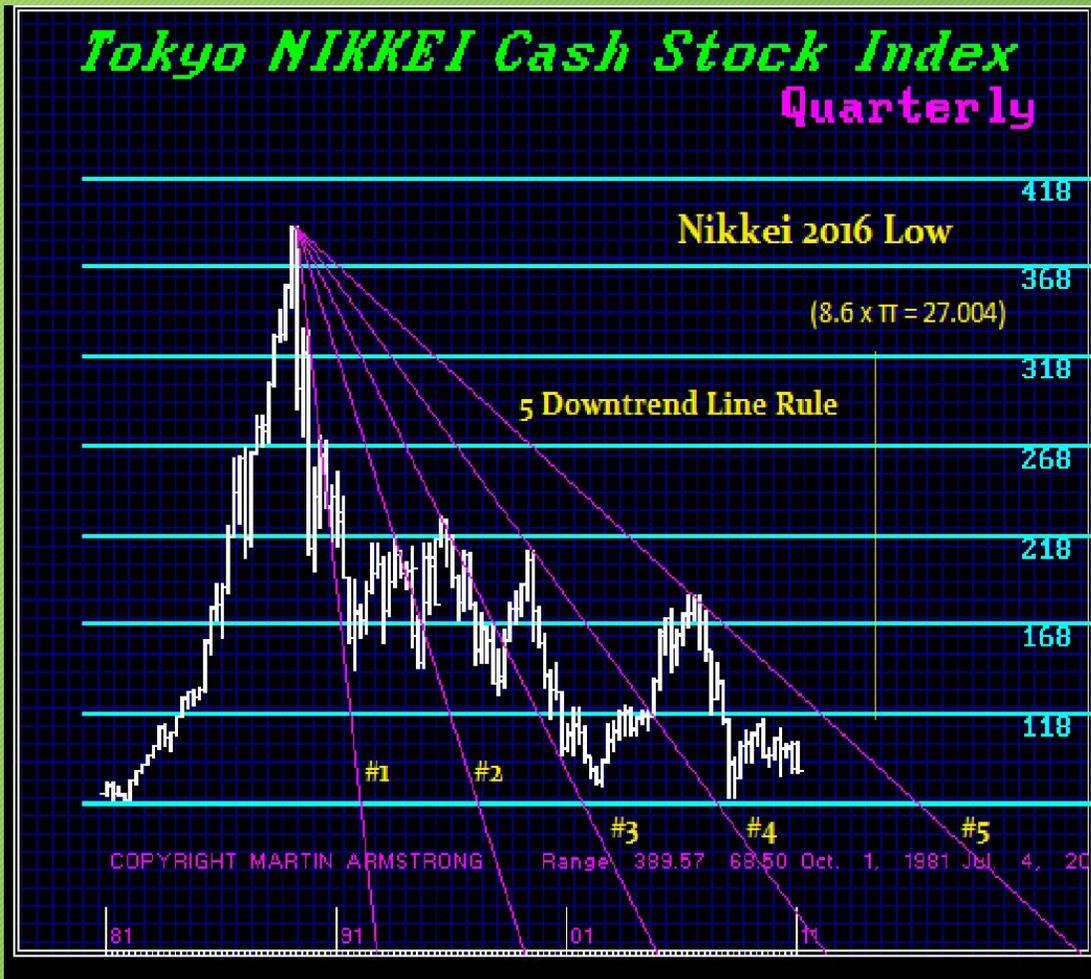
Dow Jones Industrials

Weekly



- Looking at the 1929 Crash, the same **FIVE DOWNTREND LINE RULE** applied. The market here simply broke through that fifth line and that marked the change in trend. This may be the pattern we see for the Nikkei 225 as well. Clearly, that fifth line can be exceeded prior to the ideal timing target and then provide support. The second choice is to remain confined by that line and penetrate it only when the timing is right for the reversal in trend. Consequently, this is a confirming tool to be used with **TIME**.
- Silver has been the most manipulated market certainly in my lifetime. The Hunt were simply buying silver since the 1960s. It was the dealers who touted them to the press and used them to spike silver to obscene levels in 1980. That abnormal spike is reflected in how it greatly distorted even the technical analysis. Here the **FIVE DOWNTREND LINE RULE** did not define the low, resistance or support at any time. The question became clear that the '80 high was some sort of freak event or did technical analysis just fail? It seems upon close inspection the answer was the former, not the latter.
- When we use the 1983 reaction high rather than the deal manipulated high of 1980, suddenly everything now begins to fall back into place. The **FIVE DOWNTREND LINE RULE** worked perfectly from the 1983 reaction high. We still have 5 lines and the market exceeds those lines and support back on it from above on lines #2 through #5. This is a normal market pattern. Even Buffet's buying of silver in London of a \$1 billion in 1997, failed to do much more than establish that last false rally. Silver still fell to new record lows.

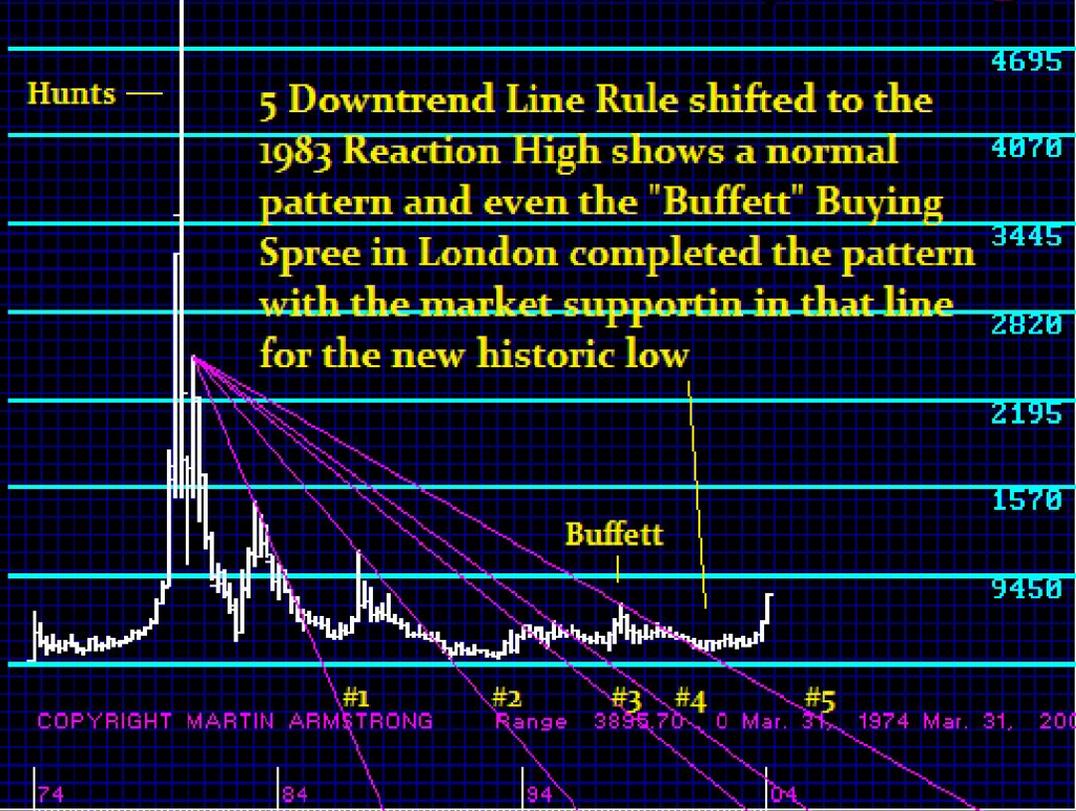
The (5) Downtrenline Rule



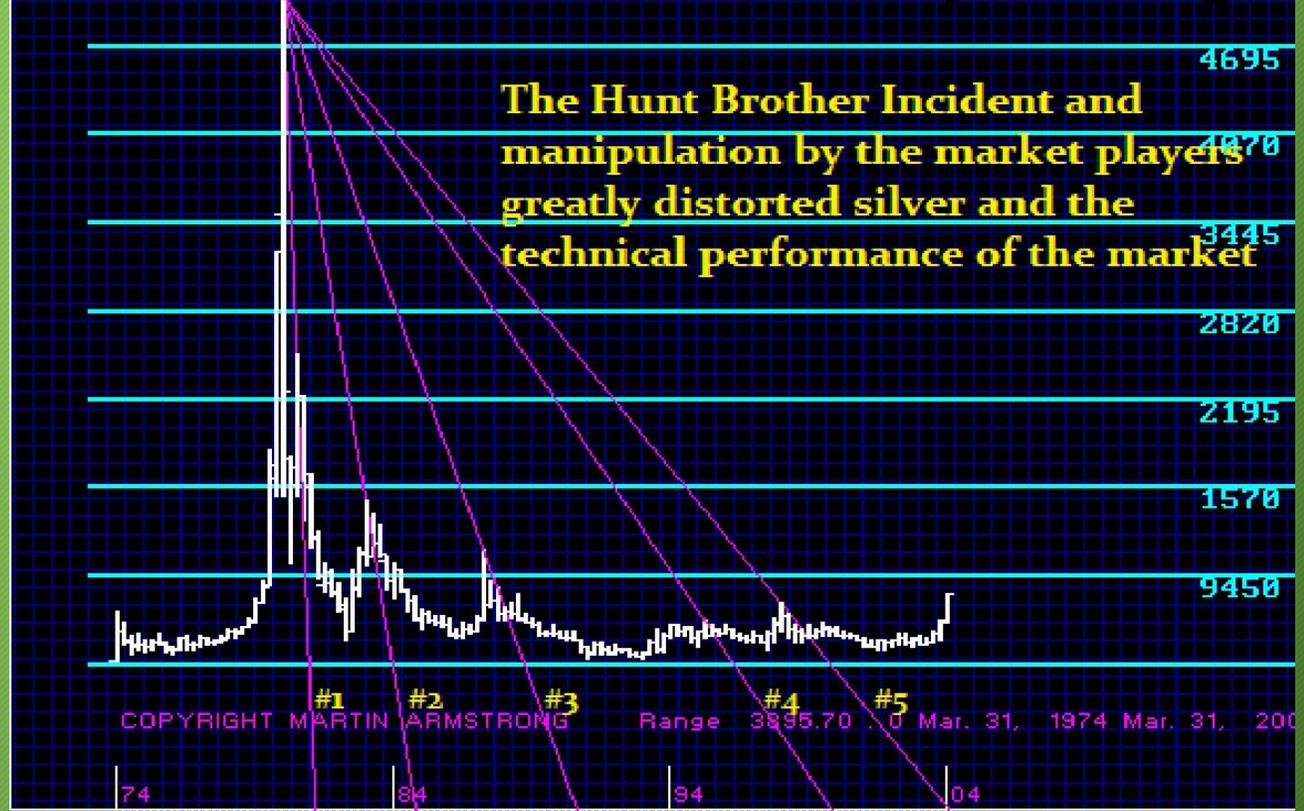
- The timing of course is separate and distinct from the price objectives which are derived from Technical Analysis. Why does Technical Analysis work? Fundamentalists laugh and say: What? You draw a line and *shazam!* One dean of a University had wanted to meet me. When he saw charts, he asked: You don't believe in that stuff do you? I replied if all the big trading firms used charts, don't you think you should at least understand what they are doing? General Patton read Rommel's book on tank warfare tactics and defeated him in North Africa. It does not matter what you believe, if your opponent will cover shorts based upon a chart pattern, just maybe you should know what the pattern is? Technical Analysis is really a graphical method of ascertaining mathematical solutions to trends in motion. Markets establish a character that is revealed by the angle of its price movement. That angle will then stay with that market for years. It can be ascertained by visually assessing the market behavior.

The Hunt Brother Incident

NY Silver Nearest Futures
Quarterly



NY Silver Nearest Futures
Quarterly



The Uptrend Line



Figure #3

- The UPTREND LINE is typically constructed by connecting two isolated, ascending lows. The normal use of the UPTREND LINE assumes that while the market remains above this technical reference point then the "uptrend" remains in motion. Despite this general expectation, more often than not, the market will easily penetrate an UPTREND LINE and find support slightly below. We have found that frequently, whenever a market penetrates the UPTREND LINE and then quickly closes back above it, a low of some sort is usually in place (*Figure #3*). This took place with gold at the 1982 low.
- We can see here that the UPTREND LINE stood in July 1982 at 333.80 in gold. The market closed that month at \$342.70. Therefore, the UPTREND LINE was "faded" causing a lot of longs at that moment to throw in the towel. This is one of the most interesting points in Technical Analysis. These traditional trend lines are often faded and that is the false move before the trend.

The Uptrend Line

Sugar World (CSCE)

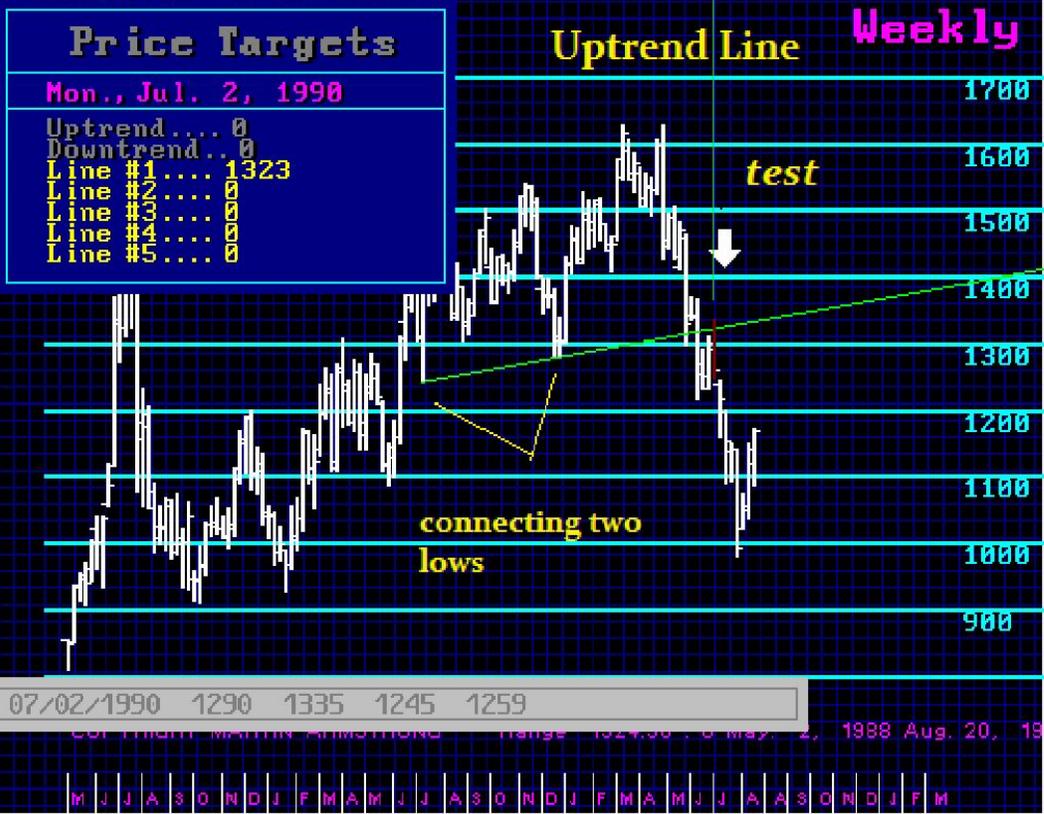


Figure #4

- Markets love to make a last false move just before a trend. This cleans out the longs or shorts depending upon the direction of the move. It is necessary to clean out the dead wood. These are position that causes the market to reach maximum Economic Entropy. They travel with the trend; however, they actually provide the fuel for the opposite direction. In other words, they no longer support the trend in motion. These are longs in an uptrend that have bought yet no longer contribute as fresh buying power. Consequently, they are now the fuel for a panic sell off. They will sell in a panic or capitulate when an **UPTREND LINE** is faded. Likewise, a weak short will cover when a **DOWNTREND LINE** is faded to the upside.
- However, when a market penetrates below an **UPTREND LINE** and then bounces off it during a reaction rally from underneath, then the trend usually continues lower (*Figure #4*). On occasion, a former **UPTREND LINE** may still provide resistance at a later point in time (*Figure #5*). Therefore, depending upon the pattern formed in a market, an **UPTREND LINE** can become future resistance that can provide a target for a subsequent new high.

Uptrend (Support) Line

Hong Kong Cash Share Index

Weekly

Price Targets

Mon., Jul. 23, 1990

Uptrend... 0
Downtrend... 0
Line #1... 35545
Line #2... 0
Line #3... 0
Line #4... 0
Line #5... 0

Uptrend Line

test

439

389

339

289

239

connecting two lows

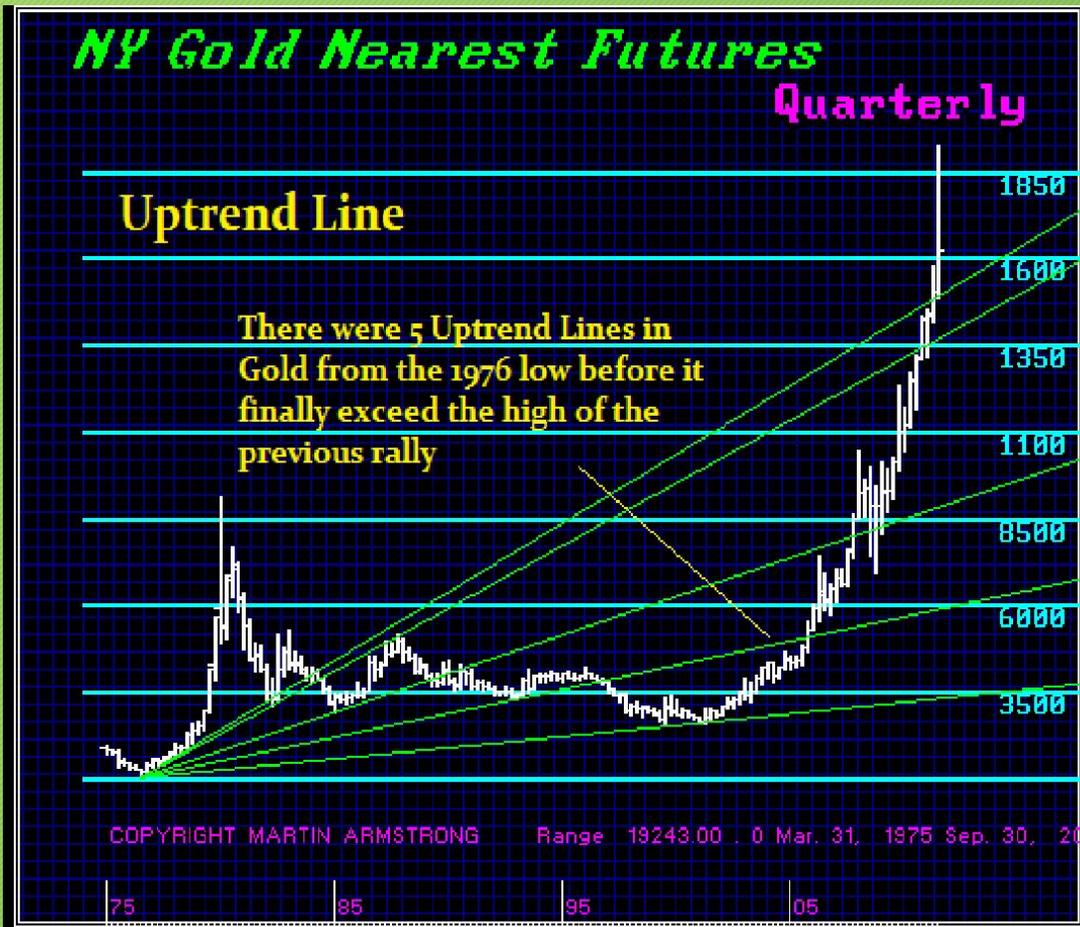
07/23/1990 35400 35590 34430 34850

1987 1988 1989 1990 1991

- UPTREND (Support) LINE:
- This term is applied to a technical line that provides some measure of SUPPORT to a market. Often there will be several SUPPORT LINES on our charts and each line has its own significance. Some lines will provide support only for intraday movements, and will not support a major market move. At times when a market is in the process of dropping much lower, these SUPPORT LINES will work alternately. For example, the first may provide support for one day, and the following day the market may fall to the next SUPPORT line. These lines are not meant to provide an independent means of trading, but are just one form of input. Only when several other factors point to the same levels will we act upon one of these particular lines.

Figure #5

The Five (5) Uptrend Line Rule



- THE FIVE (5) UPTREND LINE RULE
- Markets are FRACTAL and symmetrical. What takes place on one side, unfolds on another just as the same patterns replicate from one level of TIME to the next both up and down. Looking at a lot of major bear markets also reveals the same curious rule has emerged we call the **FIVE UPTREND LINE RULE**. There appears to be a total of FIVE (5) false breaks of also the Uptrend Line in a major bear market. The sixth break bottoming on the Uptrend Line that also seems to be the charm. Pictured above once again is gold. You can see clearly the **FIVE UPTREND LINE RULE**. How do we qualify a real breakout from just another false move? This seems to be easily distinguished when the current rally finally exceeds the high of the previous false break out to the upside.
- Here the individual Uptrend Lines still offer some overhead resistance in the years ahead as can be seen above. These rarely provide a major resistance point. Nevertheless, the goal is once again to eliminate human subjective guessing if the glass is half full or half empty. This seems to be the best rule that appears to work with few exceptions.

The Break Line



Figure #6

- **BREAK-LINE:**
- This cyclically derived **BREAK LINE (Figure #6)** provides a good frame of reference as to when a market will break to the downside as well as what potential move we can expect. There generally are three **BREAK LINES** that can be drawn with a **HIGH** as the center focal point. This line is cyclical constructed by taking the **OPPOSITE** extremes which define a cycle's limits. Here we go to a **HIGH** and draw a line either side by connected the **FIRST** prior **HIGH** to the **FIRST** subsequent **LOW**. That first line drawn around the 2007 high in the Dow Jones Industrials marked #1. You can see this is taking the **FIRST** previous **HIGH** before and tying this to the **FIRST** **LOW** after the 2007 high. This line also nicely projects the general direction of the decline all the way into 2009. If we step back to the **SECOND** previous **HIGH** and tie that to the **SECOND** **LOW** moving forward marking this #2, this provided a good middle ground projection. Once this **BREAK LINE #2** gave way on a closing basis, the market crashed to follow **BREAK LINE #1**. **BREAK-LINE:**
- This cyclically derived **BREAK LINE (Figure #6)** provides a good frame of reference as to when a market will break to the downside as well as what potential move we can expect. There generally are three **BREAK LINES** that can be drawn with a **HIGH** as the center focal point. This line is cyclical constructed by taking the **OPPOSITE** extremes which define a cycle's limits. Here we go to a **HIGH** and draw a line either side by connected the **FIRST** prior **HIGH** to the **FIRST** subsequent **LOW**. That first line drawn around the 2007 high in the Dow Jones Industrials marked #1. You can see this is taking the **FIRST** previous **HIGH** before and tying this to the **FIRST** **LOW** after the 2007 high. This line also nicely projects the general direction of the decline all the way into 2009. If we step back to the **SECOND** previous **HIGH** and tie that to the **SECOND** **LOW** moving forward marking this #2, this provided a good middle ground projection. Once this **BREAK LINE #2** gave way on a closing basis, the market crashed to follow **BREAK LINE #1**.

Break Lines

Dow Jones Industrials

Weekly

Break Lines

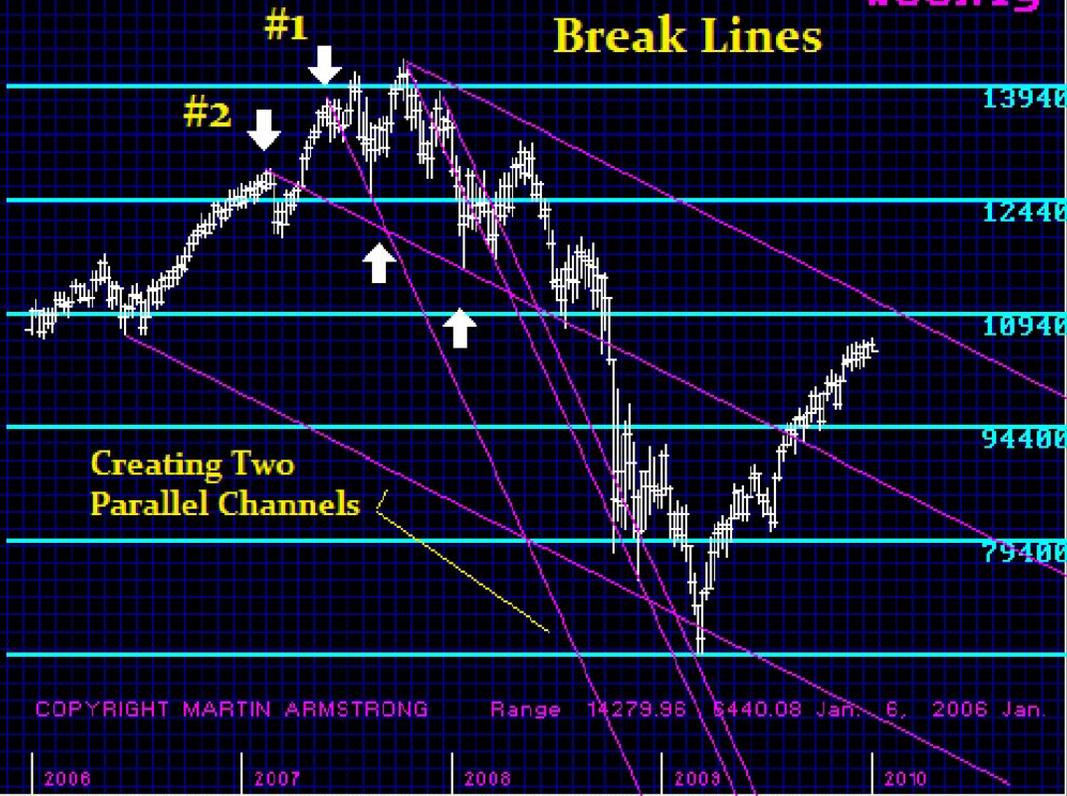


Figure #6 a

- The importance of creating **BREAK LINES** is the development of the angles the market under consideration has adopted in its price movement. The steep **BREAK LINE** from the February 2007 event that did not appear to be that important in *Figure #6*, now takes on a whole new meaning once we begin to draw parallels in *Figure #6a* noted here as **#1**. Parallels have now been drawn from the major high and the **FIRST HIGH** thereafter. Notice we now have a **CHANNEL** created from this one angle around the ECM. Note how the market followed this angle more so than any other because that was the most significant target cyclically.

Break Line



- Our **BREAK LINE #2** is the same as in *Figure #6*, but here a parallel has been drawn from the major high. This provides us with a general **CHANNEL** to watch and once this was broken on the downside on a closing basis, the market fell sharply following the **#1 BREAK LINE**. However, this **CHANNEL** is then expanded in the opposite direction so we go to the low in mid-2006 and draw another parallel. We penetrated this only for one month on a closing basis. Closing immediately back in that channel the next session signal that a low is typically just been established. **BREAK LINES** provide a very different dimension to **Technical Analysis**. The key to understand is the angle of the market. As shown above, here is a **BREAK LINE** drawn the decline in 2008. Five parallels were then drawn all the way down to the final low in 2009. Notice how the rally still followed this angle in general. Markets may appear to be random, but they are not staggering around the parking lot like some drunk.

Break Lines



- BREAK-LINES will provide two major benefits. First, they will illustrate the angle of the market. The steeper the descending angle, the greater the tendency for a market to decline rapidly. Second, BREAK-LINES will tend to provide support on a first test. If penetrated, look for a market to rally back to TEST it from underneath. If a market fails to get back above the BREAK-LINE after it has penetrated it, then expect the decline to continue.
- Anyway we slice and dice a market, what is revealed buried within is a secret hidden order. The mere fact that we can draw lines and order is revealed demonstrates this is certainly not chaos. Always remember one thing - *It's the angle that is important.*

The Breakout Line

Dow Jones Industrials

Weekly



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2006 2007 2008 2009 2010

Figure #7

- BREAKOUT LINE:
- Similar to a BREAK-LINE, this cyclically generated BREAKOUT LINE (Figure #7) is constructed either side of a LOW instead of a HIGH. This cyclically derived BREAKOUT LINE provides a good frame of reference as to when a market will breakout to the upside as well as what potential move and steepness of the rally we can expect. Generally speaking there are also three BREAKOUT LINES that can be drawn with a LOW as the center focal point. This line is cyclical constructed by taking the OPPOSITE extremes which define a cycle's limits. Here we begin with a LOW and draw a line either side by connecting the FIRST prior LOW to the FIRST subsequent HIGH. That first line is drawn around the 2009 low in the Dow Jones Industrials. You can see this is taking the FIRST previous LOW and tying this to the FIRST HIGH after the 2009 low. This line also nicely projects the general direction of the rally that we can expect.

The Breakout Line



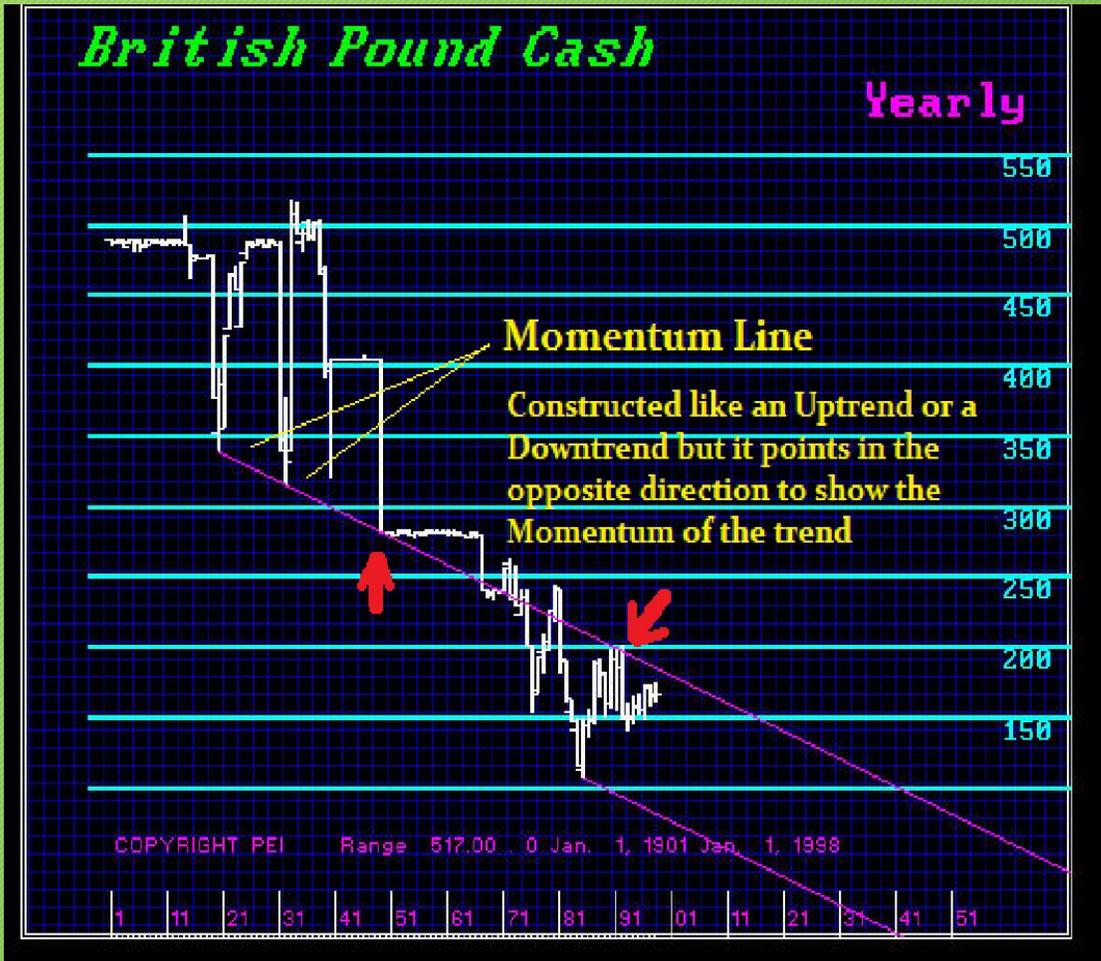
- Here we have all three **BREAKOUT LINES** drawn either side of the 2009 LOW. That first line drawn around the 2009 low in the Dow Jones Industrials marked #1. You can see this is taking the **FIRST** previous LOW before and tying this to the **FIRST HIGH** after the 2009 low. This line also nicely projects the general direction of the uptrend all the way into 2011. If we step back to the **SECOND** previous LOW and tie that to the **SECOND HIGH** moving forward marking this #2, this provided a good middle ground projection as the rally began to run out of steam. Once again move back to the previous low in 2008 and connecting that to the high in 2010, this gives us **BREAKOUT LINE #3** showing a middle ground for the market to consolidate around. Note how after exceed this line into early 2011, the market fell back and held on a closing basis. Then we get the rally to the high in 2011. The market falls crashing through this line, then rallies back to test it before falling to a new low once again. These cyclical based forms of **Technical Analysis** excellent confirming tools that provide a “feel” for what the market is really doing using our visual input capacity.

The Projection Line



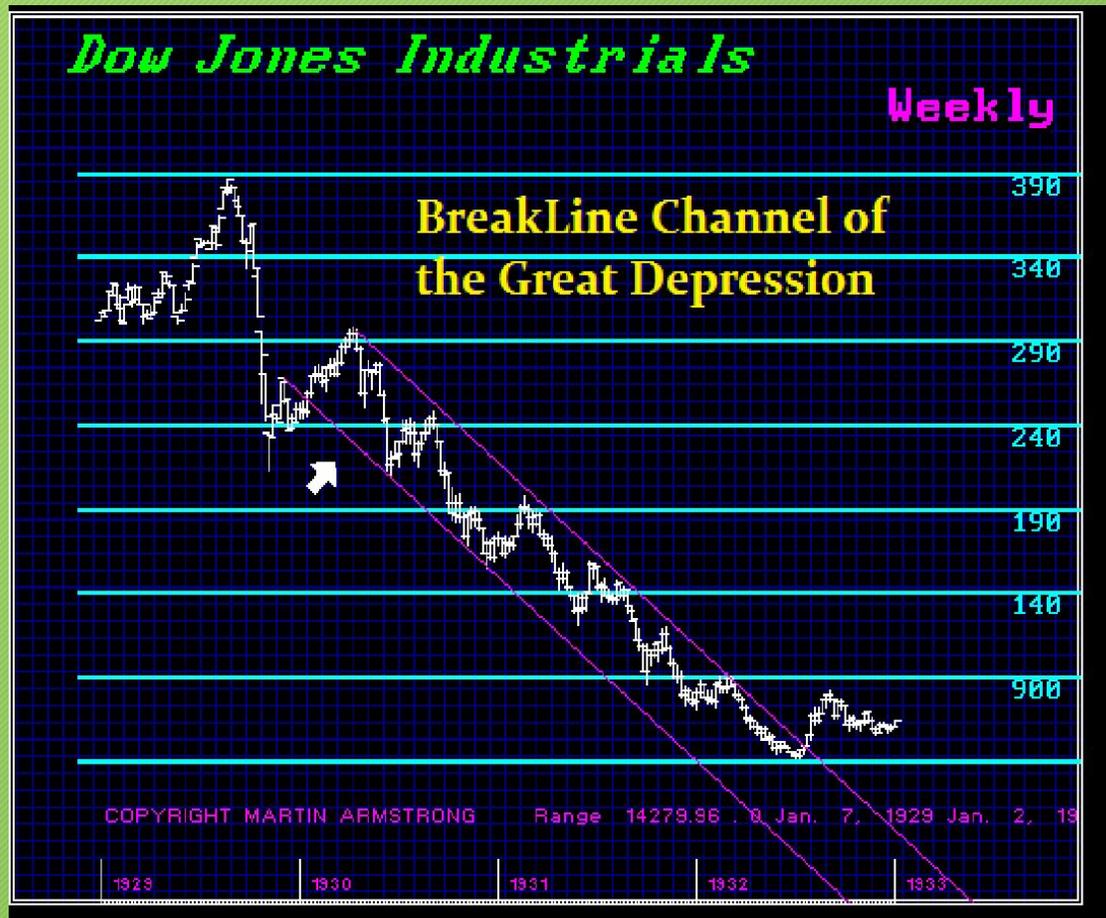
- PROJECTION LINE:
- This line is derived purely from also a cycle perspective using the opposite order of a Break Line or Breakout Line. Here we are taking a broad view. In those two prior examples we are taking the focal event and beginning to the left back in time with the same type of event. In other words, taking the 1980 high in gold, we would normally create a **BREAK LINE** by beginning with the previous **HIGH**. Here we reverse the order taking a previous **LOW** and tying that to the subsequent **HIGH**. Instead of a **BREAK LINE** being generated from a **HIGH**, we get opposite, projecting an angle upward instead of down. This will still offer resistance for future rallies or reversing the order from a low will produce projection lines below the market for support.

The Momentum line



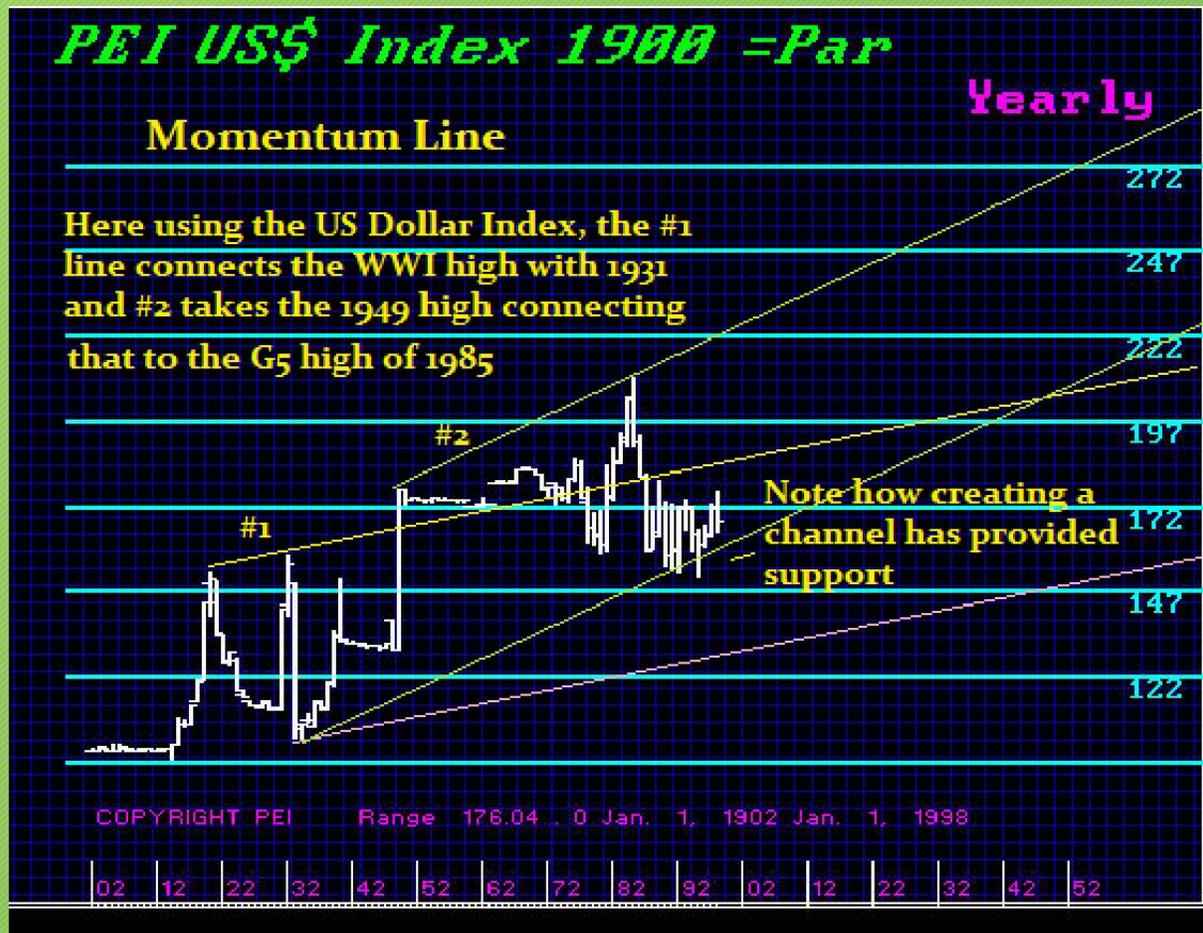
- **MOMENTUM LINE:**
- This line illustrates the **MOMENTUM** of a move. The angle of this line will act as a guide to the Momentum of the market up or down depending on the steepness of the angle. In this case, we have constructed the **MOMENTUM LINE** by connecting the first two lows of 1920 and 1931. This actually gives us the devaluation low in 1949 and then the rally into 1990 after the G5 low in 1985. Until the British pound breaks back above this Momentum Line, it remains vulnerable to a challenge of the 1985 low.
- Using the US\$, the same concept will provide resistance and the momentum for the uptrend

Channel Analysis

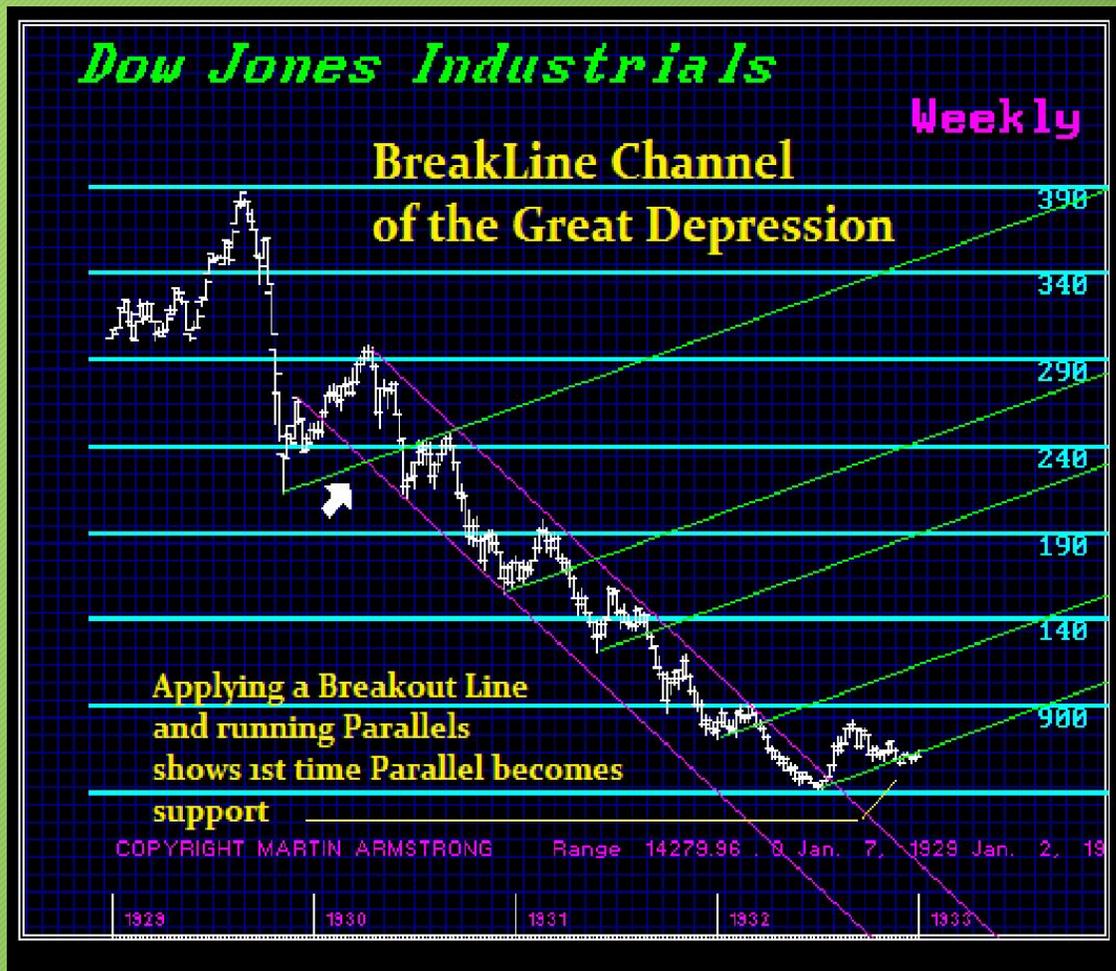


- Break Line Channel:
- Now we arrive at taking what we have learned by allowing the market to reveal its angular characteristics and we employ that creating a Channel to map the direction and orderly unfolding of the trend in motion. With everyone arguing all sorts of reasons and causes behind the decline and fall of the US share market during the Great Depression, this illustration shows the incredible orderly descent the market made despite its near 90% collapse.
- On the weekly level of the Dow Jones Industrials, a **BREAK LINE** is constructed either side of the reaction rally into 1930 after the dreadful collapse of October 1929. A parallel is drawn from the reaction rally high itself. These two lines now provide a channel that unlike the 5 Downtrend Lines did contain the move without false indicators. Once again, it is the angle that is created by the cyclical forces within a given market that is the **MOST** important aspect to be understood and used in Technical Analysis.

Breakline Channel

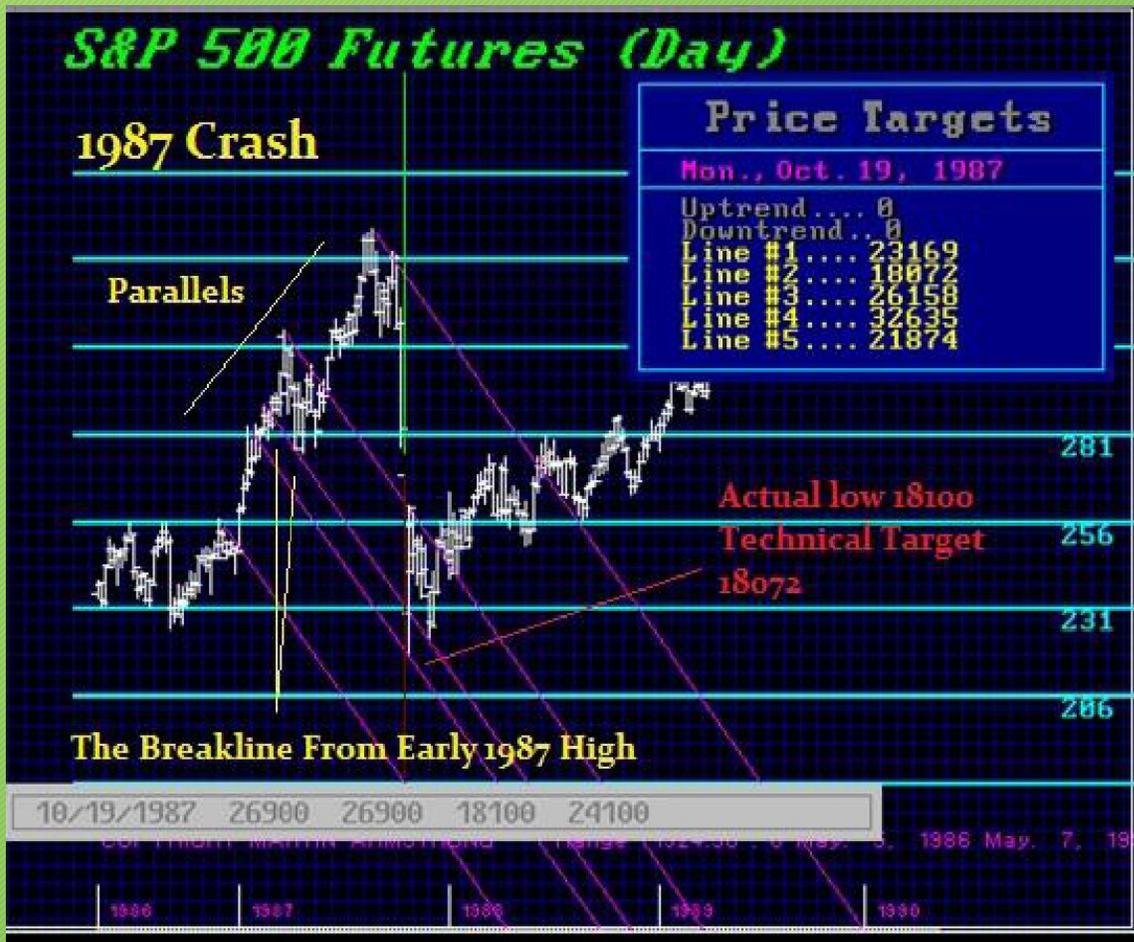


Breakline Channel



- The upward projecting lines are parallels from the Breakout Line drawn from the 1929 low to the reaction rally after the 1930 reaction high. This helps to illustrate resistance as the move unfolds. These are simply overlaid upon the main channel derived from the Break Line.
- The obvious question would be: Didn't you have to Crash before getting this channel? The answer that is yes! However, that does not render this impractical. What is being illustrated here is the amazing regularity and order that exists within the market even under the most extreme circumstances.
- Let us

1987 Breakline



- Let us look at the 1987 Crash that short-lived. You would be developing your Break Line from the last event which in this case is the first rally in 1987. Assuming we are ignorant of the Economic Confidence Model targeting October 19th. We would have in place the first Break Line of '87. You should be developing parallels from the events up and down from the opposite points that create the Break Line. Once the new high is made, a parallel from that is now providing resistance. Using the parallel from the first '87 high shows us where the market gapped. The first parallel moving south of the Break Line rested at 18072 mathematically calculated. The actual panic low was 18100. Not bad for drawing lines! So even if we do not get to a prolonged decline as in '29, we are still positioned to handle short-term panics.

Nasdaq Breakline



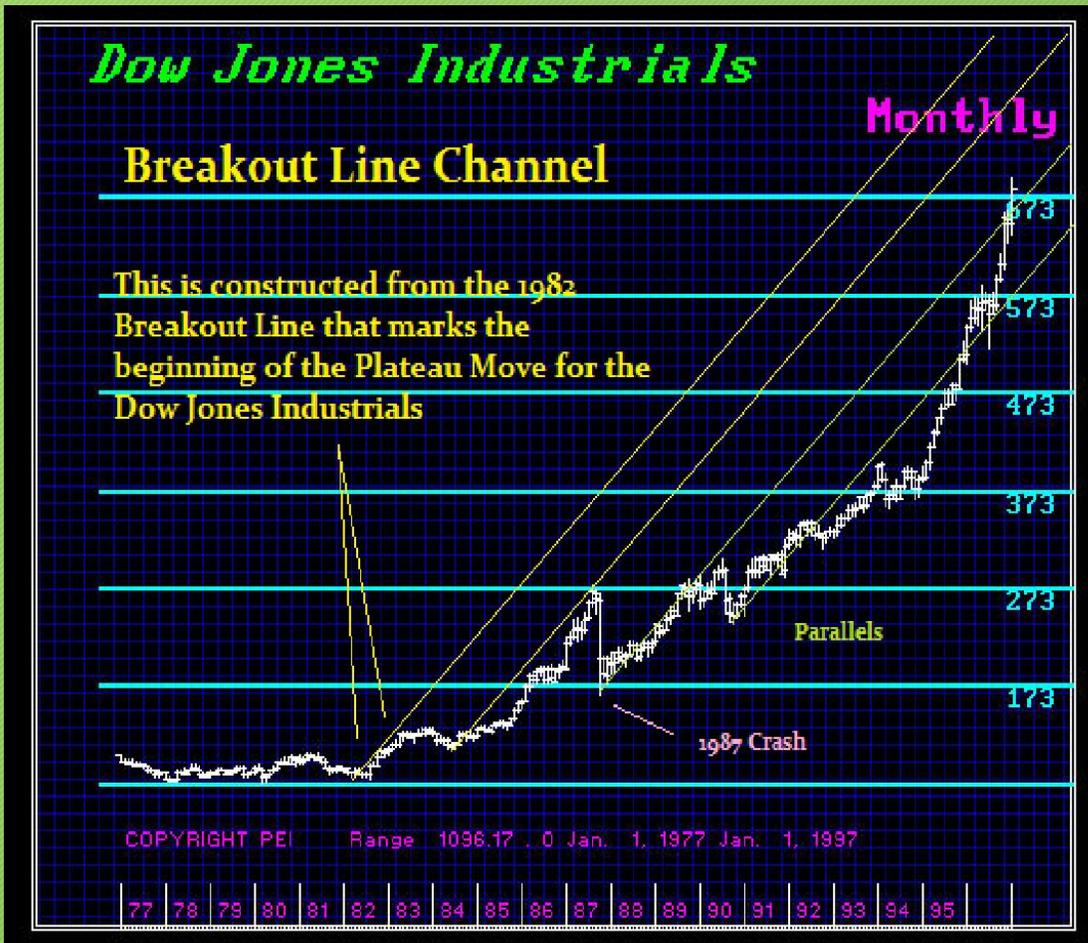
- Let us supply this same method to the **DOT-COM BUBBLE**. We have the **First Break Line** from the prior high formation in late 1999. We should be running parallels from that to highs and lows as they form on the way up. You will notice we develop a nice **Breakout Gap**, which we will address later. This **GAP** eventually forms the primary channel for the subsequent decline into 2002 from the 2000 Bubble high.
- The **Breakout GAP** is an important event. This occurs marking a **Phase Transition** that can become very significant. It can later form incredibly important support indicating the market and warn a real thrust is possible or in this case when the market falls back into it, it becomes the primary confining channel. Then there is the **Plateau Move** where a whole new paradigm unfolds.

Nasdaq Breakline



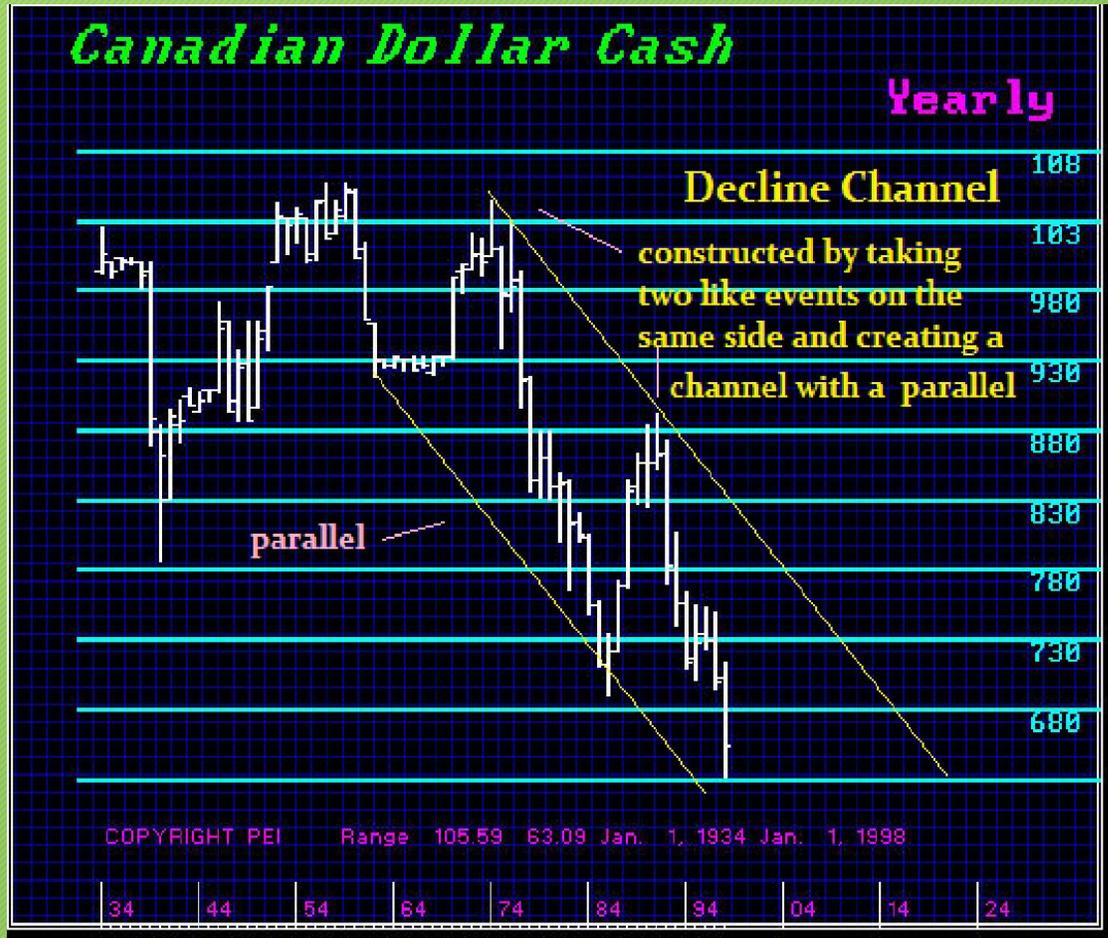
- Nonetheless, before we get to what I refer to as a Channel Move, this is illustrating that we need not hindsight to figure out what comes next. These are forward looking tools and methodologies that should be in place even if you had NO idea of major turning point ahead as defined by the Economic Confidence Mode.
- The last major event that created a spike high or low should ALWAYS be mapped with the Break Line or Breakout Line and the angles developed should be consistently applied as the market moves into a new major event. This angle will help you see the event as it unfolds before your eyes.
- Remember one thing. As long as you understand what is unfolding, then you can assess the risks and rewards. The investigation of the 1987 Crash revealed people sold because they had NO IDEA when the market crashed and burned and thus sold the low out of fear the same would happen tomorrow.

Breakout Line Channel



- Breakout Line Channel:
- This chart is a representation of how a Breakout Line Channel is constructed, and will perform feats that simply cannot be accomplished with the standard forms of technical analysis. Here the entire beginning of a Plateau Move (discussed below) in the Dow Jones Industrials is really defined by the very first Breakout Line constructed from the 1982 Low. The channel is then constructed by drawing a parallel from the 1994 low. You will notice that the bottom of this channel then provides the high rather nicely for the spike high in 1987.
- This channel is then expanded by extending this channel using parallels from the 1987 Crash low and the 1990 low following the 1989.96 turning point on the Economic Confidence Model. You can easily see how this single Breakout Line Channel has helped to define the entire bull market since 1982. This further demonstrates how there is indeed hidden order within what may appear to be sheer chaos or walk others, unable to see the order within, have call random walk theory. Unless you are in the trenches trading, it appears to be very hard to see the order lurking behind what most seem to think is pure chance.

Decline Channel



- Decline Channel:
- The Decline Channel is drawn by taking two of the **SAME** events on the **SAME** side of the market that cast a general declining trend and then using a parallel construct a channel. In the case of the C\$, the two events were **HIGHS**. Here in Crude oil they were two **LOWS**. These do not capture the extreme angle between two opposite events, but the angles generated are still valid.

Decline Channel & Breakline Channel

NY Crude Oil Futures

Weekly

1986 Crash

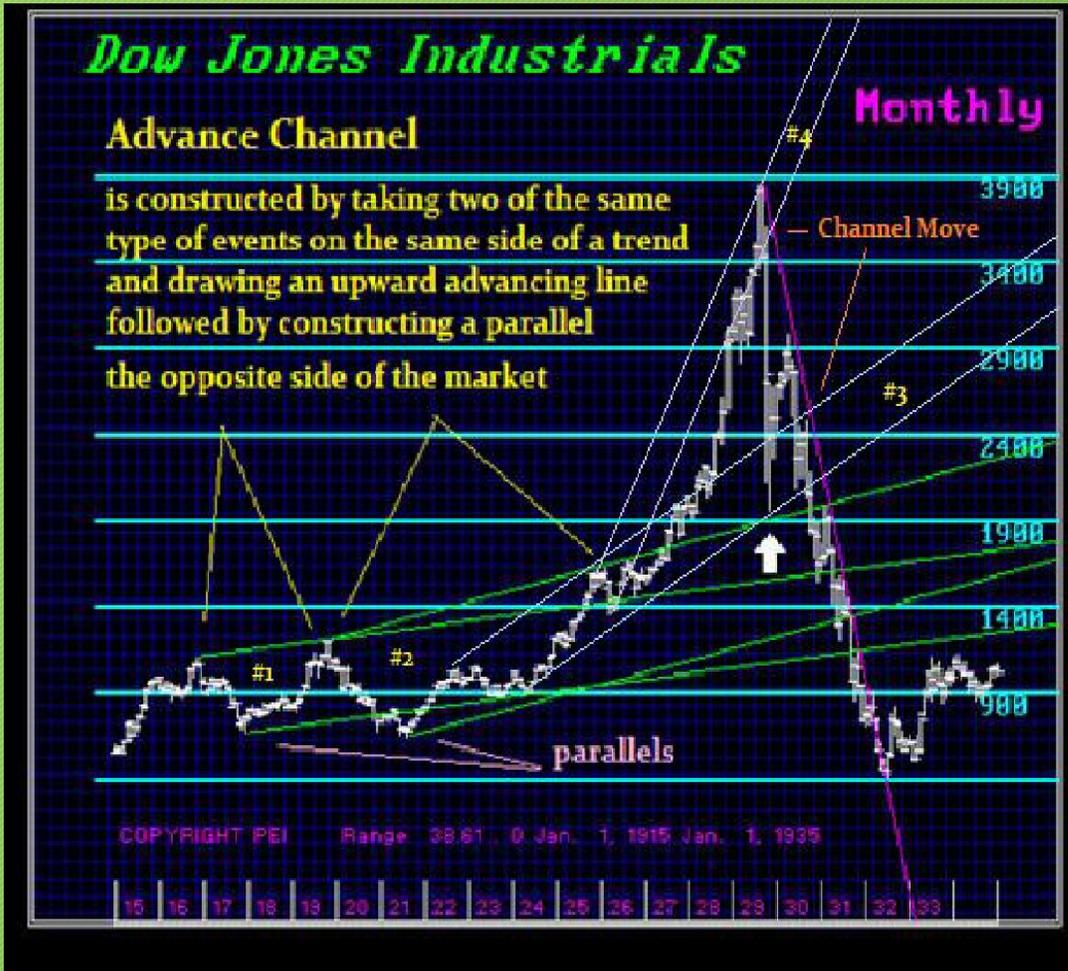
18.49 Week Collapse
(4.3² weeks)



Sat., Mar. 31, 1986 1114 1280 975 1274

- Here you can see a combination of using a Decline Channel in conjunction with a Break Line Channel. Both have indeed provided different perspectives. The Break Line Channel helps with the low, whereas the Decline Channel helps define the overall trend and helped with the subsequent reaction rally.

Advance Channel



- Here is an example of what we call the Advance Channel. The first (#1) has been constructed using the 1916 and 1919 highs. We then construct the bottom of the channel by drawing a parallel from the 1917 low. The Panic of 1919 that creates a low in the Dow finally in 1921 broke the base of that channel. We can draw a parallel extending that same channel, but then the Dow penetrated the top end creating highs in 1925 and 1926. Readjusting now creating Advance Channel #2 tying the 1919 and 1925 highs is again penetrated on the upside in 1927. We now create Advance Channel #3 tying the 1922 and 1925 highs together, but this is exceeded in 1928. We can keep this process up and eventually reach Advance Channel #4 tying 1925 to 1929 with the parallel at 1926 low. The Crash begins as soon as this is penetrated on the down side and we have a huge GAP between #3 and #4 setting this up for a Channel Move.

Advance Channel

Dow Jones Industrial (Cash) (Daily up to 08/09/11)



- A Channel is where you have two sharply different channels with a large GAP between them as illustrated above. The Advance channel is drawn with the trend. This is connecting two like events and then you run a parallel from the opposite event that began the move. This gives us the broad advance channel . The May 2011 high formed nicely still within this . The Dow broke through the bottom of this channel in June 2011. The Dow then rallied back into the channel. The underlying channel is constructed from the **Break Line** either side of the Mat 2011 high with parallels then drawn from the previous event high and low. This set us what we call the channel move . The GAP between these two Channels is then filled rapidly. This type of set up is fairly common in all levels of price activity.

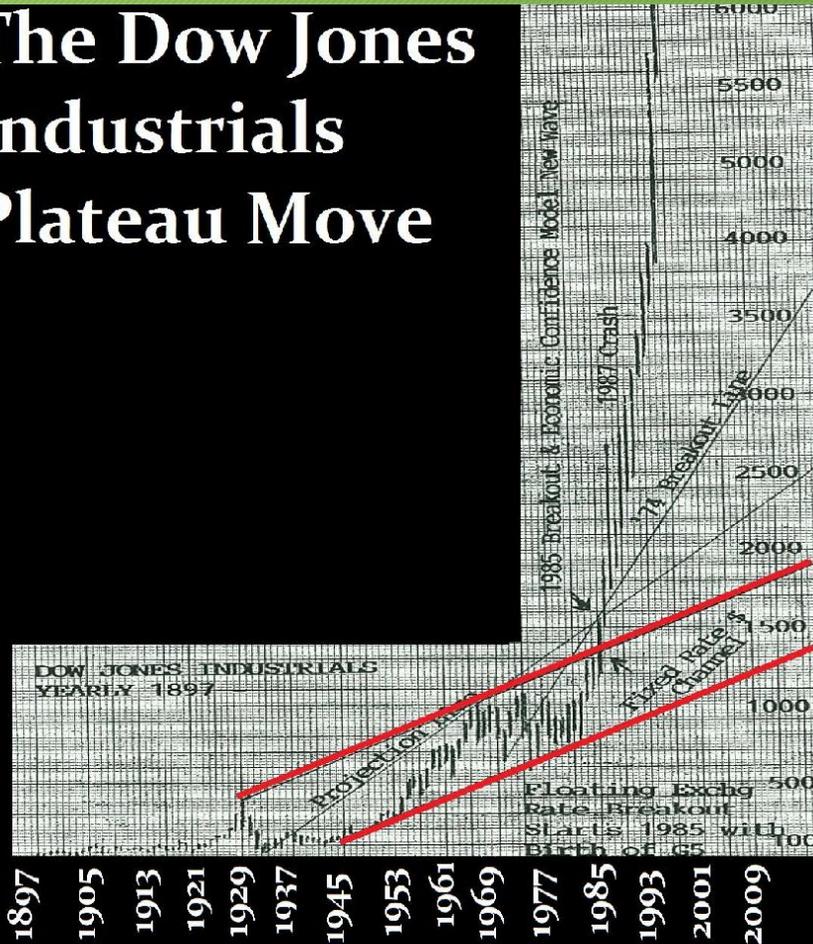
Advance Channel



- Here is the Nikkei Crash from 1989. There was a nice advance channel previously, but the first Break Line Channel before the major high once again captured the bulk of the price move. Here, the market continued to follow the Break Line Channel which was not the case in the Dow.

The Plateau Move

The Dow Jones Industrials Plateau Move



- The most powerful technical move anything can make is what we call the plateau move.. This is simply where the market under observation moves to a whole new paradigm. This was the case in the Dow Jones Industrials and it began at the very start of the birth of the Private Economic Confidence Model target for 1985. Everything we were showing on our computer models as well as this technical view of the market was screaming to be bought. At lectures around the world given at this period in time this move that was about to take place was easily seen in advance. Because of that, this led to the first conflict with the *Commodity Futures Trading Commission* that had actually subpoenaed a list of all clients on the theory that we were manipulating the **WORLD** economy, and this would **NEVER** have taken place but for our influence around the world. This only reflected the absolute ignorance of government that only judges everything by themselves - influence.

Plateau Move

Has the dollar peaked and gold bottomed at last?

For the past 5 years everyone has been saying that the dollar has peaked and that gold has bottomed. They have cited economic indicators and fundamental factors and once the rally began to decline so would the dollar and of course gold would soar to new heights. But the reality of the dollar is not always what appears to be. Interest rates are a factor of inflation. The higher they move, the more inflation will be generated. We have seen everyone's fundamental explanations for the dollar's advances crumble before our eyes leaving it in its path nothing but confusion.

Princeton Economics International Ltd is the only firm which has stood by its forecasts never wavering back and forth from one week to the next. Our models employed for financial and economic forecasting have been unsurpassed by anyone or any firm in the world. In 1979 we stated quite emphatically that the interest rates would rise above 20% and peak precisely during April 1981. We forecasted that a deflationary mode would then ensue, the world and the dollar would rise to new record highs. We gave our target for the next year in the economy as July 1985. Now that our target has arrived, we will begin to see a new trend back to inflation develop within the next 6 months just when the majority expect deflation to continue.

In gold we forecasted the precise day on which gold peaked in New York at \$875. We then projected the exact low with a strong rally into the precise week of February 14, 1985. We took out full page advertisements in financial journals and warned that gold would collapse. We have stated many times that gold would fall to new lows moving into 1985.

Princeton Economics International is the largest international consulting firm in the financial and economic arena. Our models and forecasts are employed by some of the largest corporations in the world along with banks, individuals and government authorities. In fact, our models are presently under consideration by a few governments solely due to their amazing accuracy.

We specialize in large scale and difficult hedging projects as well as speculation. We provide forecasting in many basic metals as well as currencies from 25 different nations. Our models have forecasted the Australian Dollar virtually perfectly along with the Lebanese Pound, Saudi Riyal, Turkish Lira, and of course, all the major European currencies along with the Yen, U.S. Dollar, and Canadian Dollar. Our projection for the Pound to fall to less than the par level in 1981 was thought to be absurd but in the next our extreme projections were proved to be correct.

Many firms and individuals cannot afford our hourly rate of \$4,000, and for this reason we offer our research through a much more reasonable medium. Princeton Economics International is the publisher of the Armstrong Report. Here we offer a service that includes our report publications which are comprised of our long-term as well as near-term forecasts along with technical, cyclical and fundamental analysis. Charts

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For individuals who trade the markets from a near-term perspective, we provide a service which is available by telephone recordings as well as telex, updating three times each day. This is available in the metals, covering gold, silver and platinum. The currency report includes the British Pound, Japanese Yen, Swiss Franc, Deutsche Mark and Canadian Dollar. Each service is available at an annual rate of \$3,500.

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Our institutional report is projected at an annual rate of \$50,000. This includes the metals and 21 currencies along with the bonds, the Dow, and the S & P 500 index as made 3 to 5 times daily only via telex.

If you are confused and tired of reading about forecasts that never come true, we suggest that you contact us as soon as possible. There is nothing in this world which remains constant. Everything falls back to a more commodity and it is our job to help you to protect your assets in a most speculative market. We guarantee that you will find our forecasts the MOST reliable in the financial world.

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- In this case, a plateau move took place because we were shifting from a Public to a Private Wave on the Economic Confidence Model. Share prices were far too cheap and the evidence of that was clear when you could buy all the shares of a company, sell its tangible assets, and double your money! The market had seriously undervalued stock prices. Even the Japanese press was stunned by our forecast that the Dow would rally to 6,000 when it was just 1,000. It had exceeded that target in 1996. But that is what a p is all about and we were being for the primary target was then 10,000. The Dow reached 11908 by 2000 and eventually 14279 by 2007. The was so important, we took the bank page of the English magazine for three week in July 1985 marking the beginning of the this new Private Wave 1985.65 which was August 25th, 1985. This was the Plaza Accord giving birth to the G5. The agreement was later signed on September 22nd, 1985. The dollar versus the yen declined by 51% on the foreign exchange markets from 1985 until the 1987 Crash. Most of this devaluation was due to the \$10 billion spent by the participating central banks. We even wrote the White House warning not to do what they were about to do. On November 8th, 1985, the Chairman of the Council of Economic Advisors responded

Plateau Move

The Assistant to the
Governor of Economic Services
Executive
November 9, 1981

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. Interventions which attempt 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, you 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 value of future economic variables as well as 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

market imperfections or irrationality on the part of market participants. In addition, the official wisdom 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, declining much more rapidly than it did during the fixed-rate period.

The system you propose 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 ad-hoc system would require that the monetary authorities of various nations intervene either directly or indirectly to maintain the fixed value of their 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 gold-based system also suffers from the volatility of portfolio shifts and has proved to either let their currencies float or to fix their currency to a basket of their own choosing. It would be unreasonable 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 fixed exchange rate system have been misinterpreted as deficiencies in economic growth and merely reflect a national response to current or expected changes in economic conditions. The high value of the dollar reflects a healthy economy in demand for the dollar as means to reduce our current account deficit and to reduce the uncertainty surrounding exchange rate movements and those which encourage economic growth and monetary stability at home and abroad. Nations which reduce their deficits, ensure satisfactory monetary policies, and raise a worldwide reputation in markets to trade will become progressively more successful.

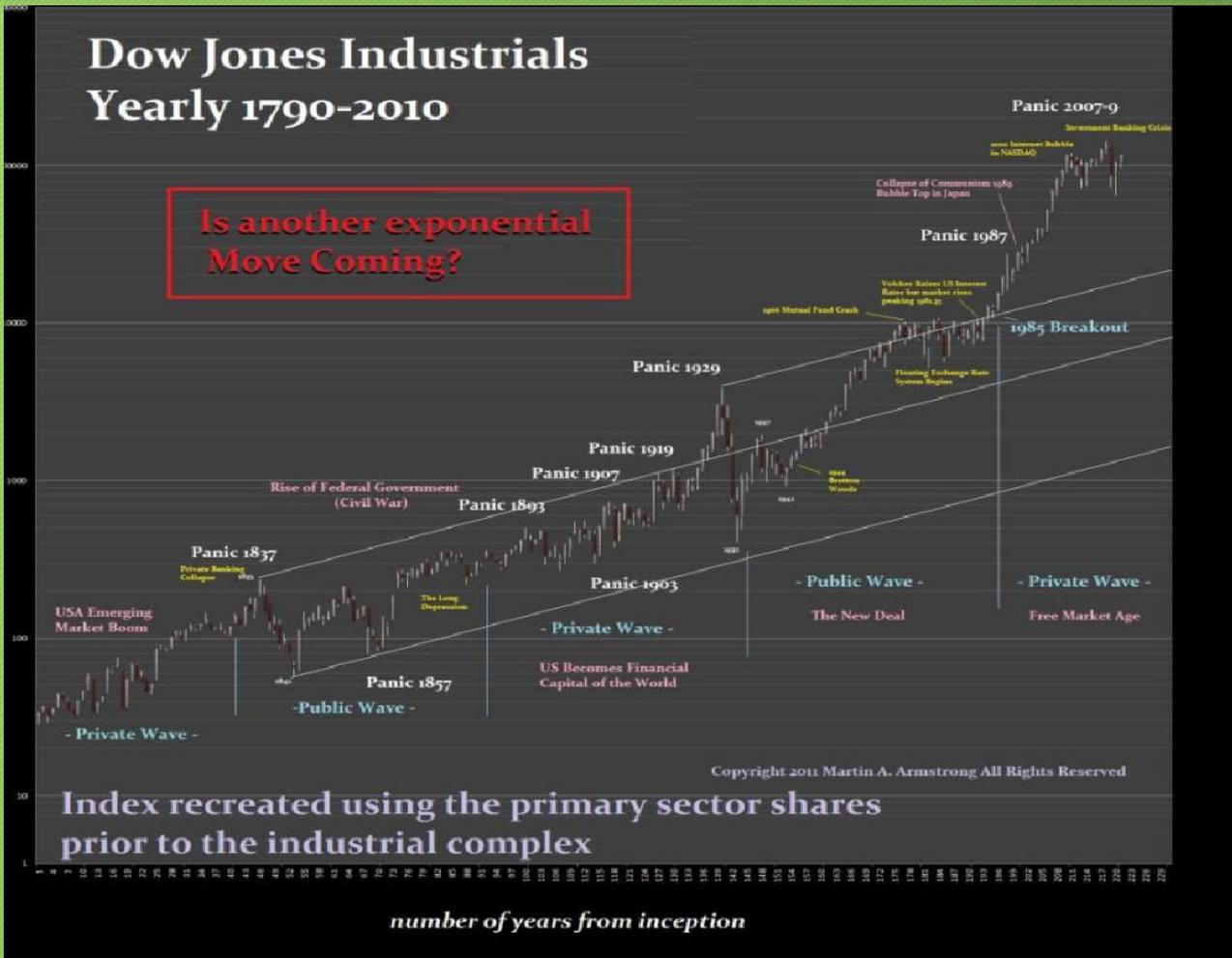
Sincerely,

Neel W. Spindler

Mr. Martin Armstrong
Chairman
Princeton Economic International
181 Carnegie Center, Suite 314
Princeton, New Jersey 08540

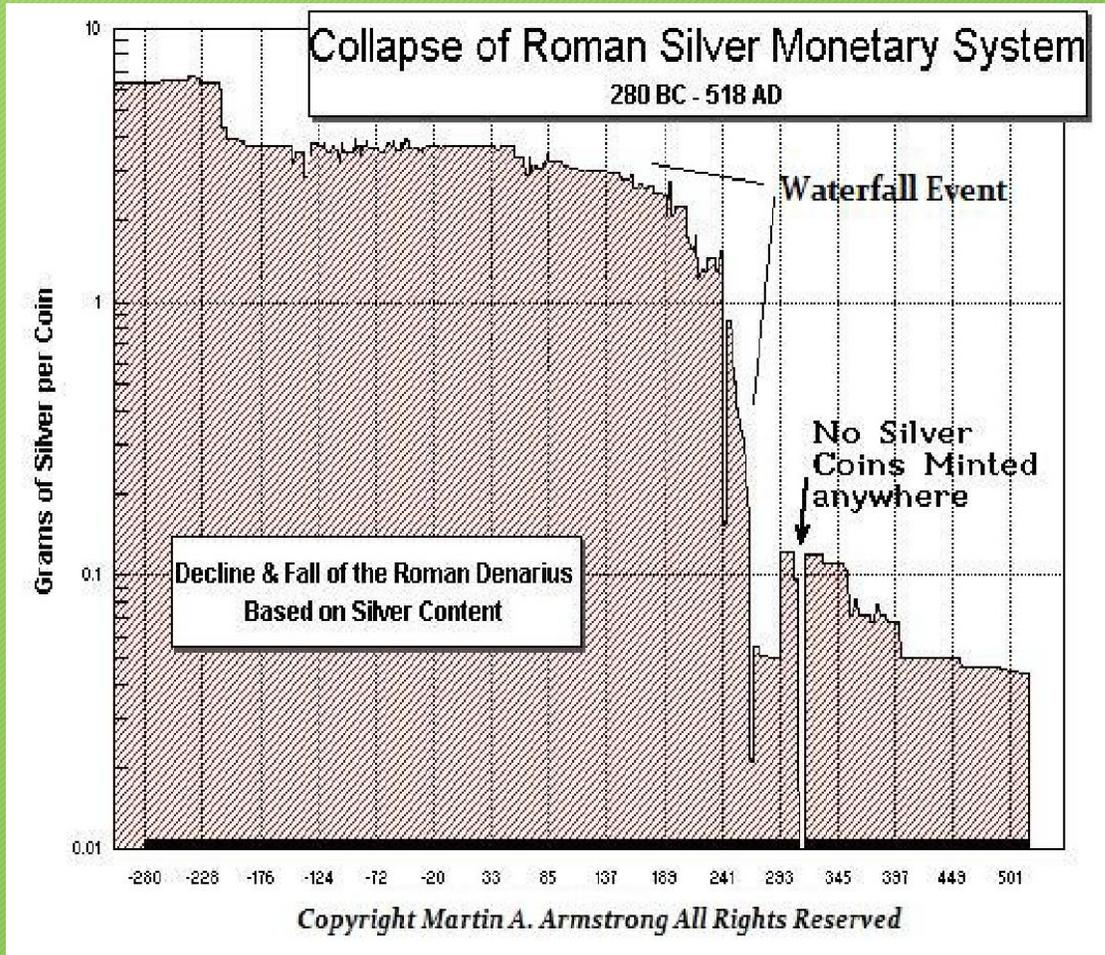
- stating there was no evidence that intervening in the foreign exchange markets would cause a rise in volatility. **“We agree that foreign exchange rate intervention is not the appropriate means by which to influence the exchange rate. We do not share, however, your concern over exchange rate volatility.”**
- Despite being accused of manipulating the world economy, we took every effort to warn government NOT to embark upon such a policy. A plateau move is drastic. The target that we put out was the **MINIMUM** calling for a 600% advance (Dow from 1,000 to 6,000). Most plateau moves tend to average 1000% advances and then 1800%. Moving beyond that advance level in a short period of time (27.04 years ($\pi \times 8.6$)), entails the typical all out Phase Transition move that takes place such as in Germany during the 1920s hyperinflation or the collapse in the purchasing power of the currency. That is NOT possible in the reserve currency as a first step. Such conditions will unfold only when the outer-lying economies collapse first. Then we are approaching in weather the **White Earth Effect** which is precisely what took place with the fall of Rome - the Dark Ages.

The Plateau Move



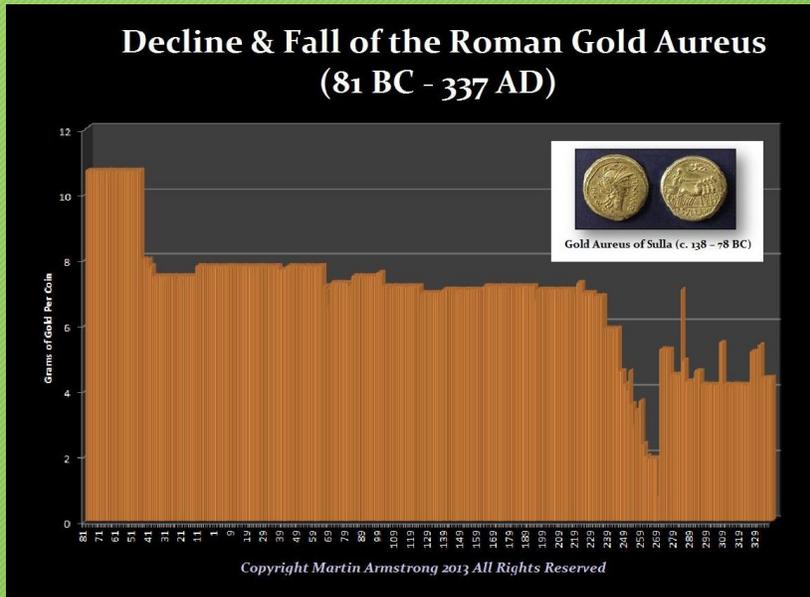
- The plateau move is by far the most powerful pattern that can develop from the upside perspective. It is in many respects the reciprocal of the w that marks the collapse likewise of the instrument under observation. Even when we take the Dow Jones Industrials and we chart this on a log scale, the hidden order remains. Still we can easily see the plateau move that begins in 1985. The 1929 event broadened the channel created from the 1837 Panic. Taking a parallel using the same angle to the 1929 high clearly defined the 1985 plateau move There is simply no other event that is such a warning as this pattern that was confirmed on EVERY model we had. From the government perspective, if we did not yell fire, there would have been none. That's just plain nuts.

The Waterfall Event



- There is no other technical pattern worse than what I have called the waterfall event . Here is a chart of the Monetary System of the Roman Empire from 290BC through 518AD that was the source of discovering this pattern. The purchasing power of the Roman denarius fell to about 1/50th of what it once was through the debasement of the silver content. This is a LOG CHART so it minimized the full impact only so we can actually print this devastating collapse. We have all the data behind the Decline & Fall of Rome. This chart cost over \$20 million to produce. We call this the waterfall event because that is what it resembles a waterfall. It begins generally with a curve of about 45° and then it rapidly turns downward to a near 180° drop at the end. There is no major ABC type of wave or Elliot Wave Structure at this level. Such patterns are generally within the normal day to day minor price movements we might call the quantum level. Here we are looking at the big picture and it is truly awesome.

The Waterfall Event



- Here is a picture of the Decline & Fall of the Roman Gold Aureus. Once again, we see the same type of Waterfall Event. The Byzantine Empire collapsed in the same manner. Here we have the debt of the Venetian Empire. After a **Phase Transition** that spike to a high, eventually this also rolls over into a Waterfall Event and plunges straight down.

Waterfall Event



- Waterfall Events do take place on the minor time levels such as the May 6th, 2010 “*Flash Crash*” Again you see no discernable wave ABCD or Elliot Wave pattern. The market just rolls over and collapses. However, because the markets are fractal, such events will migrate up the time scale and eventually materialize on the big picture level. What we saw in 2010, will appear at the larger level in time but not before 2032 at the very earliest.

Conclusion



- This will provide an overview to technical analysis that is designed to capture the *angle* of the market. The object again is to eliminate as much as possible human interpretation that prevents all forms of pattern recognition forms of analysis from rising up the scale from a pure art form to a definitive form of tool.
- Technical Analysis is vital to providing the price objectives that Timing Models do not provide. Simultaneously, Timing Models tell you **WHEN**, which Technical Analysis cannot provide. Blending both forms of analysis will help to open that door to understanding the possible alternatives for the future.