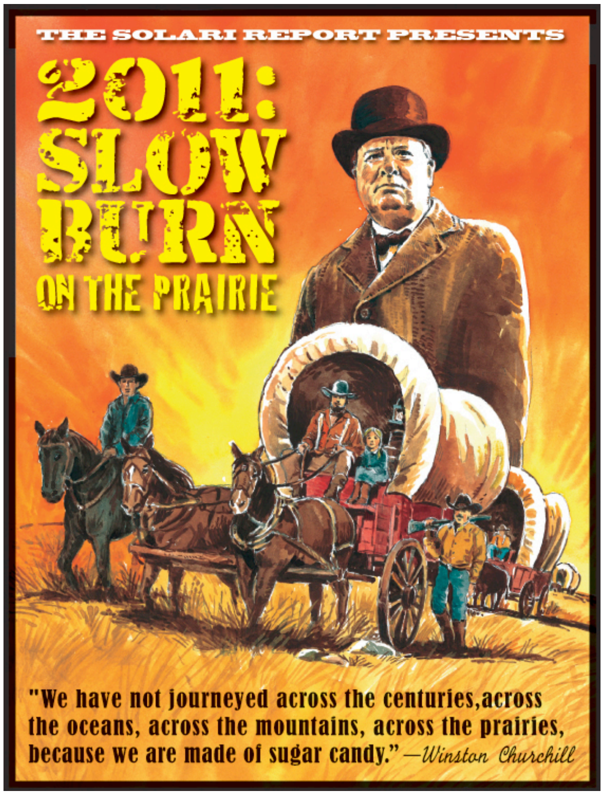
3rd Quarter 2011 Wrap-up
The Solari Report: 6 October 2011

I'm going to start tonight with our movie, *Longitude*. I really hope if you haven't had a chance to watch it I really encourage you to do it. It's a TV series make of the book by the same name. It's about the invention of the chronometer, the clock that is used in a ship to measure longitude. and it was invented by a self-educated clock maker named John Harrison who lived in the eighteenth century. And it is really a remarkable story and it is as relevant today as it was then because it's really the story of privilege and control versus innovation. And within that issue is also the issue of are the players who control in the society willing simply to make a return to themselves so, a return to the investor, or are they willing to also hold themselves to a standard of also having a positive return to the general whole. That's a question that comes up again and again.



We just saw the 3rd quarter results announced for the different endowments. Yale and Harvard Endowment are yet again making spectacular returns. We see banks and investment banks making spectacular returns. One subscriber wrote me this week and said "What does it say about all these institutions that the worse the country does, the worse the planet does, the worse the environment does, the better they do, and that's the issue: are we making money in a way that help each succeed, or are we making money in a way that we help each other fail? Another way to say it, when I talk about the tapeworm economy, is the tapeworm going to kill the host. At the heart of this issue is the fact that trillions of government investments have a negative return on investment both to the taxpayer and on the greater whole. And that is holding up a world of privilege.

In the story of *Longitude*, we see the British fleet and the British Navy suffering tremendously from the fact they can't measure longitude accurately and as a result, ships going way off course, terrible accidents at sea. And finally a prize is offered – the Longitude Prize – and a board is set up to review inventions and claims of people trying to solve this problem. The Longitude Board is every horrible thing you can ever say about a group of leadership. They are spoiled, they are corrupt, they are small-minded, and they proceed to torture Harrison and slow him down again and again and again despite the fact that doing so means more sailors are going to die and the British nation and economy is going to continue to be harmed or held back or even stalled. And it's the ultimate example of what I call rent-seekers and toll-boothers. They would rather let the greater good fail than have a self-educated clock maker get the credit and make the money. They are always trying to figure out how they can get the credit or their cronies can get the credit and make the money. Watching this movie – I can just think of hundreds of stories in Washington and Wall Street of watching the same kind of behavior again and again and again.

Of course, as long a you can continue to pump out more government money and more government debt you can continue to bubble the economy. You can use dirty tricks to steal from the innovators but at some point we end up in a situation where the return to investors is being bought at a negative return to the network and at some point the host gets so drained it dies.

Our Hero of the Week, not surprisingly, is Steve Jobs, co-founder and head, until very recently, of Apple. He is unique in that he really did live in the head of his customer. He understood his customer didn't want technical equipment. They wanted to connect and they wanted to be able to do it easily and beautifully without learning lots of technical stuff. And I can't tell you how many times I have sat in a board room and tried to explain to people that their idea or their product or their new company wasn't going to work because their business plan or product reflected the fact that they really didn't like their customers. They kind of wanted to know and talk to and be admired by people just like themselves. And most, if they were going to do a retail product, most of the people buying that product were going to be very different than they were. They really weren't interested in them. They really didn't like them. They really couldn't get in their head. And Jobs was very different. He really related with people and he wanted to delight them, wanted to add value to them. He would drive the group of people around him crazy until they really did that.

His story is one of enormous success and enormous innovation. Interestingly enough, because the digital revolution so far has net-net serve centralizing control, people like Jobs have been allowed to innovate. And the question before us is how do we allow innovation to move much more broadly into things that really really will de-centralize, including in more powerful ways. Including with the tools that people like Jobs and Jobs have created.

Our theme tonight is the Royal Buzkashi. If you've never been to Afghanistan, you might not know what the Royal Buzkashi is. You can see it played in a movie called *The Horseman* with Omar Sharif. Omar Sharif plays an Afghan of noble birth, and he rides in the Royal Buzkashi. You can also see Sylvester Stallone play in a tribal buzkashi in *Rocky III*. The game is really a precursor to polo. It's played by two teams on Mongolian steppe ponies play for the body of a dead lamb. One horseman will grab the body from the ground and try and carry it around the goalpost of the other team.

Everyone has whips, and the rules are there are no rules. If you have the body of the dead lamb, then everyone on the other team is trying to whip you so the pain is so great that you drop the body of the dead lamb.

I mention the Royal Buzkashi because that is in fact what the financial markets have been like for the last quarter. Let me just read a quote from the quarterly investment newsletter from my Chuck Gibson, my partner in Sea Lane Advisory.

Chuck writes:

> "Painful ups and downs have become a way of life for investors this year, but nothing so obvious as what we experienced this past quarter. There were an unprecedented nine swings of five percent or more from intraday highs to lows over the last eight weeks. Yet the S&P Index has gone virtually nowhere. It closed at 1,119.46 on 8-8-11and is resting within a few points of that same mark as I write this summary. Most of the quarterly decline occurred in the ten trading sessions between 7-27-11 and 8-9-11, which lopped some 17 percent off the S&P. Since then it has been trapped in a trading range between 1,100 and 1,230. The midpoint of that range is 1,165 and has crossed above and below that midpoint 35 times over the past two months. I promised you greater volatility, and far be it from me to renege on a promise."

You're literally watching several kinds of wars, but one of them is what Stewart Thomson calls the banksters literally ride with their whips and sort of beat up everybody who had any gold or silver, particularly on a levered basis, and try and get them to sell it. And they were mighty successful. For many people, that kind of volatility is a very scary ride. Part of the issue is the financial sector is still too large– when we did the bailouts, we didn't cut them back. We subsidized, and so the financial sector is still much larger than needed, so it's engaging in speculation and churning to pay its way. That's part of the pump and dump and up and down, and volatility helps that process.

So you've got hedge funds. You've got program trading. It makes for Wild West kind of behavior. The other thing is we've got this enormous overhang of debt . We literally have fraudulently induced the planet, and now equity investors understand that that means that the politics of the debt can have a dramatic and highly leveraged impact on equity valuations. So it's like living in a house with a boogeyman who can pop out of the closet and rock your world pretty much any time he pleases with no notice to you. So this makes for a highly skittish market.

We've watched a lot and heard a lot about the European debt crisis, and yet I think a more important issue behind the scenes is simply a slowdown in economic behavior. Part of struggling under the load of the debt is the debt is a real drain, and of course it puts the "Longitude Board" in control in many, many places and that cuts off innovation. And so one of the questions is how do we break out of this? Because, in fact, the problem is not economic. The problem is tyranny. It's not economic.

In Europe, in the last month, we've gone from kick the can to hot potato. A subscriber writes: A friend of mine met with a very high ranking US official in Europe who said the US is quite distraught about the prospect of a Eurozone default and its effect on the US. This seems to be the major concern these days." And I wrote back my guess is that the US criminal liability in a Greek default will be very significant. Significant claims would be directed against Goldman Sachs at a minimum. Another thing is that the best thing that could happen for the world economy is Greece pulls out of the euro, defaults, kicks up the drachma again, and starts innovating and digging out just by letting fundamental economics work.

The reason that's not happening is that if Greece doesn't stay in the euro, then lots of other parties could not stay in the euro and do the same thing and suddenly you have too many parties, particularly German and French banks, who hold lots of euro denominated debts, which for them are assets – people owe them money – and they need to keep harvesting those players, and they can't do it if, basically, the Euro is defunct. So if you look at sort of the political and structural design of the euro and how it operates, it really doesn't make a whole lot of sense. And you're really looking at a situation where the centralization is trying to trap people in a way that they can never get out and go back to fundamental economics. Another subscriber made a very good point. I wanted to read you what they wrote.

"A lot of money was made and could have been made with the rise of the Swiss franc from below $1.00 to the interim high of $1.32 or so and now back to $1.08 headed to probably slightly below par. This was somewhat predictable since no currency is probably more aligned with gold. The Swiss probably have proportionately the most gold reserves backing their currency than any other currency in the world. But the Swiss economy is not large enough, nor the currency itself liquid enough to act as a reserve currency. Also, a Swiss export and tourist based economy cannot tolerate that level of valuation. With the Eurozone debt crisis coming to a head, the euro has declined relative to the dollar as one might expect, but the Australian and Canadian dollars, resource backed currencies, have once again appreciated relative to the US."

"What this means is that folks are thinking of this triumvirate as a safe haven relative to other currencies: US dollar, Australian dollar, Canadian dollar. Perhaps it is not a coincidence that they're all called dollars. In the Far East, Singapore is probably the equivalent of Switzerland. So the currencies with the best underlying assets are the ones that are becoming the havens in reserve currencies. The US has still sizable resources, in particular natural gas, water, and farmland, and the largest ability to project force. Australia and Canada are among the top mineral resource endowed countries in the world and also have a lot of arable land, Canada more so than Australia, but it's constrained by climate. Australia, by the mass of plains that make up the vast core of the country."

"If you look at population to resource ratio, Australia and Canada are by far the most well endowed, which means they will be in a position to export for many decades to come. So England has done well for herself. Three of its modern day incarnations of its colonial empire are the most resources rich and prominent countries in the world."

This is a very astute comment. Very astute about watching those different currencies come into parity. And I think this is part of the move towards a central currency, and it's worth keeping an eye on.

I put up a post on the blog about the missing money. I'd gotten a call from a researcher in Washington who was working on more illumination of the four plus trillion dollars missing from the federal government. What I wrote in the article was, "I believe that whatever reform's considered, one of the critical questions is whether it returns the governance of national security resources to career military as opposed to private investment and corporate interests. I don't know about you, but I have more confidence in the Office of Naval Intelligence than in the Goldman Sachs."

In response to the articles and pictures we posted, another subscriber commented on the fact that Putin is now returning to the presidency of Russia in a very, very strong position. They wrote back, "I know very little about Russian politics, but I do find Putin to be interesting. As I looked at all these photos of him, I wondered what it would be like if we had a leader like him. I mean this guy compared to what we see around as designated leaders certainly represents an image as a very strong leader. So I thought it was as if we needed that missing father. We are in need of the respected father figure. I think we hunger for it. The father has been missing for too long."

It's a very astute comment because, in fact, I've said before if you watch Putin in a meeting of the G20, you'll see many of the leaders walk in and they're really people who don't have real power. They're very much appointed. They're on the leash. They're just delighted to be there, to be chosen. Whereas, Putin is a person who has real power and he's coming back in a position where he's going to lead Russia probably for a very long time. Now, it's going to take Russia – could take them even several generations to dig out of the damage that was done by sort of privatization and organized crime in the '90s, but it's going to put Russia, in the long run in terms of leadership, in a very strong position. And that's going to be an interesting position to be in, especially if the oil card continues and they continue to be the beneficiary of our trying to checkmate China with the oil price.

The equity markets are also struggling. It's not just what's going on in Europe, but they're also struggling with very weird weather and environmental deterioration everywhere in the planet. Events like Fukushima are permanent write downs to invaluable human and living equity that ultimately translates into write downs of financial equity, and that's no matter how much government money and intervention you pump into the markets. The extent to which the environmental problem supports centralization continues to make me very suspicious, and I feel the incentives are going the wrong way. I take the indications of geophysical engineering very seriously. If you haven't listened to our series on chemtrails in the archives, I strongly recommend it to you as very important background, including for what's going on in the markets.

Let's turn to precious metals. Gold was up 7.5 percent for the quarter and 16.7 percent for the year to date, closing on September 30 at $1,620. In the meantime, during the quarter it made it to $1,900; so for many people it doesn't even feel like it's up for the quarter because it came flying on down before the end of the quarter. Silver was down 13 percent of the quarter and down 1 percent for the year, so it's essentially flat for the year. It's up a little bit now. It touched $50 in the spring and $42 within the third quarter, so again, for many people it doesn't feel like it's flat.

A subscriber sent me a very long, impressive email documenting why silver's long term prospects remain excellent. If you look at the gold/silver ratio, it's really quite high relative to history or historical trading ranges. Yes, that's true, but if we get more drops, if we get an insecure period, which could easily happen sometime in the next – well, in this environment who knows how long it will go on. Silver is the one that's going to get hammered. Gold is the ultimate safe haven. So I agree that silver's long term prospects are good, but just remember, silver will be more volatile on the downside if we get into some real bad patches.

What happened right before the end of the quarter is that gold and silver got taken down very significantly. Jim Willie of Golden Jackass – he's got a PhD in statistics, I think, and he calculated the likelihood that it could happen and the degree that it could happen. I think it was – I don't remember the statistical returns. It was quite funny, but he basically was able to document that this was quite managed. I think we all know that the markets are managed, so I'm not sure that's new information. But it does show what an extreme move it was. What I would really call it was simply an effort to return the markets to the slow burn trajectory.

If you look at how things were working, gold and silver had really moved up significantly, and the stock market was going down. And if you look at the spread in performance between precious metals and bonds and stocks, it was really – the spread was getting too uncomfortable for system management, if you will. And I think there was a real effort to narrow it by the end of the quarter, particularly if the dollar is going to be defended because we're now seeing the US dollar index up even more as more and more money flows into dollars and dollar fixed income. The severity of the correction is a reminder of the power that is behind the management of the markets, and the reality is if you look at the value to a variety of parties to control the reserve currency, it's very economic in these instances to do what they have to do.

One of the tools they have, which we're reminded of regularly, is they raise margin requirements, and they can raise them even more. It's critical to remember it is a managed market. It is not a free market. At the beginning of the year, oddly enough, I predicted a gold high of the year of $1,650. After much thought and research, the reason I used $1,650 was I thought the central bankers would hold the rise for the year to under 20 percent - it was a purely political call. I was very surprised to see it go up to $1,900. In fact, I shifted my high up to $2,011 after watching the trading for the second quarter and the beginning of the third quarter. So I'm confident we're going to make it back to $2,011, and it may not be this year. We'll see how it goes. Again, the fourth quarter is the strongest period.

A subscriber writes with a question on my opinion on, "Eric Sprott's recent comments on gold and silver," Eric Sprott, among others, recently predicted gold would go to $12,000 per ounce and silver to overshoot 1/16th ratio. That's the historical gold/silver ratio, particularly at the peak of a long term bull market precious metal. "Would go to 1 to 10, finally resting at $1,200." What's your thoughts on his prediction?" My thoughts are not much. I think Sprott is somebody who promotes his own book. Pretty much telling you what makes him money, not what makes you money.

The gold market clears not by price. It clears by price up to a managed point, and then it clears according to politics. Particularly the politics of making sure the reserve currency is working for the people who manage it. And then finally, it clears by war. If the politics don't work, you literally get wars or you get a covert event like 9-11. So I think the notion that this is a free market and the central bankers would allow it to rise to $12,000 if they have the power to keep it on a managed rise, which is I think in their interest, I just think makes absolutely no sense. So I tend not to pay a lot of attention to people who make very aggressive predictions if those predictions are part of limited pictures and faulty assumptions.

So if somebody's willing to talk to me about $12,000 an ounce gold and how that relates to military and policy and national security actions and the full spectrum governance of how the empire is going to be managed, that makes sense to me. If they just talk about how much paper is being printed and what that means in terms of a reset between paper and gold without talking about the politics or the real geopolitical ramifications of that, I tend not to listen. So could gold go to $12,000 an ounce? Yes, but at that point we could be at war, so let's see where it goes.

The numbers tell the tale. Let me just walk a little bit through the numbers. If you look for the quarter, we have two asset categories that were up. The Barclays Aggregate Bond Index,is up 6.6 percent for the year and 3.8 percent for the quarter. And again, gold is up 16.7 percent for the year and 7.6 for the quarter. Everything else is down. The Morgan Stanley emerging markets is down 23.2 percent. Russell 2000 is down 21.8 percent. What does that mean? It means the very enterprises we need to thrive and create jobs are instead being hammered.

Now, this gets back to the Royal Buzkashi and whether or not the market and the banksters can trick you out of something real and back into the paper that allows them to turn around and control real enterprises. Warren Buffett once said, "If you let the market tell you what the value of your company is, then you're like the guy who's in the poker game for more than 20 minutes and doesn't know who the patsy is. You're the patsy." What do I mean by that? We're going to watch unprecedented volatility, and it's very important in this kind of market if you're going to be an investor in enterprises, you need to be a patient buyer and a patient holder, an occasional seller who's looking at the long term primary trends and buying very much for yield. So you're looking for enterprises that can produce long term dividends and returns and they're in strong businesses and they're in strong places.

And there's a way to do it, but you can't do it if you're freaked and can't manage the volatility. And so it's very, very important to learn to see the opportunities, whether it's in your own enterprise or whether you're investing in other enterprises. But we're all going to have to learn to manage the volatility, and it's a new way of thinking, and we can't let it get used against us. Precious metals still in a long term bull market, just to summarize. I'm going to talk a lot more about that next week with Franklin.

Equities, the relative PEs, and yields in emerging markets are unbelievably attractive. We're watching a rebalancing in the long term out of the first world into the emerging markets. You see phenomenal PEs and yields in the emerging markets. Now, I agree it's not the time to go in yet, but if you can find a company with a good long term outlook in a place and a region with a good long term prospect and you can get a five to ten percent on yield on that, why sit for one percent in US treasuries? It's worth learning to manage the volatility to be able to do that. That's one of the reasons I started Sea Lane because I don't see, in the long term, bonds as a good place to be compared to real enterprises. But again, it's not a simple thing to manage that volatility.

Mortgage markets, fraying at the edges. Eighty-nine percent of the counties in the United States have declared emergencies so far in 2011, and we're only at the end of the third quarter. Up on the blog is a commentary. It shows a map of all the counties that have declared emergencies. As I've said on several Solari reports, I think this is a sign that the US mortgage programs are using sort of the guise of emergencies to literally do a QE3 and buy in a lot of mortgages. Very interesting. And again, up on the blog we saw FHA, the Federal Housing Administration at HUD, threaten to reject $13 billion of claims with the banks.

Now, that is highly unusual for FHA. FHA traditionally has just been unbelievably liberal in accepting claims from the big financial institutions. For FHA to threaten that they're going to reject $13 billion to the big banks tells me that they are really may be running dry. We are watching long term mortgage rates drop below four percent. FHA's a big player in the market, which means they're getting a fairly significant origination cash flow in because they get their premiums up front. So if FHA is running dry enough that they have to start being tough on the banks on claims, it's a very interesting situation and says to me that there really is fraying at the edges.

It's going to be a major election issue. Long term mortgage rates below four percent may be unprecedented, but there are so many people in the country who cannot take advantage of refinancing because they're underwater. And I think because of the poor performance on the various work out programs and because of that, we're going to see a major election issue in and around the foreclosures and the inability to refinance underwater homes. It looks like there is another big round of monetary printing coming. Bernanke said the Fed will support the markets. He's clearly worried about unemployment and worried about deflation.

We had today in papers around the world, including Bloomberg, the IMF warns Latin America to prepare for global economic turndown. Latin American policy makers must be ready to cut interest rates and implement other stimulus measures in the event of another recession in Europe, the US, and Asia. The IMF said Latin America could be hit with a triple shock of falling commodity prices, tightening credit, and less favorable trade terms. Now, what that means is they're looking to lower interest rates and do a variety of stimulus measures worldwide, so we had more rumors this week of more capital controls. Now, what that means I don't know.

We already have massive capital controls in place. As many of you who know me know, I call the Patriot Act the Control and Concentration of Cash Flow Act. Certainly we saw in Dodd-Frank more and more capital control, so the capital controls are already fairly significant, but there are rumors of more, and it just literally shows you the extent to which the system is fraying. Washington continues, despite the financial issues, to build out the global empire, and we see this quarter the president being very public in establishing the power to assassinate, including US citizens. Some of you have heard me tell the story.

There was a group many years ago who was pushing me to run for president in the New Hampshire primary, and I wrote an article saying why I declined to run for the president of the United States. And so I had a relative call me and say, "Look, just tell me what would it take? Just give me the list of what it would take to persuade you to run for president." I said, "Okay. The first thing I would need is I would need a license to kill 250 people without question." The person's an attorney, and they got very upset and angry and started yelling at me and said, "That's the most unlawful, horrible, unconstitutional thing I've ever heard."

And I said, "I understand completely, but if you're going to take line management responsibility in a leadership position, you have to have the power and authority to enforce your orders. And without the ability – at this point in a very violent and very non-aligned culture, the only way you could do that and clean up this kind of corruption – because you're basically dealing with organized crime syndicates that have the power to kill and do sowith impunity. The only way you can do that is to have the license to kill." So I say that as background because I can't quite fathom what the point was of implementing the assassination that the president has implemented.

In the way that it was done and the way it was made so public, it's kind of a way of demonstrating a certain kind of control, which is disturbing to say the least. The thing that is important as you watch it and we try and discern what it is all about, is that in my personal experience, the US intelligence and enforcement bureaucracies have been running organized crime enterprises for decades, including ongoing assassinations, including of the president of the United States, John F. Kennedy. So why suddenly making this all public is an interesting question. Clearly the president is struggling in the polls. The economy and unemployment is a real issue.

The housing market is a real issue. The Perry media charge continues to drown out Ron Paul. In the corporate media, from everything I've seen on online polls and the South Carolina straw poll, Paul continues to appear very strong. I think a lot of people really do understand the issues that Paul has been highlighting, including the Federal Reserve. The president's jobs bill, we have done a special report on the jobs bill. It's linked in the resource section for this wrap up in the private blog. You have to log in to get it. We will put it up on the blog sometime next week. We've collected up the information from around the different parts of government on exactly the detail of what's in it and how they intend to pay for it, to the extent it's available.

I've also put up a chart on the blog on how the stock market has performed in election years. Generally, and 2012 will be an election year, the stock market performs very well in election year. 2008 really broke that pattern big time. But it's worth taking a look at because it'll be very interesting to see how the Fed and the Treasury manage to keep that going.

We've seen Dick Cheney come out of retirement, publish a new book, and proceed to pretty much stay on the talk show circuit trying to push his sort of mythic view of what happened during the Bush administration and sort of what's going on now. And I was finally inspired to write a review.

I read the book this weekend and wrote a review. It's up on the blog. It's called "Dick Cheney's Fluffernutter." And it's the most amazing fairy tale I've ever read. It's quite a creative book in the sense how Dick Cheney explains his history, the Bush administration, and his accomplishments sort of with his lies and within the official story. I mean it's literally a mythic fairy tale, but it's quite creative. I would certainly categorize it as fiction, not non-fiction.

Interestingly enough, I sent a copy to Lawrence Wilkerson, who was quite funny. When the book came out he offered to testify against Cheney if he was indicted and brought to trial, so that was sort of what Wilkerson thought of Cheney's version of events. Anyway, it's up on the blog. Take a look. But it does give you the sense that sort of the older generation in Washington literally cannot cope with the current situation and is, at this point, so far out of reality that it's almost uncomfortable.

Now, at the local level, believe it or not, sunshine is really breaking through the cracks, and I have to tell you one of the most exciting things I've ever seen just happened. In Pinellas County in Florida, which is the county that St. Petersburg is in. Now let me just read it to you. "Florida county has voted to stop adding fluoride to its drinking water after polarizing debate that included warnings of reduced intelligence, cancer, Soviet-style tactics, and forced medicating by government. The county commission voted four to three to halt fluorination to about 700,000 residents of the county. County commissioner Norm Roche says he voted against using fluoride because the public never asked for it. Eliminating the program will save tax payers an estimated $270,000 per year."

Now, here's what's really interesting. I said it earlier today that we have an extremely negative return on investment on government spending. So if you look at, particularly federal, government money, both credit, contracts, appropriations, by county a lot of that money does not have a positive return on investment to the tax payers. Now, what's interesting, as the economy sort of slows down and people are hurting more and more, they have a lot more reason to dig into the county budgets and say, "Look, we can save $270,000 a year by canceling the fluoride." I can't tell you how much you can save by canceling all sorts of war on drugs kind of stuff.

I mean it's unbelievable. And a lot of the things that are really holding back economy, harming small business, harming health are very expensive and government is paying for them. And so this is a lovely opportunity to re-engineer government. To the extent that government is paying money for something that's harming us, let's get that stopped because there's not enough money. So a very, very positive story. It'd be wonderful if this could catch on.

On Wall Street we've seen continued protests from Occupy Wall Street. I've spent a fair amount of time watching it. There's a website called The 99 Percent, and it's story after story of different people who are on Wall Street and why they came there. And what you're reading are stories of profound frustration in a young person's life in dealing with bad food, real health problems of their own or in the family, struggling with debt. The stories of student loan debt are just horrible, as well as falling income and opportunities. So tremendous examples of the pain that people are feeling as a result of sort of all the fraudulent inducement and all the different lies. They're really struggling with the day-to-day costs of dealing with this kind of tyranny, and the stories are unbelievably, unbelievably poignant.

At the same time, one of the things we're not seeing come out of occupied Wall Street are any of the really powerful themes of what people could do. So if the group who was occupying Wall Street said, "Hey everybody, pull your money out of the big banks and shift it to the local banks and credit unions," imagine the impact that that could have. I mean there are real powerful solutions. They're not talking about them to the extent that I've heard, and I may just not have heard, but I've been surprised. What they are talking about is corporatism.

It's true we have excess corporate capacity. That's part of why so much government money is needed to subsidize big corporations. But we seem to be hearing that the problem is free markets and capitalism. Alex Jones put up an incredible rant. He really kind of – it was his ultimate rant, and his real concern that we're hearing a discussion that will be used to prevent small business and entrepreneurs from continuing to enjoy the opportunities, the few opportunities they still do. And I share that concern because, as I've said many times on the Solari Report, the one thing we do not want is a Constitutional Convention.

You open up the Constitution right now and it will give these guys – they will drive a tank through it, and the big argument being used to promote a Constitutional Convention is to limit the rights of corporations. Now, I'm a big believer that the current corporate model is out of whack and doesn't work because corporations have a structural – there is a structural incentive to behave badly given the way the structure works now. But I think it will be used as an excuse to get a Constitutional Convention. There won't be real wonderful reform coming out of that Constitutional Convention, so I share Alex's concern. The other thing is I would love to see free markets, but I've never seen free markets in my lifetime.

I've seen managed markets. I've seen top down control. I've seen all sorts of dirty tricks and manipulation. I've seen lots of government subsidy to players that are then held out to me as free market players when they're not. I think real transparency and free markets within a governance framework would be terrific, and I hate to see organized crime used as something which defines free markets and the solution is therefore not to have free markets because, if anything, I think that's going to hurt you and me. It's certainly not going to hurt the "Longitude Board."

Another reason why this could be happening is to permit a steam valve to just let off pressure. The reality is the corporate media hasn't covered it that much, but I tell you, if New York wanted to stop it or shut it down they could at any point. So they've allowed it to grow when people like Cornel West and Michael Moore show up. They're being allowed to do that. If the system says, "Michael, we don't want you there," he'll disappear in a second. He's done that before, and ditto people like Cornel West. If you look at who's showing up and supporting it, they have sub rosa permission to do that.

One of the things you're hearing a lot these days is, "Oh dear. We're in danger of a depression." And I really want to underscore we've been in a depression for some time, and the reason we don't realize it is because there are trillions of dollars of government checks that have been sent out and are being counted as part of income in certain kinds of counts. Where I live in Tennessee there is no local economy really. There's retail businesses that serve people who get government checks. And so we are in a depression, and I think it's going to be a real question as to whether or not the government checks can continue and what's going to happen if they don't. Because the unemployment is significant and is growing.

Meantime what's interesting about this is the corporate economy is choking on cheap capital. I've been shopping at a supermarket here in West Chester, and the selection and quality is absolutely mind boggling. You're seeing tremendous amounts of capital aggressively servicing consumers who have less and less to spend, so we have more and more capital chasing less and less income. Now, I want to step back and tell you about one very important long term trend, and I'm going to do that with a story about FHA mortgage insurance. And it really gets to cost of capital and the things that Ron Paul has been trying to warn about.

When I was the FHA commissioner, FHA originated at the time about $5 billion of multifamily mortgage insurance. That's mortgage insurance for apartment building financing, so mortgages to build apartments. And so we did about $5 billion, and because it was government credit, we charged significantly less than the market rate. And because we charged significantly less than the market rate, there was significantly more than $5 billion of demand. If we charged the market rate, there would have been about $5 billion of demand for about $5 billion of mortgage insurance. But because we charged a very subsidized rate, there was $25 billion of demand for $5 billion of mortgage insurance.

So the question was how would you allocate who would get the $5 billion. If $25 billion wanted the $5 billion, who would get it and why. So there were several systems. One is you can write clear criteria and say, "Okay. All the pink projects are going to get it, and all the projects west of the Mississippi that have 100 or less units are going to get it." So you could create some criteria and then those projects would get it, and then you would allocate the $5 billion to those kinds of projects. Now, the problem was, of course, that if you wrote clear criteria like that there had to be public purpose to it, which meant that the projects that were done for the developers who were going to finance your next campaign weren't necessarily going to get it. And so what evolved was a hybrid.

Clear criteria would be put out. The underwriting process and the origination process would be made unbelievably complicated and a very long 26-step process with lots and lots of rules. Everything would get gridlocked, and the bureaucrats would be terrorized so they literally couldn't make decisions. And then the right lawyers could come in and facilitate the right $5 billion getting through the process, which made sure the people who funded the campaigns really got the $5 billion. And so what you had was cheap capital and you had to combine that cheap capital with more and more rules and more and more micromanagement so that the political criteria, which had to stay invisible because it wasn't legal, could control. And that's what we're watching throughout the economy.

I feel like the whole economy is turning into HUD. Because as the government lowers the cost of capital, so we're seeing mortgage rates below four percent, what are we seeing? We're seeing more and more rules, more and more micromanagement, more and more meanness in the micromanagement of the allocation of credit. And so you can walk into a supermarket that has mind boggling amounts of capital to provide 5,000 different selections of cheese from thousands and thousands of miles away and fewer and fewer consumers who can afford to buy any of it and a bureaucracy of food safety rules that could put any small farmer out of business. And so we're watching that throughout society, and what a lot of small business is trying to struggle with is how do you compete against large players who can get really cheap capital and "sic" government with thousands of rules on you.

And that's part of the question between privilege and control versus innovation and what life is going to be like if we continue to let the "Longitude Board" control us all. So where does this leave us now? The thing I think about the most right now is whether or not they're about to shift the model. There are two questions. One is if we're going to shift what I call the model, there are two things that have to shift. One is the line of what technology is available needs to shift, and it's one of the reasons I wanted Adam to talk about zero-point technology and I was encouraging everyone to listen to it before the third quarter wrap up.

So part of the issue is shifting the technological line, but another is shifting the incentive systems in the financial system. Do we want to have a financial system where enterprise profits, including big corporations, are generated by more consumption and more government debt or do we want to have a financial system in which business profits are generated from reducing consumption and government debt? Because in fact, you can have a financial system that does that. So for example if we have community venture funds or we have place based ETFs, then in fact when you introduce energy technology that can lower the cost of energy, you get an enormous increase in the value of equity in that place, particularly if you do it in a way that heals the environment and helps rebuild human health and skills and helps rebuild education.

One of the most interesting things to me that I've been waiting to see for many months is would the trailer for the *Thrive* documentary be allowed to go, and it was. And that's a documentary that's going to talk very openly about the possibilities of moving the technological line both in energy and in health. The trailer's been allowed to go. We have 35 more days until the documentary launches. It's coming out on November 11th. It's streaming in ten languages for $5 through the Internet, so this is really going to be a global conversation. But the trailer's been allowed to go. Let's see how the documentary goes in 35 days.

The zero-point discussion I had with Adam Trombly, there was no phone interference. If I'd had that discussion with Adam two years ago, I assure you my phone line would have been cut three times during the conversation. I should note the transcript for that, if you haven't had a chance to listen to it, we hope to get a full transcript up to you by next week, so you'll be able to get it on the private blog. I talked about in the last Solari report we see Siemens in Germany canceling their nuclear business, and Germany saying that they're really holding the line on their announcement to phase out nuclear technology. I don't see how they're going to do that without zero-point. So there are all sorts of signs that we're getting ready to flip the model.

Finally, the Cern announcement. Very big announcement. That story's up on the blog. It's all over the media. It's not just that it happened, but they let that move far and wide in the corporate media. Now, there are dangers if we flip the model. There are all sorts of applications of technology that could centralize control even more. We've talked a lot in the last quarter about smart meters, which is of great concern to me. All sorts of things that we can talk about more, so I don't mean to say that technology is a magical solution.

One of the biggest questions on the flipping the model is where the public pension assets are going to go. We just saw an announcement come out from Reuters this last week. The hundred largest US public employee retirement systems had a combined $2.8 trillion in assets as of June 30, 1.3 percent higher than 3 months earlier and 17.6 percent higher than a year earlier. So if we could see the global pension plans shifted in a way that really facilitated innovation and not privilege and not centralization, again, there's an awful lot that could happen. I think one of the things that's been most interesting about the third quarter this year is as I talk to clients and as I talk to subscribers, what I'm realizing more and more of the people in America and around Europe too are beginning to realize that we're not dealing with a bad economy.

We're not dealing with a short term problem. We're not dealing with a cycle. What we're dealing with is tyranny, and the reality is tyranny is bad for business. Now, business is the least of our problems. Tyranny is bad for everything. But the problem is not economic, and I've told this story many times. In the '90s when I built the relational databases at Hamilton Securities and we looked at what would happen if we could optimize the flow of equity both within a place and globally so communities were free to do community venture funds and to circulate equity local and to have local stock exchanges if they wanted, what I discovered was there was absolutely no need for poverty.

Poverty was not necessary, and that's before I got to know physicists like Foster Gamble and Adam Trombly and discovered oh, we have unbelievable technology that has never moved to practical application. And so if we look at our problems, there is no – I'm very concerned about what could happen in the economy in the fourth quarter, but I assure you it is a symptom of political problems, not of economic problems. I got another letter from a wonderful subscriber pointing out an article by Hugo Salinas Price, one of the leaders of the effort in Mexico to promote silver as a currency. And the title of the article – and I hadn't known of it and I was very pleased to be told about it.

It's called "The Evaporation of Civilization," and he's very opposed to free energy. He writes as follows. Let me read it to you. "At the present time, scientists are working on the invention of devices that will produce electricity out of the energy in space; the flow of energy will be inexhaustible at whatever volume is desired and forever. This is a project certified and guaranteed to 'boil the water in the pot' to which we have been referring, right down to the last drop of water, and poof! Humanity will be gone, replaced by brutal savages. In Switzerland there is today a small religious community of Christians near the town of Linden. In a building in this community there is a device which produces more energy than is required to make it run. Why has not this device been marketed? The elders of the community answer: 'Because humanity in its present state is not ready for it.' They are absolutely correct in their decision. But others are working on the project and making progress - toward our definitive extinction as humans."

It's worth reading. I don't agree with it, but I think the issues of how we advance spiritually, morally, and culturally to handle the technology that we have now or the technology we could have if zero-point becomes a possibility is a very, very critical question. A very critical question. The alternative to not shifting the technological line, in my opinion, is significant depopulation. And between the two choices of depopulating or growing up, I believe the human race is perfectly capable of growing up, particularly if we adapt a financial model in which parties are responsible to have a positive return to the network, not just to the investor. And although that sounds like something that could be complicated, it's a remarkably simple change, particularly if we allow places to be financed with equity.

So with literally community venture funds and liquid equity within a place, everybody in that place has a lot of incentives to optimize. Doesn't mean to say it's perfect or that it will always work, but I think one of the things we need is a financial system where I can make money from your success and you can make money from my success. Right now we have a debt based system. We're engineered to make money on each other's failure, and that certainly doesn't work. If you read the stories of all the kids who are on the Wall Street protest and you read the horrible stories of what's happened to them with student loans, the idea that my generation sat around and made money on student loans, rigging the failure of the next generation is really one of the most horrible things I've ever seen.

So what's the action? What does this mean going forward? Well, you're going to hear the same thing you've heard from me many times, but I'll say it again. One, the more self sufficient you can be that's comfortable for you given your circumstances, the better. Lowering your financial overhead is great. The less dependent you are on centralized systems, the less risk you take. And the higher quality your food and health are, the better off you are. So find those local farmers if you can. I gave a speech in Hammonton, NJ and when I was finished, it was great. We had the former mayor there and the current mayor and a lot of great local small business people.

A very smart businessman said, "You know, I like this idea. I think we better go buy some land and hire a farmer. I think we need to grow our own food." I thought that was great indication that positive change is happening.

Precious metals are going to continue in their primary trend. Get ready to handle more big swings. Yes, we could get more downs. Doesn't change the primary trend at all because every indication is when we get those downward spikes, the central banks are going to be moved to print more money. So I think inflation is the trend, but that means you always have to have sufficient cash reserves so you never get cornered into selling at the wrong time.

And remember, it's like the Royal Buzkashi. Maybe you should watch *The Horseman* or *Rocky III*. Do not let the banksters whip you into dropping the lamb when the price is down. Equities are going to struggle for a while here. We have central bank intervention that can prop them up. Until we sort out the debt problems and the environmental and weather issues, there's a lot of pressure on equities. But the long term trend is rebalancing between the first world and the emerging markets. And so during this period, up or down very volatile, a business that can produce strong dividends on a long term basis, particularly if it's in a good area, a good place in the world, a growing place.

Seven percent on a strong enterprise looks a lot better than one percent on a US treasury or sovereign debt. It means hunting and picking and looking at the big drops not as scary things but as opportunities to be a very astute and careful buyer, but you're going to have to be willing to play the Royal Buzkashi. Good rental real estate is going to continue to look attractive to cash buyers, and so it's just a matter of really putting the real estate to a test of being able to cash flow. All those markets are local, so it very much depends where you are. I think the real estate markets are going to continue to be soft in most places around the world, but if you look at what the central bankers are going to do, they're going to try and keep propping it up so that the down is not too much.

And finally, we have to watch the wild cards. We need to watch the technology lines, and we need to watch how the global conversation shifts. I got one other letter from a subscriber I wanted to read to you. "I thought I had some political awareness until I began subscribing to the Solari Report. Like most people, I only looked at the everyday rhetoric of politics and never so much the covert side. I stood on many a corner protesting the war and a code pinker. If I had understood the financials as I do now, the street corner would have been a better investment of my money. The more educated I become through your blog and the Solari Report and attempt to educate my friends and associates in my community, I find it disconcerting."

"I mention mind control, smart grids, Ron Paul, the black budget, following the money, etcetera. Hannah Arendt explored it expertly in a report on the banality of evil, where people thoughtlessly conform and not consider their actions. There are many Eichmanns among us. Evil presented as black and white is easier. Evil through the stroke of a pen or purposefully selling drugs in a neighborhood is genocide. Most people do not comprehend, as you have written in your articles."

Now she's referring to a link on the Cheney article that was up on the blog this week. "Reading about your mother and her death awakened me again to the myth about my country and culture that I grew up thinking was the reality. I can see where you derive your strength, wisdom, and courage. It is also your faith." Now, what she's describing is something I've heard from many clients and subscribers. The more they learn about what's really going on, the better off they are in terms of allocating their time and managing their assets. At the same time, as they get better at protecting themselves from being drained, they find themselves struggling to communicate with people who aren't sort of interested in knowing what's really going on. And so the question is how do we struggle with knowing what's going on but living within the matrix?