Catherine Interviews Franklin Sanders
Precious Metals Market Report
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Catherine: So with that, now let's turn to the Precious Metals Market Report. Franklin, we've missed you.

Franklin: Well, I've missed you too.

Catherine Austin Fitts: We have a ton of questions that I'm going to ask you, but first let's go into the market. Tell us what's been happening in precious metals.

Franklin Sanders: Well, silver and gold both, since the August highs and the September lows, have been trading into an even-sided triangle, and if you think of the nose cone of a rocket, you'll get a pretty good idea of what that looks like. And they've traded farther and farther out into that triangle, and they were pushing the upward boundary, the upper boundary of that. And then today, boom, we've got this big drop, $31 for gold and nearly $1.09 for silver.

But when I pulled out the chart and looked at it, the interesting thing is that neither metal fell through that bottom boundary line, so what that says to me is that they're still in good shape. Now, if they don't follow through on the downside tomorrow – that is, if they don't make new lows tomorrow or Monday – then I have to decide that the lows are behind us and they'll be rallying in the first quarter of next year.

So it's a very much cliffhanging kinda thing because the numbers are very, very close. That is, they're very, very close sitting on those lines. But if gold and silver survive at these levels, which would be like $31.50 and $1,700 for gold – as long as they hold on to those levels, they're okay. And then once gold gets through $1,800 and closes there two days running, I think you have to say definitely that the bottoms are behind us. Now, whether we'll see that or not, I don't know, and as I said, tomorrow's going to be a very significant day, either tomorrow or Monday. If they're going to break down, they're going to break down tomorrow.

And the interesting thing is, Catherine, that this came on a day, on news, that in my opinion should've driven silver and gold up. Namely, the European Central Bank made its announcement today that they were going to do, actually, three different things. The first thing was that they were going to reduce their bank reserve requirements by 50 percent, from 2 percent to 1 percent, which is a fairly big move. It means it makes much easier for banks to loan money. And then they also lowered their interest rate a quarter of 1 percent to their all-time low, which is 1 percent. And, boy, I'm thinking hard, trying to remember that third thing. Oh, they reduced the collateral requirements to get a loan from the European Central Bank.

And really, one of the reasons that I was having a hard time remembering that third one is that they're really all three so unimportant, except as drivers of inflation, that who can remember them? I mean, the market's sitting around wanting, and has been wanting for 18 months, for the Europeans to do something about their situation. Now, I wouldn't like it, but given the system that they've built, the only thing they could do is to step up to the plate and say, "We're going to inflate as much as we have to inflate, but we're going to get the economy going again."

Now, that won't work for the long term; I understand. And it's not the best thing they could do, but it would be at least definitive action instead of inaction and indecision and piddling and fiddling and carping at each other, because that sort of indecision is exactly the thing markets cannot stand. And they get so nervous that they just – people are bewildered. They don't know what to do. And so you get these crazy swings we have today. The Dow was down 200 points today, but the next day it'll be up 200 points or up 400 points, and then it falls back 600 points in the next three days. That shows a tremendous amount of indecision in markets, and it doesn't appear that the Europeans have anything up their sleeve that will change anything.

Now, you and I have spoken about this already, but if I were a suspicious person – and heaven knows there's plenty of reason to be suspicious in the world we live in – I would say, well, look at that. The Eurocrats are manipulating the situation to increase the centralization of power in the European Union. Because that's what they're advocating. That's what Merkel and Sarkozy keep advocating. They keep saying, "Well, the Union has to have centralized control over the budgets of individual states, and there has to be sanctions against those states that don't meet those budget requirements, and so forth and so on."

Catherine: Right, since centralization has worked so well, we need more.

Franklin: Right, exactly.

Since the euro has been such a steaming success, let's centralize something else. And I know that sounds conspiratorial and everything, and frankly, I don't apologize for that, because the whole project of European Union, since the 1954 European Coal and Steel alliance, has been directed just in that direction, and it has not resulted in an increase in human liberty. It's resulted in more cross-border economic activity, and that's probably good. But as far as human freedom is concerned, it's been exactly the opposite, because the European Union is just notorious for its bureaucratic rules and regulations and rule by committee. So from that standpoint, I don't care whether the euro falls apart or not.

Catherine: Did you see the quote we put up this week for the update?

Franklin: No. Mm-mmm.

Catherine: Well, while I'm just getting the quote, look at what we're saying, though. And this is in a lot of the things we've been talking about, Franklin, not just what's happening in Europe, but what's happening with the MF Global situation. You have free markets and then you have centralized power, and they keep taking actions to shut off the liquidity in free markets, which means everybody's more and more dependent on the liquidity from centralized control. So if you look at CME not respecting customer accounts – scares everybody to death in the futures market, that's bad for decentralized markets. That means you're more dependent on the Fed to sort of pump out money, and the people who get that pumped-out money are the ones who have more marketplace power.

Franklin: Well, let me indulge my rage just a minute. If government supervision and regulation is so good, how come they didn't catch MF Global before they took $1.2 billion out of their clients' accounts? I mean, if it works, why do they keep doing that? And all it goes to show is this, Catherine: If the people you do business with have no integrity and their word is no good, all the regulation in the world won't stop them from stealing your money.

Catherine: Right, and it's funny, one of the things you heard in Europe a lot was that the liquidity between the banks had frozen because nobody knew who they could trust. Nobody trusted the numbers. Nobody trusted the accounts. In other words, there's a breakdown in the fundamental integrity of the big institutions. Here, let me read you the quote from our update this week: "The Lord's Prayer contains 70 words; the Ten Commandments, 297; the American Declaration of Independence, 1,300; and the EU Common Market directive on the export of duck eggs, 26,911." And apparently they have 23,000 such directives.

Franklin: Right.

Catherine: I mean, that's why you really got the feeling, talking to everybody in Switzerland and Austria, that the EU was like the rain. It was just some tyrannical thing that you just had to endure.

Franklin: But see, that completely contradicts this whole idea of a common market. That's not a common market. When you have that much regulation, there's no freedom to market anything at all. All there is, is more and more control. The problem is, at some point the control becomes so stringent and so all-embracing that it brings everything to a halt.

Catherine: Right.

Franklin: It's crazy.

Catherine: There was a great article by Herman de Soto. I don't know if you're familiar with him. He's a Peruvian economist who's a big proponent of property rights.

Franklin: Yes.

Catherine: And one of the things he was talking about was how liquidity in America – it's called "Who Owns This Mess?" – is that one of the problems, one of the reasons the liquidity is sort of frozen up in the real estate market is, literally, there are too many serious questions about who owns what and title and some of the issues coming out of MERS and the collateral fraud, et cetera, et cetera. So everything I see says that there's an effort to shut off liquidity in free markets so that everybody's dependent on the liquidity in the centralized system. And that's why, to me, one of the most important things we can do is sit down and say, "Okay, how are we going to create liquidity outside of the centralized system?" Because the last thing we want to do is be dependent on it.

Franklin: Well, this comes back to a famous Catherine-ism that you've been saying to me for a long time, and that is: We've come to an environment where everybody you do business with has to be somebody that you can trust your life to.

Catherine: Right.

Franklin: And there isn't any substitute for that, so government regulation doesn't do that.

Catherine: I love the Swiss, and one of the things I felt again when I was in Switzerland – it's funny, because I was at the conference, and you sort of got the feeling that they thought real change was going to come from the activists, and I have a wonderful, wonderful client who pointed out, "No, it's not going to come from the activists. It's going to come from the guys in the line who know how to deal with running line operations, whether it's transportation or utilities or money or anything else." And I spent a week talking to just wonderful money managers who are watching what's going on, and it strikes terror in their heart, because the Swiss are deeply committed to property rights and deeply committed to personal financial integrity and integrity of transactions and deeply sort of committed to free markets, so they're watching what's going on.

But you feel the depth of their cultural commitment to run things in a manner of integrity, and struggling with how to do that in this environment. But part of what you feel is this just amazingly deep cultural commitment on – I don't know if you remember what you said to me about this at dinnertime. You said, "That's how America used to feel." Well, but that's how – if we want to build liquidity – liquidity doesn't start with money. It starts with being able to make a contract and keep it. That's what liquidity is based on.

Franklin: Right. And it means that life is stable to that extent. I mean, what's the purpose of the rule of law? The purpose of the rule of law is to make life stable and predictable, and that's what personal integrity does. It makes life predictable. I know what you're going to do under that situation.

Catherine: Well, and if there's a problem or miscommunication, I can get it taken care of.

Franklin: Right. Exactly. Back to Europe, though. The problem is that you had all of these people pointing fingers at each other and whining back and forth, whining in front of the media, and they've just stirred up tremendous distrust in the market, distrust that they could ever come out with anything that actually will offer a solution, and the truth is they don't really have a solution. I think the debt is so enormous that it can't be repaid. Which brings us to another topic: I think that the only solution here is a debt jubilee; that is, a forgiveness of the debts where you just wipe it out and say, "Well, we're going to start all over." And I understand that that would be difficult to do and –

Catherine: Well, but you're talking like a decentralized guy. I think that debt entrapment has worked. It's been very successful for what it's supposed to do. And what you've got is a situation now where the baby boomers, both in Europe and in North America, have generated a huge amount of wealth, and now the question is, how can you lower expectations and dramatically reduce the amount that they're going to be able to command for their retirement?

Franklin: Oh, wait.

Catherine: You don't want to give it back.

Franklin: You've just brought up the sorest topic of the week. Monday night, I guess – I bring things home to read, and I had a big envelope with a letter from a fellow down in Florida who frequently sends me – not terribly frequently, but does send me very good information. And he had this letter and he said, "When are you going to start talking about the government seizing pension funds? Why haven't you said anything about it?" And I –

Catherine: You already have.

Franklin: Right. Right. They're in your IRA. Right. But he had several articles in there, and in 2003 the Argentine government seized pension funds, pension assets, to balance its budget out of the crisis they were in. The Hungarians did that last year. The Irish are talking about doing it with nearly 25 billion euros' worth of pension assets there. And lo and behold –

Catherine: Portugal just did something.

Franklin: Huh? Sorry?

Catherine: Portugal just –

Franklin: And lo and behold, I go to work the next day and I see Portugal has seized 5.6 billion euros' worth of pension assets to try and balance its budget or to do something about the deficit. Well, you think that nobody in the United States Treasury and United States government reads the newspaper? They don't know about that.

Catherine: Well, but I think – and we'll get into this later. I think they've been debasing the pension funds for years. So I think in America that's exactly what's been going on, but it's been going on in a much more subtle way. Now, what we saw with American Airlines and those kinds of bankruptcies is they're basically just shifting all their pension costs and shifting it into the Pension Benefit Guaranty Corporation, so they're just shifting it to the taxpayers, is essentially what's going to happen. So labor will take a hit, and taxpayers will take a hit.

Franklin: And somebody got the money.

Catherine: I think so. I mean, I –

Franklin: Somebody's got the – here's the point, that somebody's got the money. There's supposedly about $16 trillion in IRAs and 401(k)s, and the government's debt just happens to be about that same amount. And I don't –

Catherine: I thought IRAs – I'm trying to remember – IRAs and 401(k)s total, it's less than that. I think you might be adding pension funds to it.

Franklin: Well, I might be.

Catherine: If you add IRAs, 401(k)s, and pension funds, it should be higher than on the budget debt.

Franklin: They won't call it seizing the pension funds. What they'll do is they'll announce one day, "We're changing the rules about IRAs," because so many people have lost money in the stock market, and so many people have lost money –

Catherine: "We're going to protect you."

Franklin: "We're going to protect you, and so we're going to have a guaranteed – we're going to have a program that will guarantee you a retirement return, and that is, you can only invest in government bonds. You can have the long-term ones or the short-term ones, but only government bonds."

Catherine: Well, but here's what I think they'll do, Franklin. I think they'll sneak up on it. Beause this is something I watch a lot, because if somebody's – particularly if they're under 59 and a half, that's a 10 percent penalty on top of the taxes to take it out. So I have people who've taken it out, and I've had people who are waiting. I don't think they'll do this before the election.

Franklin: No, you're probably right about that, but the thing that struck me in thinking about it was the inevitability of it. It's a big plum full of money, hanging there like a big piñata, hanging out there in the economy. And those crooks in the government are going to – somebody sooner or later is going to say, "Hey, why don't we take this one? Why don't we open this piñata?" And there have been several – and you followed this more closely, actually, than I have. There have been several trial balloons floated in the last, what, four, five years.

Catherine: Yeah, we've done a couple of special reports on them. They're all up on the website. And what's interesting is – see, if and when they do this, the operational issues for the different financial service providers is enormous. And so part of coming up with something that they're really – they've been trying to do two things. One is they want to come up with something that will increase the amount of people's income that they put into 401(k)s. So they're interested in coming up with something that will generate new cash, particularly from businesses that don't do 401(k)s. So that's issue number one.

Issue number two, they're trying to come up with something that the financial service providers will go along with. Okay, so that's number two. And that's not inconsequential, because the logistics are enormous and the compliance issues are enormous, so –

Franklin: Oh, I don't doubt that.

Catherine: – that's a reason to kind of keep running trial balloons and keep running trial balloons. What you see when you're in Europe, or even when you talk to money managers in Asia and Down Under, what they've been doing is adding capital control after capital control after capital control after capital control that's pushing a lot of money back into the American system and making it much harder for money to leak out.

Franklin: Right.

Catherine: And I think that's the first sort of circle they want to really tighten before they move in on the 401(k)s and IRAs.

Franklin: Well, you just made an argument for foreign exchange control.

Catherine: You know, if there's one thing I've seen is *[laughter]* – this gets back to the Masons and the 26-step process. They would much rather add a 26,000-word EU directive – remember, they like to do everything sneaky. They like to be invisible. They like to be an invisible hand. So I think currency controls is much too blunt. I think there are too many sort of sneaky ways that they can achieve almost the same result.

Franklin: Well, for example, this IRS squawking and redefining every kind of asset overseas as a foreign account that has to be reported. And most people look at that and say, "Oh, no, not me. I'm not having my name sent in to the IRS as having a foreign bank account," and so they brought the money home.

Catherine: Right.

Franklin: Well, that's exchange controls.

Catherine: Right. But it's –

Franklin: But it's subtle.

Catherine: It's subtle. And they will always go for the subtle. Anyway, but I think –

Franklin: Until they put you up against the wall and shoot you.

Catherine: Well, think about it. I mean, I said it at dinner tonight. I sat down and I tried to count – if you look at all the drugs brought into the United – I mean, basically after World War II, we basically figured "Okay, the way we're going to finance building multinational corporations by opening our markets up to drugs." But if you look at the number of people killed by the drug business over the last 50 years, we killed more Americans with crack cocaine than the Nazis ever did with concentration camps and gas chambers. And it's quite astonishing. Not only did we kill more people than the Nazis, but we made money doing it, and when it was all said and done, we succeeded in blaming the people who got killed.

Franklin: [Laughter]

Catherine: No, because they were taking drugs. Who can feel sorry for them, right?

Franklin: Right.

Catherine: Okay, so big question, important question that I grapple with every day is: If somebody's out of the market and looking to get into gold, do they do all now or do they wait? Now, you said we're close to the floor. If the floor holds, then are you saying that they should go all now?

Franklin: Well, I probably – let me be a little more careful than I usually am. If gold and silver don't fall out of bed within the next two business days, two trading days, then I think they have bottomed. But I know this for sure: If gold goes through $1,800.00 – and never mind what silver's doing. If gold goes through $1,800.00 and closes above $1,800.00 for two days, I would say that's it. And then the final confirmation you'll get will be a close above $1,920.00, and once that happens, then you're on your way to $2,350.00. The rally toward $2,350.00 has started.

And I really have to – we're making what in effect are very fine distinctions here, the difference between $1,700 and $1,800, or even $1,700 and $1,900, compared to what I expect gold to do, because I will be very, very surprised if gold does anything less than quadruple from here. And so if that's the case, then it really is not going to make very much difference whether I buy at $1,800 or $1,900, or $1,700 for that matter.

Catherine: Right. My one concern is, I think there's a reasonable chance before the end of 2012 we could get a big deflationary drop like a 2008 scenario. And if that happens, I want to be sitting on some cash.

Franklin: Well, I agree with that, and my worry all along in watching this market has been: Are we going to repeat 2008? Is the crisis in Europe going to give us a repeat of 2008? Because if that's the case, you're right. Having a substantial amount of cash held back to make the investment, that will be wise. But, again, I think the $1,800 and the $1,920 levels are – they're going to settle all those questions. They're going to answer those questions. Because when gold gets up over those levels, it's going to be pretty hard to argue that it's going further down.

Catherine: Right. I think part of what I know my team is struggling with is, we expected a stronger fourth quarter and we haven't gotten it.

Franklin: You mean from gold?

Catherine: Yes.

Franklin: Well, it's this ongoing crisis in Europe. If you look at what happened the last time, it really has been pretty strong.

Catherine: Right.

Franklin: And by the last time, I mean 2008. But the market is basically going sideways. If you look at the Dow in Gold Dollars, you'll see that it went down to a new low several months ago, and then it's been trading right around the 145-gold-dollar level, which is about seven ounces, and it's flat. Well, it only does that when the market goes dead, because usually gold and the Dow don't trend in the same direction. So the reason that it's flat, in my opinion, is because the gold has been in this sort of extended correction. But once that Dow in Gold Dollars breaks down again, goes down toward 120 gold dollars, then you know that gold is getting ready to move again.

Catherine: Do you think the MF Global situation has had any impact on the gold price?

Franklin: I don't have any information sources that would tell me that, but I would suspect that whatever effect it had was in those first few days in the scuffle to try and – when the CME was trying to figure out what belonged to whom and was scratching around then. I don't think it's had any big effect, no.

Catherine: Right. Okay. Now, one of the things I wanted to bring up with you was the campaign.

Franklin: Ah, yeah.

Catherine: I had a wonderful subscriber in Europe – I think I'm the most suspicious person in the world, but they came up with a scenario that I hadn't thought of. And we were talking about how sort of painful it was to watch Ron Paul receive so much popular support, and yet watch this group of sort of the Seven Dwarfs get all the media attention. And they said to me, "Well, don't you think that the likely scenario is it's all being set up for Jeb Bush to come in and save the day towards the end of the Republican nomination?" and that's when I realized that there is something worse than Newt Gingrich.

Franklin: And it's not Jon Huntsman.

Catherine: No. *[Laughter]*

Franklin: Yeah.

Catherine: I thought, "Oh –"

Franklin: Well, you know, the astounding thing is the way that they have shifted their focus – you can see it in the media. They completely ignore Ron Paul. Completely ignore him.

Catherine: It's pretty unbelievable.

Franklin: It's just astounding that anyone with as much strength, who raises as much money as he does, would be completely ignored. But they shift their focus from one to the other. First it's Mitt Romney. Well, getting excited about Mitt Romney is like getting excited about gluing wet newspaper to the wall.

Catherine: Well, if Jeb Bush is the alternative, I can get excited about Mitt Romney.

Franklin: Well, okay. All right. It can always get worse. Right.

Catherine: Right.

Franklin: But he was the frontrunner for a while, and he's the quintessential political insider and technocrat and completely boring. And then they started pumping up that old retread Newt Gingrich, who is – he's a traitor from the bottom of his –

Catherine: He's the Freddie Mac lobbyist.

Franklin: Yeah. "What are you talking about?" So anyway, but all these are presidential timber now. And it's just ridiculous.

Catherine: Okay, so here's the $64,000 question. If Jeb Bush is the Republican nominee, are you and I going to raise money for Obama?

Franklin: I always wondered what would drive me to that.

Catherine: Okay, we've got some great questions, so I want to put some questions to you. Actually, this one is probably for me. The question: Will Fast and Furious lead to impeaching the president of the United States? Not a chance. If you want to really see how drugs can relate to the impeaching of a president, you want to study the narcotics trafficking relationship on the Clinton impeachment. And what's really interesting was that, at the last moment in the impeachment, the legislatures voted for impeachment, and an hour after it passed, I think, Clinton had the CIA put up the inspector general's report on narcotics trafficking into Los Angeles by the CIA. And shortly thereafter, the Republicans announced that they would go through the impeachment process, but

Clinton wouldn't be impeached, and the reason was that the Republicans were far dirtier on the drugs than the Democrats, but of course, both parties were dirty as all get-out.

And the reality is, if you look at the economics of narcotics trafficking, it's a very significant business. It's very ingrained both in government, the black budget, and the financial system. We're the global leader laundering over $1 trillion a year of all dirty money, so this is a business upon which the economics of America are deeply financially dependent. And so it's inconceivable to me that the president will be impeached for basically an Operation Fast and Furious relates to the Mexican drug cartels. So I think the answer is no, absolutely not, although as Holder has to testify, and there's all sorts of jockeying around, it's a multiple-personality disorder between what we say we do and what we do are going to come out. Anything you want to add to that, Franklin?

Franklin: No.

Catherine: Okay.

Franklin: I'm as convinced as you are that drug dealing is embedded in the United States government. And at any point, if it gets close to exposure, it'll be covered up.

I had a customer who was an airline pilot, and he told me one time – they were supposedly flying in a lot of drugs to the airport at Mena, Arkansas. He said, "I flew in that place one time." He said, "And it's got a real short runway, and there's a mountain at the end of it." He said, "If one of those planes ever hits that mountain, there'll be enough cocaine spread all over Arkansas to look like a snowstorm hit the whole state."

Catherine: If you haven't – I strongly recommend, if you're interested in all of this, that you read my story "Narco-Dollars for Beginners." If you check into the articles section, you can find it, and then "Dillon Read and the Aristocracy of Stock Profits." And that has some great links in the resource section, all the sort of best things to read on the involvement of the U.S. government in narcotics trafficking and the Clinton/Mena, Arkansas, story, which is quite a doozy.

Next question: As Chinese workers watch the rest of the world revolt and liberate, and as more attention is brought on them with things like the play *The Agony and Ecstasy of Steve Jobs*, when will the revolt start in China, and how big will it get? What are the implications on the world economy? I've got lots to say on that, but do you want to take it, Franklin?

Franklin: Well, number one, I'm an unbeliever. I'm one of the few people who does not believe in the Chinese economic miracle, and the reason is because I've been listening to stories for the last 10 or 15 years about the misdirection of capital in China – building complete, huge cardboard box plants out in the middle of nowhere and then never using them. How much of that is in the

Chinese economy? I don't know. But I think that you got the crack in the façade this week when the Chinese government announced it was lowering bank reserve requirements. They're in trouble.

Catherine: Yeah.

Franklin: How much trouble, you'll never know because they don't publish – their statistics are even less reliable than U.S. government statistics. And I also don't believe in spontaneous revolutions. So the whole Arab Spring thing, somebody organized that.

Catherine: Right, that's engineered.

Franklin: Yeah. Right.

Catherine: Right. I will say, I think George Friedman's book, *The Next 100 Years* – one of the strengths is he talks a lot about the fact that the number one political challenge of China is dealing with unemployment. You've got a billion people, and trying to keep them employed, particularly in a world where technology deflates labor, is very, very challenging and will continue to be their weakness. And so do they misdirect a lot of capital into keeping people employed? You bet they do.

Next question: If QE3 starts in January, what will that mean for the stocks and precious metals? How dramatic will be the inflationary impact? That's yours.

Franklin: Well, you don't know how much QE3 they'll do, but I think the answer to that is they've never stopped inflating. They just inflate at greater speeds, and whenever there's a deflationary scare, then they speed up – the Fed typically speeds up the amount of inflating that it's done. So I think you're going to get – the end of the deflation scare will come sometime before the first half of next year, and then the inflation will really start in earnest. And I fully expect to see gold next year at $2,350, $2,400.

Catherine: I think inflation, though, could be tough on stocks. Now, it's not one stock market. It's going to be – so hard stocks, natural resources, precious metal stocks, could do better. But I think inflation's going to be tough on a lot of enterprises, and I think you really need to keep that in mind. So yes, it could push the stock market up, but it could really wreck havoc with a lot of enterprises.

Franklin: Right.

Catherine: And a very inflationary environment is one where it's very hard to start a company, build a company, take a company public, and so I think it's going to be mixed for the stock market and sort of change the relative values of lots of different companies in different places.

Franklin: Right, but I would like to make the point that inflation will drive up stock prices.

Catherine: Yes.

Franklin: It'll drive up stock indices.

Catherine: Yes.

Franklin: But usually it's an illusory game in the case of the indices. And of course, some companies will benefit from inflation, and some won't, and namely, those will benefit who can keep raising their prices.

Catherine: Right, so it's people with inelastic demand for the product.

Franklin: Right. Right.

Catherine: We had a very long post to – last week I interviewed Foster Gamble, the producer, writer and narrator of *Thrive*. And we had a very long post from someone at that blog post, and I'm not going to read the whole thing, but basically what he was describing was that the premise by Foster in *Thrive*, that the world is run by a small group of families, was just not the case. And this is an issue that I've seen many, many people walk up and start to face what's going on and then back off and say, "No, it's a big planet. It's really complicated. A few people can't really control."

And if you take the time to go read that long post, I have to tell you that although the person who wrote it was very thoughtful and it's very interesting, I have to say that I think their point of view is complete – I don't know, I hate to be rude, but bunk. And I want to tell a series of stories that will tell you why I absolutely agree with Foster that the world is run by a small group of, at a minimum, people, and the question is sort of: How are they able to do it, and who's really in control? And that's something I don't have an answer with, but let me tell you these stories.

The first one is in the Dillon Read story that you can read at Dunwalke.com. I was talking to another partner at Dillon Read and remarking that our new president, John Birkeland, was not somebody – not the kind of person I would expect Nick Brady, who was the chairman, to hire. And the partner I was talking to was the son of a former chairman of Dillon Read, and so was very knowledgeable about the inside machinations of the firm. And he said, "Oh, well, Brady didn't pick John Birkeland. He's a Rothschild man. The Rothschilds picked Birkeland to be our president."

And I looked at him and I said, "But we own the firm. What do the Rothschilds have to do with us?" And he looked at me like I was the stupidest person in the world and just rolled his eyes and walked off, because he didn't want to say anything he could be quoted on. But the implication was clearly "You fool, don't you know? The Rothschilds run everything." So the partners at Dillon Read owned the firm, and yet the Rothschilds were appointing our president, and that was in – I believe that was 1981. Okay, so that's story number one.

Story number two, which is also in the Dillon Read story, was – I was in a meeting with pension fund managers in the spring of 1997, including the president of CalPERS, which is the largest pension fund in the country. And he proceeded to tell me that it was too late to save the country. I was giving him a presentation on how we could re-engineer government investment and dramatically increase wealth in a way that would benefit the pension funds and therefore provide for the retirement of America. And he said, "You don't understand. It's too late. They've given up on the country. They're moving all the money out, starting in the fall."

Well, CalPERS then proceeded to finance the housing bubble, buying huge amounts of mortgage papers that they knew would be debased or they knew would default. The pension funds took huge losses on the housing-bubble bust, and they certainly got debased like crazy on holding fixed income. Now, the president of CalPERS statements to me make it clear that they knew that that was not in their beneficiaries' interest, and yet they were doing it. And the implication was that instead of it being the law, their investment strategy was being dictated outside the benefit or the interests of beneficiaries by forces outside. So how could pension funds have invested a huge amount of money in a way that debased their beneficiaries or lost their money? Why would they do that if the system wasn't centrally controlled and they weren't literally forced to do that? Okay, so that's story number two.

Story number three, which I don't think, Franklin, you'd heard before, before dinner, was – I was the assistant secretary of housing, and I was confirmed in the beginning of 1989. It was April 1989, and I had a party to celebrate the confirmation, because it was a big deal, trying to get the confirmation. It was a very political environment, and people were being held up. And it just so happened that the RTC, the bill authorizing the Resolution Trust Corporation, which was the law that dictated how the S&L crisis would be worked out, and so the U.S. government ended up owning $500 billion of defaulted S&L and other financial institution assets and mortgages and defaulted mortgages, and then auctioning them off.

And so the undersecretary of treasury called me and he said, "I've got some people who've been working on the legislation with me. Can they join me –" the man who became the chairman of the

SEC came and the Undersecretary of Treasury came over and he brought someone with him, who sat next to me at dinner. The Undersecretary was at my table. And so I said to the guy, "Who are you?" And he said, "Oh, I work for Max Warburg." So I thought, "What is Max Warburg's guy from Germany doing over here writing our financial legislation? What's that about?"

Anyway, so those are three stories, but they're three of the stories that led me to believe that things were remarkably centralized and remarkably controlled by an invisible hand that tries to – well, it tries very hard to be invisible, but I assure you, it's very intelligent, it's very capable, and it's very far-thinking, and its greatest power is that we can't see it.

Franklin: May I add –

Catherine: Please.

Franklin: – one more story? I think it's an amazing coincidence for people – even for people who believe in the randomness of history, to swallow. But one of the people who was behind the foundation of the Federal Reserve Bank of New York and the first – or, excuse me, the Federal Reserve System and the first chairman of the Board of Governors of the Federal Reserve was a fellow named Paul Warburg.

Catherine: Yes, Max's ancestor.

Franklin: Right. And also a Rothschild grandson. And he had a brother named Max, and at the time of World War I, Max was the head of the German Central Bank, the Reichsbank, while Paul was the head of the American Federal Reserve System. Just a coincidence that these two brothers, who both are grandchildren of the Rothschilds, happen to be in power at the same time. Isn't that an interesting coincidence?

Catherine: Okay, so next Precious Metals Market Report, I'm going to tell you the story of how I met Max Warburg. Which I did several years later. You know who introduced me to Max?

Franklin: Hmm?

Catherine: Imelda Marcos.

Franklin: Oh, come on. *[Laughter]*

Catherine: Well, I'll tell you the story in the next Precious Metals Market Report. Okay, so any words before we close? What do you expect to see over the next month in the Precious Metals Market Report?

Franklin: Well, remember that December usually finishes as a strong month for precious metals. Now, not always, but there's a very strong seasonal pattern for that. And it is not unusual – in fact, it's more than 60 percent the case – that December closes with the highest for the previous 12 months, highest prices for the previous 12 months. So I really think it's time that we reach that bottom here early in December, and then you can expect to see things roaring up off of that bottom for the balance of the month.

Catherine: I hope you're right.

Franklin: Well, I think – you'll know within the next couple of days.

Catherine: Yes. No, we'll watch it carefully the next couple days.