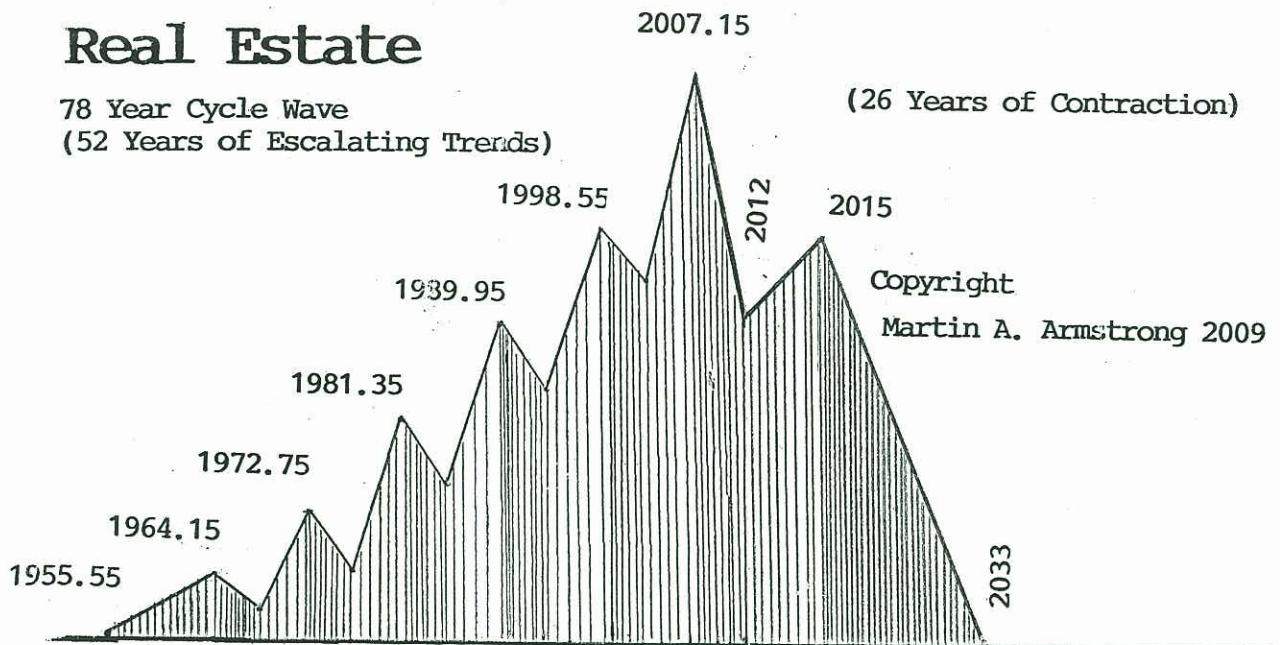


A Forecast for Real Estate

Real Estate

78 Year Cycle Wave
(52 Years of Escalating Trends)

(26 Years of Contraction)



Copyright
Martin A. Armstrong 2009

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

A C K N O W L E D G E M E N T S

I would like to thank the many people who have been writing from around the world. It is encouraging to know that there are so many people who are interested in uncovering the truth. I have also special thanks for so many providing valuable insight into trends around the world from China, Soviet Republics, South Africa, Brazil, Australian, and India. I believe we can survive the folly of governments even if they refuse to listen. The key is understanding the nature of events, and that allows us to correctly make the decision to be on the opposite side.

I would like to also thank all my old friend and former clients for their support and to know that they have continued to gather information that serves us all in times of crisis.

We are standing on the precipice of a new era in global-social-economics. How we enter this new age is of critical importance. Government is incapable to doing anything for any reform of its own abuse of power is not up for negotiation. We must weather the storm, and to do so we need to understand its nature. Just as the 1930s Great Depression set in motion profound changes that were even manifest in geopolitical confrontations, we have now reached such a crossroads. A debt crisis has its tentacles deeply embedded into every sector right into government. This is the distinction from a mere stock market crash that never alters the economy long-term. We are seriously still over-leveraged and some banks are still trying to be hedge funds and have to speculate to make a profit. That is a key warning sign that the worse is yet to come.

Comments, Suggestions & Questions

Please mail to:

Martin A. Armstrong
FCI Fort Dix Camp, #12518-050
PO Box 2000
Fort Dix, NJ 08640

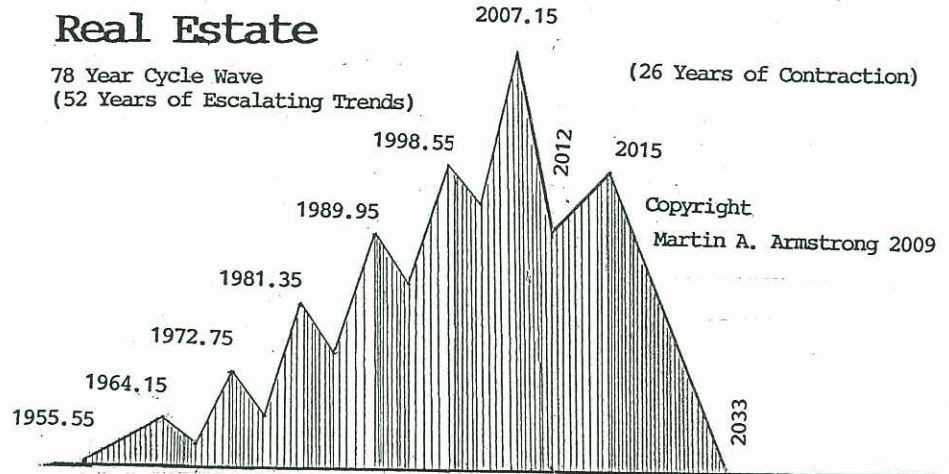
PLEASE REGISTER YOUR EMAIL ADDRESS
FOR FUTURE UPDATED NEWS CRITICAL TO OUR SURVIVAL

ArmstrongEconomics@GMail.COM

Copyright, Martin A. Armstrong, all rights reserved

This Report may be forwarded as you like without charge to individuals or governments around the world. It is provided as a Public Service at this time without cost because of the critical facts that we now faced economically. The contents and designs of the systems are in fact copyrighted. At a future date, a new edition of the 1986 The Greatest Bull Market In History will be released and a new book will soon be published on the model itself - The Geometry of Time. It is vital that we do not forget this is a world economy and the arrogance that any nation can dictate to the world is just insanity. Every nation effects all others no different than if one nation were to pour all its toxic waste into the ocean. Everything is interlinked and solutions are never isolated events.

A Forecast for Real Estate



By: Martin A. Armstrong

Former Chairman of Princeton Economics International, Ltd
and Foundation For The Study Of Cycles

Auspicious melioris aevi is a phrase the Romans had when trying to look into the eyes of the future to capture a glimpse of what might be. The priest would proclaim this phrase that meant "an omen of a better age." When it comes to understanding what we face, it truly requires understanding of the **cyclical nature** of all things. For you see, the ancient beliefs had some advantage. They comprehended that nothing was ever constant. When Rome would be at war, the Temple of Janus had two doors that were left open to symbolize that there could be profound change. Thus, the two faced god whom January is named after and whose feast we still celebrate on New Year's Eve as we say hello to the **New Year** and good bye to the past, was indeed a feast of cycles. The Romans had yet another phrase that is remembered today - **Panta Rehi (all things are in flux)**. These, among many others, were a recognition that life is not linear and we truly stand at the threshold of our posterity. We can embrace it and learn to adopt with gathering knowledge from our mistakes to enable us to confront destiny with the knowledge of experience. We must visualize the flow of TIME to see a future.

There is no delicate way to put this right now, but we are looking at a serious economic depression in terms of values of real estate. We have reached a crossroad that is very profound and if we do not at least try to comprehend the problem, we may be facing the worst economic implosion that has taken place in centuries. Thanks to the New York Investment Banks, they helped to leverage real estate far beyond anything that took place in history, and we are going to pay the price.

I have been reluctant to discuss this subject matter because the readership is now quite broad. I have wrestled with this problem and concluded that it is not a subject that can be avoided. For you see, the 2007 target was one that had special significance. It was the target I would warn major clients could be one of those shock-waves that could truly reshape the world as we knew it. This is also the reason why I began to write again due to the profound seriousness of this major target 2007.15. This is the convergence of **TIME** and **VOLATILITY** in none other than **REAL ESTATE!**

In many ways, we are so naive about our world and how it functions. There are a lot of charlatans out there who pretend to be able to analyze the trends to reach a view of the future. Many are dangerous and contribute to the overall inability to comprehend what is happening. They pull out a chart of the old stock market and pronounce the existence of a depression simply because the market fell sharply. It is not their fault. They believe often what they pronounce. But they lack the full understanding of how the economy even functions to arrive at a coherent complete structure through which the truly complex interaction of interrelationships manifests through a symphony of a constant state of flux.

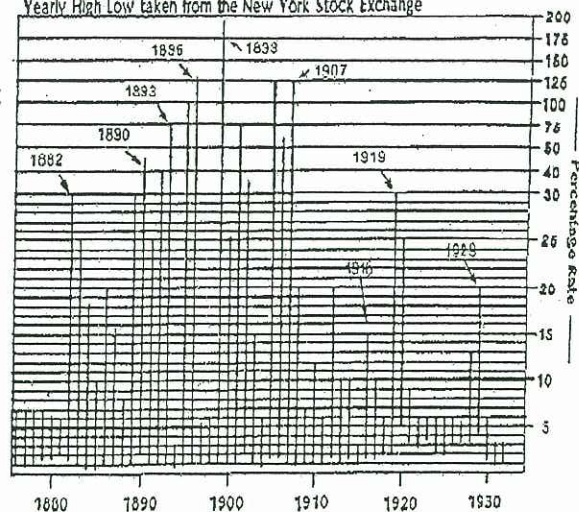
They pull out the charts from the Great Depression and proclaim we are headed toward a collapse into deflation. They do not come close to understanding complexity. They fail to comprehend that everything is in motion. In the 1930s, the US was the creditor and it was Europe that was collapsing in debt unable to comprehend what they had done. As capital shifted from Europe to America, the twilight of the European Age had arrived. The capital flows shifted to America and by Bretton Woods in 1944, the US held 76% of the entire world gold reserves. Is it any wonder why the dollar became the reserve currency of the world?

Absolutely everything you see around us is in fact in a constant state of movement. Interrelationships constantly change to the point that what once was up, is now down. There are different speeds within the whole cyclical movement and the shock wave unfolds when diverse aspects of cyclical movement now converge.

If we just look at the chart on call money rates, you will see that the high is during the minor panic of 1899. Even the 1907 Panic produced higher rates of interest than the Great Depression high of 1929. When I was young and began to try to figure out how this world ticked, it became clear if you just took each event and wrote down all the variables and compared them, what you quickly notice, there is no formula that you can create that states If Interest Rates = x% THEN stock price = -30%. It just does not work that way.

Everything is truly in a constant state of flux and this is why I have determined that capital concentrates on a revolving

CALL MONEY RATES 1876-1932
Yearly High Low taken from the New York Stock Exchange



basis. Absolutely Everything is constantly moving. What unfolds is an array of possibilities that are driven by a complexity of such dynamic interaction. We are being prevented from advancing to the next level in mankind's journey through existence, because we have perhaps well meaning charlatans who try to reduce this complexity to a single and plain cause and effect. **The Dow rose today because the Fed cut rates!** This is just gibberish that prevents us from evolving to the next level of understanding.

PRESUME NOTHING

The **FIRST** golden rule, "Presume Nothing," is so profound, far too many people just go charging forward. It has been the presumption since my childhood, that real estate always rises in the long-term and thus is a great asset constituting the majority of the average person's wealth.

What if that Presumption is wrong?

Now we are entering into a subject-matter that is so fundamental, it starts to get a bit scary. You will now see what I have been very concerned about after discovering this serious problem decades ago.

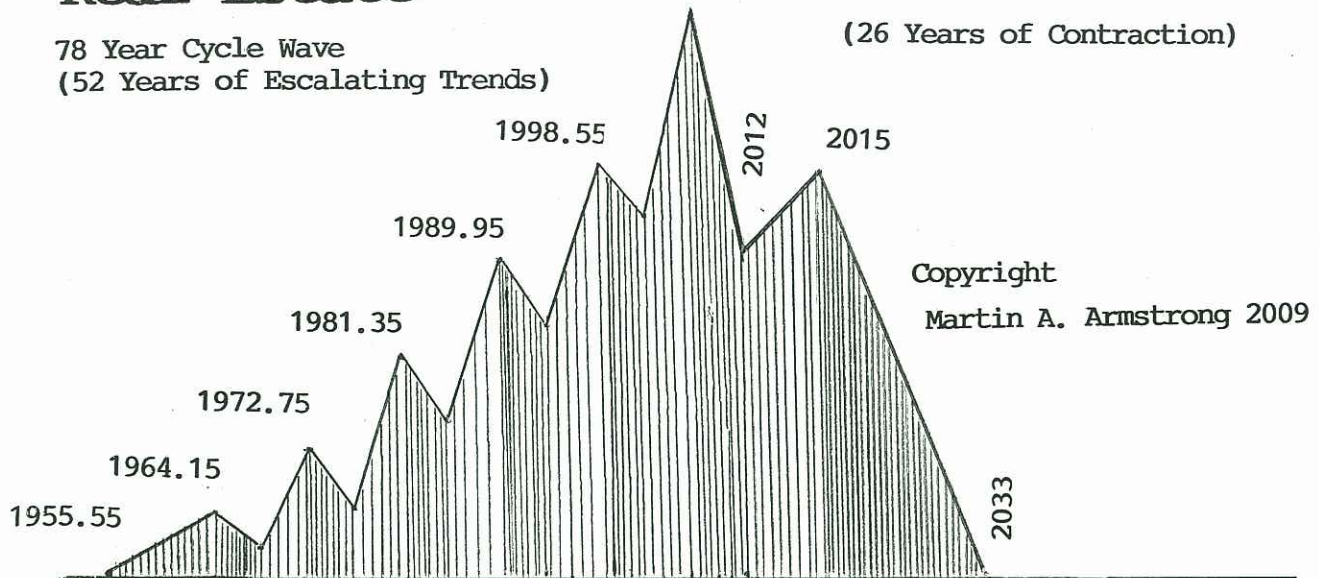
I have written about the **Debt Crisis** that was faced in Athens by Solon (630-530BC) and Julius Caesar (100-44BC). Now these history lessons will start to pay-off. What was it causing the debt crisis? **Real Estate!** This is critical to understand. It was not the public debt alone, but the private debt involving REAL ESTATE!

Real Estate

78 Year Cycle Wave
(52 Years of Escalating Trends)

2007.15

(26 Years of Contraction)



Copyright

Martin A. Armstrong 2009

REAL ESTATE is above all other markets, the largest asset class. Where the STOCK MARKET, GOLD, COMMODITIES, and even BONDS are interesting investments, they are by far, still the minority insofar as participants. There is just no market that draws to itself more people than real estate. It is this key cycle in Real Estate that truly effects the sustainable length of profound economic depressions. This cycle breaks down as a **harmonic** or a **derivative** of the **Economic Confidence Model (ECM)**. It is composed of a broader period of time with a duration in total of 78 years (6 x 13). When this cycle turns down, it is a profound event for it effects the entire population on a wide scale. The decline from the major high consists of a period duration of **26 years**. This leaves us with a wave of generally rising prices (through short-term recessionary periods) of roughly 52 years (51.6 years to be precise). In other words, we are dealing with the **ECM** that has been extended through a longer contraction phase of 26 years that combines into a major wave of 78 years.

We would bring this model out for the heavy hitters where Princeton Economics created a **"natural hedge"** strategy for international portfolios. Taking the mix of investments globally, we then placed it into the computer correlating the whole picture. We then would advise what assets should be sold in what countries and where assets should be added balancing off the currency risk against each other **"naturally"** and where slippage existed, that is all that needed to be managed in the markets. Thus, we could take a \$100 billion portfolio and now reduce the actual required hedging to a small fraction using a **"natural hedge"** to protect the bulk of the portfolio. To do that, we needed models on everything in every currency. Thus, what I am now showing for the first time publicly, is that general **Real Estate** model.

In order to deal with portfolios that included hotel chains and chains of pubs, it was vital that we also understood the risks associated with real estate. Not all things could be hedged using markets and real estate was certainly one of them. What I am about to reveal here, is the overall prime structure of real estate that was developed from studies we conducted in Europe, Japan, Australia, the USA as well as Canada.

Take Japan, for example. The peak was in 1989 when Tokyo was claimed to be worth the sum of all real estate in the USA. Go back 78 years and you hit 1911, the peak in the only independent emperor Meiji (1868-1912) and his death changed a lot. The emperor was once more subordinate to a shogun now in the form of a national military super-power that matured into World War II. The collapse in Tokyo real estate came 13 years later with the major earth quake and tidal wave combination that wiped out the city.