The Solari Report
Building Wealth in Changing Times

Precious Metals Market Report

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Catherine:Well we have many more things to talk about, but actually I would love to talk about them with Franklin. So Franklin, are you with us?

Franklin: I'm right here, but I have to warn you that I'm losing my voice, so if it sounds like I've got a cough drop in my mouth, it's because I do.

Catherine:Oh, no! You've got 12 more days to Christmas. How are you going to do this?

Franklin: I don't know. I hope I can get rid of it by then.

Catherine:Let me start off, because you know me; I am in the holiday mood. I put this up on the blog post, and I just wanted to remind everybody of it because one of the things off and on that I've done for Christmas is give children silver and gold coins. It used to drive me crazy trying to keep straight what I was giving to different kids, you know, because I had different things in the inventory. And then keeping the amounts straight Christmas to Christmas and birthday to birthday – and so when Franklin told me about his idea for a silver and gold payment calculator, I immediately realized what genius it was, because that was the one thing standing between me and liquidity of gift-giving with silver and gold.

So maybe, Franklin, because it is the holiday season and the calculator is such a great little tool to help our subscribers who would like to give gifts to the kids – and to anybody, obviously, but I think it's great to introduce children to gold and silver and get them saving because you want something that's going to hold their value between the age of five and college. So maybe you could just describe the silver and gold calculator? (silverandgoldaremoney.com)

Franklin: Well, you just punch in the dollar amount that you want to use or the euro amount for that matter – I think there's 30-something different currencies – and it tells you what the conversion is. So if you say, "Well, I want to spend about $35.00," you punch it in there, and if you tell it you want one ounce for ounce, it'll tell you that you can get about one ounce around for that. But the thing about giving silver or gold is I've never had anybody look at it and say, "Gee, I didn't want that", especially with, you know, silver coins. And you know, I even give my grandkids half dollars – you know, the older half dollars, and they think it's the neatest thing in the world. So it really is a great gift. It works really well.

Catherine:I love the look on their faces. They're always like, "Wow!" And then mom or dad always grabs it and says, "Oh, I'm putting this in a safe place."

Franklin: "I'll take care of that. I'll take care of that."

Catherine:Yes, that affirms for them that it was a really cool present because if mom and dad are that worked up about it, it must really, really be good. The silver and gold calculator is at silverandgoldaremoney.com, and you can link to it from the Solari website. And I believe you can link to it from the Moneychanger website.

Franklin: Yes, and there's an iPhone app and an Android app, too.

Catherine: I use it to track the gold and silver price throughout the year, so I recommend it.

Okay Franklin, tell us about the market. The market has been very exciting since last we spoke.

Franklin: Well, it has, and it's been a little bit hard to parse. And I'll just go in and say I clearly made a mistake. We got that run up to $1,800.00 where we met a double-top right at the end of September and the beginning of October. And then we came back, and I was waiting for that as the bottom of a second wave, and I really just missed the fact that it would probably come back up again and then go back down again. So it's been real hard to read. At least it's been hard for me to read in the last month and a half or so. But basically silver and gold have gone side-wise.

Today's market made no sense at all to me because after news that the Federal Reserve is going to add $1.02 trillion to the money supply this year, the dollar actually rose. Now, it didn't rise much, but it did rise, and the stock market went down, too. And of course, gold and silver took a big lick. I think the markets are so disturbed and roiled by this whole fiscal cliff business, I just think you're going to continue to see that until there's some kind of resolution. I think the whole thing is ridiculous because nothing of substance will come out of it, I don't believe, except – nothing that will help us.

But until that stops, we're just not going to get any clarity in the market. The dollar has broken down since last month, and the yen is going out of the world backwards. You know, I have a theory that the bottom on the exchange rate for the yen is about 85 yen to the dollar, which is about – if you turn it around the other way, it's $117.05 for 100 yen. I think there's a range that they shoot for – that the central banks shoot for. And I think after $118.00, they're going to get real antsy, and the Fed is going to step in. They're not going to let the Japanese depreciate their currency any more than that. Now, that's just my crazy idea.

But if you notice that over a long period of time currencies tend to trade in bands. Clearly, we know that the central banks work together. So you added something tonight in our conversation that I really hadn't thought about. One of the reasons the nice government men may be manipulating silver and gold down, especially gold, is they don't want it to finish the year strongly because that will make stocks look bad. But also I went and looked at the yield on the ten-year treasury, and the yield on the ten-year treasury has been rising.

Catherine:You know, the Chairman of Goldman Sachs came out the other day and warned about higher interest rates. And you had several noticeable warnings about the great bond bull market may be over. I think the reason that they want to keep gold on a managed rise – and I think they do want it to rise; they just want it managed – is they're trying to keep all that paper floating around in the bond market. One of the ways you keep an investor in the bond market is by having lots of volatility in the precious metals and in the stock market.

Tangibles are volatile, and that pushes people back to the bond market. But I think they're – you know, it's like trying to keep a herd in the bond market and keep it from stampeding out. And you've got yields down to almost nothing. How do you keep them from stampeding out? If the announcement goes out, "Oh, gold's on a new step up," then the precious metals market is tiny, and the bond market is huge.

All it takes is a little itty bitty amount of money coming out of the bond market, and it goes flying to precious metals, and then you could get a real stampede. So I think they're trying to keep everybody back in the corral in the bond market.

Franklin: There's a widespread misapprehension that the Fed controls interest rates. The Fed does not control interest rates anymore than a mahout controls an elephant that he's riding on. He controls the elephant as long as the elephant wants to be controlled. The Fed controls interest rates at the margin. They have this one little Fed funds rate that they change, and then they go into the market, and they may buy and sell bonds to try and influence the price, which is the reciprocal of the interest rate. But interest rates have been low a long, long time, and they've kept them low a long, long time, and they've announced that they're going to keep them low a long, long time.

The problem is when you artificially suppress any market, whether you hold the market up or you keep the market down, the time that you get the huge movement and huge spring-back is when you remove that suppression or you lose control of it. And so I wouldn't be surprised if the Fed manipulated the price of gold down because they were trying to keep that interest rate from going up. And after the announcement they made yesterday and the other central banks made about these slots, well, you have to be some kind of fool not to notice that they've told you they're going to inflate.

Catherine:Well, if you look at the drop in interest rates, it very much parallels the growth of derivatives. And the biggest portion of derivatives is interest rate swaps, and those positions are very much run by the big New York Fed member banks. It is basically a handful of New York Fed member banks, and my guess is that those positions are basically exchange stabilization positions done as agent for the U.S. government.

And the thing that's chilling about someone like Lloyd Blankfein, Chairman of Goldman Sachs, saying, "Interest rates are coming up," is if there is one person who was part of engineering the strong dollar policy, whether it was the suppression of the gold price or the bubbling of the mortgage market or the engineering of the derivative swaps, it's Lloyd coming out of the commodities markets and fixed income markets, including mortgage markets, at Goldman Sachs.

So one of the reasons these guys have such a commanding ability to act lawlessly with impunities, they're the ones who are keeping this whole bubble going. And if they don't keep the bubble going, then everybody's check stops, which means they're in the catbird's seat - they control. And so if they've been engineering the interest rate swaps, and suddenly now they're saying, "Interest rates might go up," what's that about? Because to me they're managing a federal government position, and that's a pretty blunt, open negotiation through the media about something.

So I think we're looking at a system which is way too centralized, and it depends on a handful of firms both in the United States and then globally to engineer these things. And the more leveraged and centralized it gets, the more force it needs to keep the thing going. And the problem ultimately, Franklin, is not derivatives or the bond market or any of this. The problem, of course, is lawlessness is afoot, and we're shrinking the pie, and what we need to do is change things in a way that the pie starts to get bigger. And that's very hard to do in a system where the trust is breaking down.

Franklin: Well, even if they wanted to do that, they – you know, when you climb up on a tiger, how do you get off the tiger? And by suppressing interest rates as long as they have, they climbed on a tiger, and they're holding onto his ears. And now even if they have the best will in the world and wanted to get out of it, how could they do it? It would be a very difficult maneuver. So they have to keep it going some way or the other, which of course means – to bring us back around – they have to keep the price of gold from running away.

Catherine:I've had so many people comment to me that when they watch people in Congress or the administration talk about the fiscal cliff that they don't make any sense. And the reality is you've got a group of politicians who are sitting between two constituencies, one who is above the law and is very powerful, and the other who doesn't want to hear the bad news. And so the problem is they can't find a political compromise to work their way through those different constituencies, you're trying to solve a problem inside a box, and the only way you can solve the problem is to go outside the box.

Franklin: Let me just throw one other thing in there. What has become of the United States when the entire government – the whole future of the country – is held hostage to two men negotiating? How did we get to that stage because it's not the whole Congress? It's not even the whole Republican part of the Congress that's negotiating. It's Obama negotiating with Boehner.

Catherine:Right, and if you look at what they're negotiating with, it won't solve the problem. What they're negotiating about is another kick-the-can. Now, it's interesting. As you know, I've always believed that one of the important steps to a solution was to bring the problem down to a county or Congressional district level, because in fact if you're going to reengineer the federal budget, and I argue still that you could reengineer the federal budget in a way that could really solve the problem. I don't care how much debt there is because that's how much wealth there is.

The earth brings forth another round of wealth every year, and we do happen to sit on arguably the best piece of real estate on the planet, so I think there's a lot that could be done. But a lot of it is bringing the information down to a county level. And I wanted to tell the story because I remember one time coming over here – it was many years ago – and pulling up the computer and dialing into all the websites to let you see the sources and uses of government money – federal government money in Tennessee and then for some programs in your county, and I remember how shocked you were to see those blows and the explosion of information and sort of creativity that came out of you when you started to break the numbers down to a level that corresponded to the world that you knew. Maybe you could describe what happened.

Franklin: Actually, that example is a big turning point. You just sat down and you said, "Here, look, let me show you this website where I can show you who gets all the agricultural subsidies in your county." And there it is on the Environmental Working Group website, and the amazing thing is that what it shows is fewer than 20 percent of the farmers get the vast majority of the subsidies. It's just astounding. And from that, you went to the – oh, I can't think of the name of the website.

Catherine:It used to be called Eagle Eye. It's not available anymore, but it would show you all federal spending in Tennessee and all grants and contracts.

Franklin: It was just totally astounding, because there was somebody like the East Chinese Noodle Company that was getting $20 million a year. For what? I don't know! I mean, you know, it was just astounding. But after – after you did that – after you showed me that is when I sat down and I looked at the GDP of various southern states and added up as much of the spending as I could get, and that's when I began to figure out, "Look, 50 percent of our income in most states comes from federal government spending."

Now, whether that's defense spending or Social Security – and the Social Security is the small part of it. The food stamps is the small part of it. That's not where the money's going. We literally have a government-run economy, and I just never had realized how huge it was before.

Catherine:One of the charts we showed last week is the percentage of the economy run through the federal budget. And I think that's part of what's making the pie shrink, because you're talking about an economy that's less and less entrepreneurial, less and less creative, more and more subject to complex rules.

Franklin: There was a good example of this just a few days ago. I saw a chart of the collapse in the alternative energy business, and it fell about 63 percent in one year. Well, the reason the alternative energy business can't go anywhere is because the government keeps subsidizing it. And it's not that there's not good alternative energy sources or ideas, but they're more expensive than tying into the grid. And so you've got to have some kind of entrepreneurial ability and technological shift to make that work.

But instead the government wastes resources by pouring money into these companies that don't have a solution. And now we've got the same problem, but we've got less money to solve it with is what it amounts to.

Catherine:Right, much less money to solve it with. I hate to be the bad guy – this is one of the reasons everybody hates me to talk about this. If you took 50 percent of the money that we spend as a society on hard narcotics and 50 percent of the money that we spend on the lottery and then 50 percent of the time we spend watching TV and you reinvested that in building our local economies, I dare say that's plenty of money to rebuild the local economy.

Franklin: All right – all right.

Catherine:The one thing I wanted to point out to everybody – and I've started to help some of my clients with this – is you can look at the comprehensive annual financial reports – for every municipality, county and state, you have a comprehensive annual financial report, and it will show you a lot. If you get a group of friends together and start pouring through those financials and start looking at how the money works, I think that you will, over time, find a lot of very interesting information on what is going around you.

One of the things I wanted to talk about was we got a question about the Liberty Dollar from someone who said, "Look at what the government – government has let HSBC off with no indictments, but look at what they're doing to the founder of the Liberty Dollar." Off and on I've tried to warn people to stay away from the Liberty Dollar, and I wanted to talk a little bit about what I called "Beware the Alternative," because you and I seem to be the recipient of every new idea on how to solve our economic woes.

We see a lot of alternatives, and I dare say that many of the alternatives, in my opinion, are worse than what we've got going on now. They're certainly not a solution or they would make matters worse. And I think the Liberty Dollar is one, and so I would like to talk a little bit about the Liberty Dollar and some of the other alternatives floating around because I want to make sure that our subscribers do not lose time or money going down the rat hole of different alternatives. So maybe if you could just talk a little bit about the Liberty Dollar?

Franklin: Well, the fellow who did it was Bernard von NotHaus, who had a mint in Hawaii, and he minted gold coins that were basically souvenirs – Hawaiian items and so forth. And then he cooked up this idea that he would offer this Liberty Dollar, and he would sell this one ounce coin for a dollar or for $10.00 when silver was about $4.50 or $5.00 an ounce. And then once they got 100 percent. I call that significant! That's worse than what the U.S. government was doing to you with the American Eagles.

Catherine:Right.

Franklin: Then when the price got to $6.00 or $7.00, he stopped issuing the $10.00 coins, and he started issuing coins with a denomination of $20.00. And you know, I never thought it was a good idea, and I told people all along, "Why would you buy silver for $10.00 when you can buy it for $5.00?" And the really bad part about it was that it took – the scheme took advantage of people who were honest, sincere people that wanted to do something about the monetary system, and this was presented to them as a way to do that. And it wasn't, and Bernard von NotHaus caused problems for himself.

I mean, when the government goes after a flea with an atomic bomb, you have to ask yourself, "What did that person do?" And he poked a sharp stick at them. He kept poking them in the eye saying, "Come get me! Come get me!" And the big mistake he made was he put the word "dollar" on this coin and they accused him basically of counterfeiting. It's not exactly counterfeiting, but that's basically what it is, and they put him in jail. And now they've gone after people on eBay who are selling these things. Well, I say "gone after them."

They've asked eBay – they've told eBay they couldn't list them. And the problem is that the Liberty Dollar was never a solution to anything, and yet people got sucked in, and a lot of them lost a lot of money to it.

Catherine:Every once in a while, he would contact me and try to get me to promote Liberty Dollars, and I would say, "No, you know, I won't because you're selling them at a huge premium, and this doesn't make sense. If I can buy 90 percent silver at 2 to a 4 percent premium, why would I pay a 50 percent premium for this? And the 90 percent silver is legal tender. It doesn't make any sense what you're doing. It doesn't make any sense." And he would get really mad at me, and I'd get all these emails and push – no, I just thought the guy was a nut. And so I did everything I could to avoid him.

Franklin: Yes – but the fact that somebody is very persuasive does not mean that their scheme is going to work at all. And in his case, that's very much the point. If you're going to set something up that you know runs contrary to the schemes of the government, then you ought to try to do it on a low scale. You need to fly under the radar if you can. I don't mean do anything illegal, but when you poke – when you write the government letters and say, "I dare you to indict me," they probably will.

And the problem is he was dragging – he dragged everybody else into the problem with him because there were many, many other people who had bought Liberty Dollars and bought the currency that printed a currency you know, and had the coins stored in Washington

Catherine:Well, you know, another one of my favorites I love to pick on is Eric Sprott When there was a real effort to push silver up in April of 2011 – and of course, I have very strong feelings because I think there was a lot of dirty tricks behind it – but Sprott had organized a new exchange traded fund. It was – at the height, I noticed it was trading at a premium of 24 percent to melt value, which is nuts! In other words, why would you pay 24 percent premium to melt value for anything?

I forget what silver was trading at physical, but I think it was – I don't know. I don't know if you remember what the premiums were in

Franklin: It got up to $48.50.

Catherine:And so at $48.00, what would the premium on physical have been?

Franklin: Oh, 1.5 to 4 percent, at the most.

Catherine:Right – so why would you pay 24 percent premium for an ETF? So you know, and that ETF was held out as something that would be fully collateralized and you could swap it for silver. Well, so what? 24 percent you'll never be able to swap for anything. So I get back to the idea of "Beware the Alternative." And there was one other one that I wanted to mention tonight because you and I were talking about it earlier, and that's the idea of county banks.

I embroiled you in my email squabble a couple weeks ago with a group that are promoting county banks. I do think that state banks have been a good idea. If you look at what North Dakota has done with a state bank, I think a state bank could be a really good idea. But the idea of being promoted as county banks is one of literally the government starts a bank that as far as I'm concerned consolidates a lot of control and market share from the local community banks and could literally put the local community banks out of business.

And there's a lot about the idea to me which is terrifying because the last thing we need is more government intervention in the economy – in that part of the economy.

Franklin: Well, it inevitably will politicize the distribution of credit. The people who have political influence and political control are the ones who are going to be able to give credit through that bank. And that's always the reason that state banks have been founded. I don't know how much you know about the period from say 1820 to 1850 or so all across the south and what was then the west, which includes what we call the Midwest today, but almost every one of those states started a state bank at some point or the other.

And they all had the same purpose, and that was to issue credit. And the people creating the bank in the legislature expected to get some of the credit. So it's a scheme. It's a con game.

Franklin: I don't want any more political influence –

Catherine:The interesting thing is if you look at the major credit crunch right now at the local level, you have federal regulations literally forcing banks instead of making local loans to put the money – to not loan the money locally, but instead to buy treasury securities. So essentially, they're engineering the deposits into loans for the government instead of loans on Main Street. And that's going to be made much worse by Basel III. You know, we've gone over the Basel III regulations that have been proposed, and if you look at what Basel III would do, it would make it much worse.

So you've got an entire world of community banks that are basically right now being strong-armed by the federal government to lend to the federal government and not lend locally. And if you want to loosen up credit on Main Street, that's what you do – you stop that. You don't insert another layer of banks. If anything, that's going to make the problem worse. This is another example of "Beware the Alternative," because the – you know, I keep coming back to my old mantra.

Our problem is we have a group of people who are above the law and acting with impunity. And reengineering the financial system without addressing that issue is more inclined to make things worse than better.

Franklin: Well, let me bring up one more thing on that. There's a new group on the scene: Gold Standard Now. They've got a lot of money, and they're making a lot of noise about reinstating a gold standard. But it's the same problem with them. If we went on a gold standard tomorrow, it would be disastrous. You have to have some kind of plan to get back onto a gold standard, but more than that; a monometallic gold standard – a "gold-backed" currency is not using gold as money. It's just fiat money. The only difference is that you've got some little bit of backing by gold – that is the banks use gold as an asset.

In the period of the – classical period of the gold standard in the United States from about 25 years on either side of the – of the Gold Standard Act of 1900, banks didn't keep 100 percent gold reserve. They kept a 35 percent reserve, and not all of that was gold. A large part of it they could satisfy by holding government bonds. So that's not a solution. That's how we got into this mess.

Catherine:Well, that's why when you talk about financial reengineering divorced from the governance system – you know, because to me financial systems are part of your governance system. How are you going to govern resources? How are you going to govern people? And you can't talk about it separate from that, and when you do you get these bizarre results. So when somebody shows up, you know, deeply on a mission who's focused on one little aspect on the financial system without talking about the bigger issue of, "Well, who's in control, and how's this going to affect that?", I start to get real nervous.

What I want to remind every subscriber is "Beware the Alternative." You know, it's really important – especially if it is something that is involving your time and money – that you make sure that not only does it make fundamental economic sense and financial sense, but the people doing it are – it's not that they're just about an alternative; it's that they're competent and they know what they're doing. Sometimes it seems that that's harder than I think.

Okay – so can we jump back to the precious metals market?

We've got a couple of questions, and that'll take us back into sort of what you see in the next 30 to 90 days. One question is, "Do you think we're going to see hyperinflation in the next couple years? If so, what would be your exit strategy for precious metals?"

Franklin: If you get a hyperinflation, it's going to be very difficult to judge at the end of it whether whatever reform is put forward really will work or not. And that's the place you're going to have to make the decision. The hyperinflation, remember, can't last very long. Even in the days before electronic – any sort of electronic financial system back in Germany in 1923, the whole hyperinflation only lasted three years. Today if it lasted six months I'd be surprised. But at the end of ever hyperinflation there's some kind of "reform."

The problem is that during the tendency of the hyperinflation there are usually three or four other reforms, and they'll change one currency for another, and then they'll hyperinflate that. So the real problem is you're going to have to have judgment to know when the reform is made which one will stick and which one will not. Here's what you've got going in your favor against hyperinflation: the inertia of the system, because nobody wants hyperinflation, least of all the Federal Reserve. So I think that inertia really works in your favor.

Catherine:Okay – another one, "Where do we look for gold and silver to be by June 2013, price-wise?"

Franklin: I'm looking for gold to be up to about $2,300.00 by say the first of June, and I'm not sure where that'll put silver, but my guess is a little bit over $50.00. And if you go to $2,300.00, let's say you had a 43:1 ratio, that would be silver at $53.50. But if you had like a 38:1 ratio, that would mean silver at $60.50. So I don't know. You know, silver and gold move in jumps, and they kind of leapfrog over each other, so it's harder to say about the silver than it is the gold. But I'm fairly sure gold ought to be over $2,300.00 by then, unless some big train wreck happens between now and then.

Catherine:So you're much more optimistic in terms of price than I am right now. What I am really looking for is for the primary trend to be confirmed between now and March. You know, if you go back over the last 12 years, what you'll see, Franklin, is that the gold price goes up double digit two years, then single digit, then double digit two years, then single digit. Last year was eight percent; it was single digit.

So I'm very curious to see where it ends the year, and just from watching the price action the last 30 days, it looks to me like they're trying to keep it at 8 to 12 percent this year. They want a rise, but a managed rise. I think whatever it gets held to by the end of the year, the real test then comes in March. For the wrap-up, I'm going to work on where I think it goes. You're more bullish than I am.

Franklin: Now, why March? What is the significance of March?

Catherine:If you're managing the rise, and you want to hold it to an 8 to 12 percent by the end of the year, I think that once we're through that process, then it's free to rise.

Franklin: Let me point out something to you. I sent you a chart, and you put it up. It's the gold chart that's on the blog tonight. And that shows the 150-day moving average. 150-day moving average or running average is an average that takes the last 150 days' prices, and it averages them together, and then on the 151st day you drop the oldest price and pick up the newest price. And if you look at that chart, it's – that pink line is the 150-day moving average, and you can see that for most of the period since 2002, gold has ridden above that 150-day moving average.

And that's normal in a bull market – that is in a market that's in a primary uptrend – because the prices are always rising, and so the 150-day moving average ought to be rising. And whenever you get a big correction it comes back to there. But if you'll notice where we are now, if you get over to 2011 and 2012, you see that when we got that big correction after the August high – August 2011 high, it went back under the 150-day moving average, and then it danced over it a little bit.

It looks a whole lot like what happened in 2008, when gold went under the 150-day moving average at 2008, the next thing that happened was it went up from November 2008 until August of 2011, which is nearly a three-year run. So that's one of the reasons I'm optimistic about it. And if you look at where gold is in relation to that 150-day moving average, you see it looks like it was about where it was in December of 2008 in relation to that average. So that's one of the reasons that I'm very enthusiastic about it.

Catherine:I pray you're right!

Franklin: I do, too!

Catherine:Another question, "The idea that the Fed is making decisions for the best interest of the working man is nuts! Any idea that they do not know what they are doing is equally nuts." We couldn't agree more. "They know exactly what they are doing. It's all about control. What better way than confiscate all successes and make the population dependent? The Fed's proposing digital money and VeriChips by 2015."

I would encourage you to read my article about QE3 where I describe one of the ways you engineer the slow burn is by offsetting monetary inflation with labor devaluation. And with that, I would note that there's a story worth checking out in Michigan about the passing of the Right to Work laws that will allow the unions to be – lose their sort of monopoly position. And if that catches on around the country, it's going to be a big, big change in how state and local government can be reengineered. And I would just point that out.

I wanted to do two things now, Franklin. I had not mentioned our Hero of the Week, and I wanted to do that. In December 10, 2004, Gary Webb died. He was said to commit suicide; I don't believe it. Gary Webb was a Pulitzer Prize winning American journalist who wrote the story, Dark Alliance, a series of articles published in the San Jose Mercury News and then later as a book that very much nailed the story of narcotics trafficking my U.S. intelligence agencies. It's very appropriate, given the HSBC story and what the U.N. advisor said, that we should honor Gary Webb.

Runner-up, I have to mention Ravi Shankar died this week; wonderful sitar musician who brought sitar music to the west. So those are our heroes.

We also have a very interesting movie, and I was so impressed because I asked Franklin to watch it, and he did! It's called Queen of Versailles. I strongly recommend it to you as a slice of insight into the housing bubble.

It's the story of a couple who made – became literally multimillionaires, on the timeshare part of the housing bubble, started to build a house worth $100 million said to be the largest house in America only to lose it in foreclosure when the bubble burst. Any comments, Franklin? You watched this documentary this week.

Franklin: Well, one of the – of course, one of the things that comes through is the way that people deceive themselves. Siegel was perfectly willing to go along with everything as long as he was making lots and lots of money, and to think – he had to convince himself that it was going to go on forever. But then when the banks started closing in on him like they always do when you – when the trouble starts, all of a sudden that's not fair. It was interesting to me – you made a point, and I'm going to just kind of take it from you – that here are these people who are worth $400 million, and they're feeding their kids food from McDonald's.

It's crazy! It just doesn't make any sense. But there's something about money on that scale that I'm afraid I don't understand why anybody would want that kind of money and all the – everything that goes with it. It was really hard to believe. I mean, that house was going to be 90,000 square feet. How could you live in 90,000 square feet?!

Catherine:Well, I told this story on the Solari Report before. It's a reminder of how many people were swept up in it, even at the very wealthy levels, who remained remarkably clueless about what was really going on. And the proof in the pudding is they didn't protect themselves. I always tell the story of the San Francisco money manager who bought $1 billion of Fannie Mae stock in the spring of 2008 only to lose the entire $1 billion position in August when Fannie Mae was nationalized.

And I was kicked off of the radio show that I do – I was doing weekly or monthly in San Francisco out in Berkeley. And the question of course why was, well, the San Francisco money manager put up a comment on their website saying, you know, "We did very serious and careful due diligence. We had no idea there was a problem." Well, that's ridiculous. The former Assistant Secretary of Housing was on radio constantly for many, many years describing exactly what the problem was. So all they had to do was turn on the radio; it was common knowledge.

You know, and certainly if you go talk to any trucker in America it was common knowledge, in my experience. What you see is you see this divorce between common knowledge and intelligence and the behavior of people who are swinging around hundreds of millions if not billions of dollars.

Franklin: That was another scary thing about it. The fellow bragged that he helped put Bush in office, and he bragged that he somehow or the other precipitated the War in Iraq. Well, I don't know if he's just bragging or what, but if people like him are in charge we're in big trouble because he didn't have enough judgment to see that he had ridden a credit bubble up and know it was time to get out. Are they all like that – the folks around the country?

Catherine:In my sense, you have a whole layer of people who think they're insiders who are not, and they may be invited to manage large amounts of money for some period of time, but they wake up one day and discover during the contraction that they're not insiders. And it's always a shock for them. You saw that at the end of the S&L crisis. The pendulum swings, and each time the insiders get sort of wiped clean.

A few more quick questions – we've gotten a fair amount of questions over the last few weeks about 401Ks and 529. I've seen very little.

The President in one of his proposals proposed a plan that would encourage 401K plans by small businesses that don't have them; but that aside, it's something that any employee can opt out of. I've seen very little discussion of IRAs and 401Ks, and I think it's behind the much bigger conversation about Social Security and Medicare/Medicaid. So until that sorts out, I think we won't know or see a lot about that. But it's really not on the table right now.

The other question is, "What would you share about exit strategy for precious metals?"

I think there are two parts of exit strategy: when you leave and where you go. And I would just note that I have – in our network, I have a lot of subscribers and clients who bought precious metals very low and now as a result of the success of their precious metals positions they have what I consider to be a pretty significant concentration. And in fact, I'm looking probably in 2013 to start to move some of that out. But I continue to see precious metals as being a very, very important way to protect against inflation and against the slow burn. So even though they may start to move some out just to get the concentration down, I still see it as being a very important part of the position.

I have to say, Franklin, once you saw what the Fed had decided to do for QE3, and now to convert Operation Twist to "no-twist, just buy," all of that is unbelievably supportive of the precious metals' price. The Fed just made it a lot more attractive to stay. At the same time, for people who have enormous gains, there's a point at which you – I'm one of those people, and I'm a bit of a squirrel; I never like to bet the ranch on anything.

Franklin: I have hard targets for where to get out, and I have two hard targets. One is – or actually three. One is whenever the ratio of gold to silver goes down to 16:1 – that is whenever an ounce of gold costs 16 ounces of silver or less. One is when you can buy the entire Dow for less than 2 ounces of gold or less than 32 ounces of silver, it will be time to get out. You will not want to sell. You will – every fiber of your being will say, "Oh, no, I can't sell. I've made money with this stuff. It's been good to me."

Catherine:Oh, no – if you listen to me, I'll be selling before then. I don't like to be the last out! If anything, I'd probably go too early.

Franklin: One of the problems that we have with silver is that silver becomes illiquid at the top, and so we – I have two plans for getting out of silver before the top, and I agree with you 100 percent. I don't want to wait 'til the end. The gold you can get out of pretty well. The silver becomes very illiquid. And so for that reason, we're either going to have to be in 1,000-ounce bars stored in a COMEX warehouse or when it comes to when the ratio gets to say 21:1 or 20:1, we're going to swap silver for gold and ride that last little piece of the bull market up in gold rather than silver because it's so much more – because it's more liquid.

Catherine:That is excellent advice. Well, Franklin, I know one of the things I want to talk to you about is about shipping, but we're not going to talk about that tonight. We're going to save that for the first quarter of next year, because shipping gets ever more complex is this world as – particularly as more and more new people come into the market. But before we end tonight, anything else you want to add? Could you just describe the debt limit charts that we put up on the blog, because we didn't get a chance to talk about that, and that is such a thing of beauty? What did you describe it as?

Franklin: A friend sent me this chart, and it came off of Sharelynx, and Nick Laird at Sharelynx does some great charts. And it just shows –

Catherine:Oh, fabulous charts!

Franklin: -- the debt limit – the gold price just rises with the debt limit, and they're almost the same line. This is a fabulous chart, and he explains exactly what happened, but he also makes the point, which is simple, that the foundation of understanding a gold and silver bull market – they're driven by monetary demand. And when the government prints a lot of the money, then that creates monetary demand for silver and gold. So that's what that chart shows.

Catherine:If you haven't looked at that chart, it's so, so important that you go take a look at it. It's up in the blog both in the subscriber link area but on the public blog as well, and one of the reasons I want to underscore this is that it is expected as part of the fiscal cliff resolution that the debt ceiling limit will be raised again, and that's – if you look at the black line on that chart, what you're going to see is you're going to see at the end of this month or sometime in January a big step up in the authorization for the ceiling.

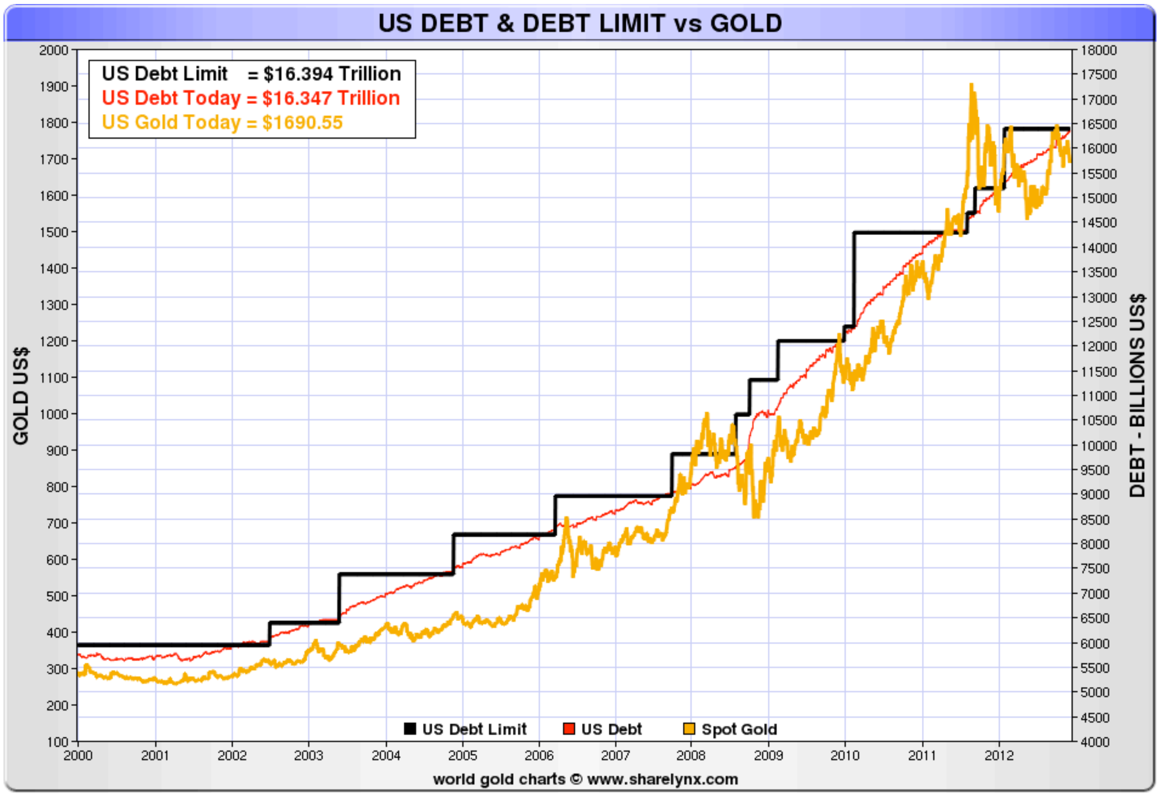
So that's going to be a very important piece of data for the precious metals market. Well, Franklin, thank you so much.

We are going to be back here in January for the year – the sort of first 2013 look forward and wrap-up for 2012 and precious metals market report. And so we look forward to being with you then.

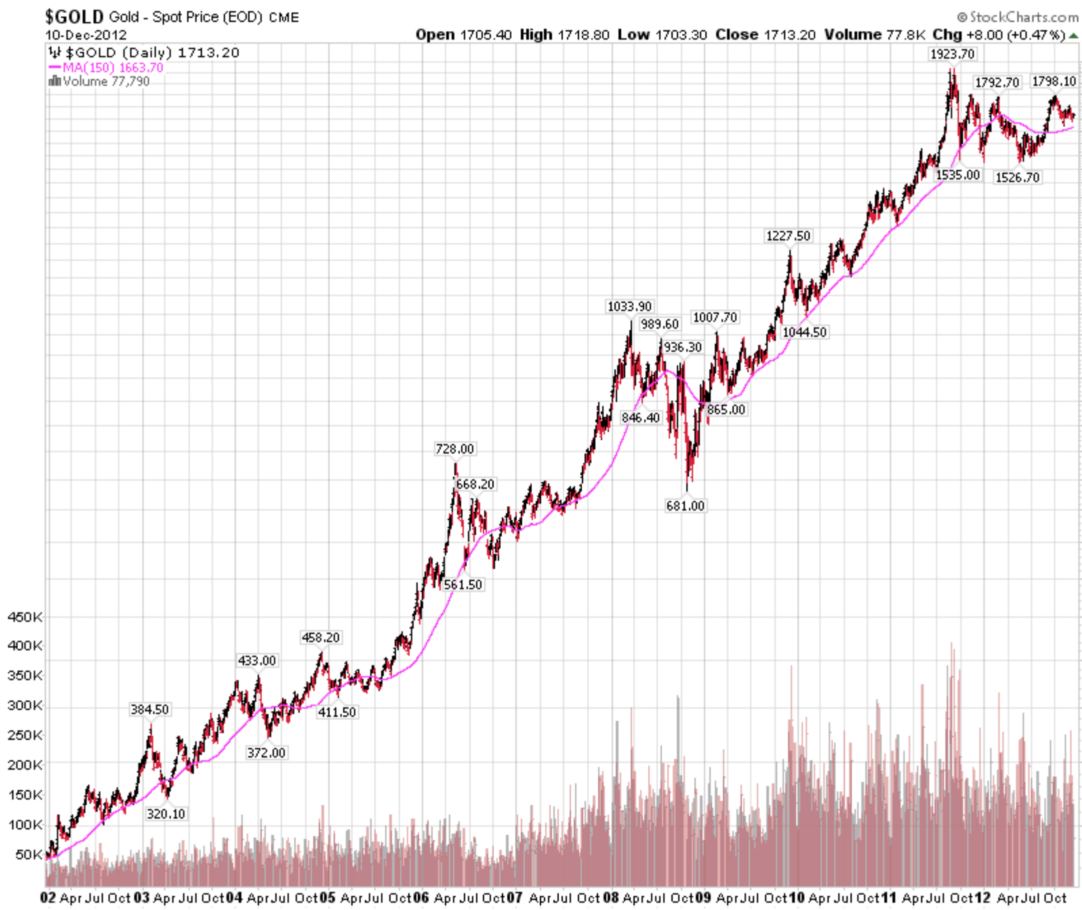
Franklin: Well, thanks so much.

Catherine: And we're not going to talk to you until January together, so I want to wish you and all the subscribers listening a very, very Merry Christmas and Happy New Year.

US Debt Limit



Gold Price & 150 DMA



Silver Price & 20, 50, & 300 DMA