Catherine Interviews Franklin Sanders
Precious Metals Market Report
The Solari Report: January 12, 2012

Catherine Austin Fitts: Well, that's it for Money Markets. I'm going to take questions with Franklin and we'll leave plenty of time for the Precious Metals Market Report tonight. Franklin, are you with us?

Franklin: I'm right here.

Catherine: Okay. Well, ladies and gentlemen, I'm in Montana and Franklin's in Tennessee, so we didn't get to have dinner tonight. But we talked a blue streak this week. Is that fair to say, Franklin?

Franklin Sanders: That's fairly correct.

Catherine: Okay. Well, let's start just with the current market and then let's head into 2011 and take a look at what happened last year.

Franklin: Well, the current market is is that it appears that silver and gold have finished their correction and let me see if I can lay out the significance of this. The whole time from February 2001 to March 2008 was spent in gold making its first leg up. That's the long slow part of a bull market. So it went from $256 to $1,003, which is roughly a four-fold increase; gave up 30%; went back $705 and then has advanced ever since then from $705 up to the closing high of $1,888 last August. So that leg from 2008 till last August was the first leg of the third leg up, and it was the first small leg of the third leg up. And you see by way of contrast how much more volatile the market is in a third wave and that's what we've seen in the last year. You've seen the evidence of that.

And now we've finished the correction off of that, and we're getting ready to go in the third wave of the third wave which is – it's like a squirrel on caffeine. I mean, it's going to be absolutely crazy. It'll be wild, whether it's actually made it or not. I mean, between now and the end of February, gold still might make a lower low, but it looks like to me it has. Something that confirms that is that silver has broken out over the down trim line that goes back to last September and that looks very good. But I bear in mind that silver often takes longer to bottom than gold does, as much as 60 to 90 days longer. So we don't really have confirmation yet, but we can certainly guess that we've seen the bottom of it.

You and I have a little difference of opinion about the biggest story for Precious Metals of the Year. Why don't you go first?

Catherine: Well, I think the biggest story of the year is first and foremost that gold continued to have superior returns. Gold has been up every year since 2000 and if anything, I think it's really proven out to be in this environment the global currency. So I think the number one story is gold proves out to be the preferred global currency or the emerging global currency and within that story is the amazing fact within that context and within that number, that retail never showed up. It continued to be the choice of a small group of investors, central banks who had a buying program and increasingly speculators and hedge funds who just made the market much dirtier. But broad-based retail still has not come in either in Europe or in the United States which given the performance of gold over the last 11 years, is quite amazing.

Franklin: Well, you look at it from the standpoint of the effect, and I look at it from the standpoint of the cause but we come to the same conclusion. And I think the big story of the year is that when push came to shove, our suspicions about central banks were correct. They will inflate and the whole European debacle that's played out that we've spent so much of the year playing out only confirms that. When push comes to shove, they will find a way to inflate. Now, they may call it lending money to banks or they may call it some other thing but they're going to bail out the banks and to do that, they have to print money.

And so for my peace of mind, that is very comforting because it shows that my presuppositions and my conclusions that I went into this bull market with still hold, namely that when push comes to shove, the banks are going to inflate. They're not going to let deflation take over. They're going to inflate. So what that means for gold and silver is, of course, that they are going to go higher year by year by year and because of some things I've been thinking about in the last few days, I think probably the bull market is going to stretch out longer than I thought it would. I think probably at least five years and maybe another 10 years, gold is going to be headed up.

Catherine: Where would you count the bull market starting–2000 or before?

Franklin: No. I think it started in February of 2001, and that's the point where I would say, that's where it started. Now, that's a little ambiguous because if you look at the Dow based on gold, that is the Dow gold dollars or you can call it the Dow and gold ounces, that no question started in August of '98. The bull market of gold against stocks started in August – no, not '98, '97. Or, I'm sorry, '99, and that was where the peak was anyway. So that's when it turned and started down and, you know, the dates are a little different but nonetheless, there they are. The gold made its last bottom in the $256 area in February of 2001 and then silver bottomed in November of 2001.

Catherine: Well, tell us what else happened in 2011.

Franklin: Well, we got an extension and gold moved up. It ought to have stopped about $1,600 and instead of that, it went to $1,900 and left everybody holding their breath. Silver, you know, throughout this whole bull market, we've been waiting for silver to best or better its 1980 high which gold, of course, had already long since done, but silver has not. Well, silver got up to that 1980 high. It got up to nearly to $50 and then backed off. So what you're going to see next, that is especially in the next year, you're going to see silver crash through $50 and when that happens, it's going to get all kinds of attention.

Again, I think I agree with you. The retail trade is not in it yet. The retail trade is still back in the 1990s expecting to retire on all of their great profits from the stock market, you know, from their mutual funds and as we discussed it.

Catherine: Although we just saw unprecedented withdrawals from mutual funds and from the stock market by retail industries here, so there's clearly a lot of concern and fear about the equity market and the financial markets in general.

Franklin: You know, you made me think. You made me go back and get some data and this afternoon, I looked up the returns, the yearly returns from gold and compared that to the Dow since 2001 and what I do is, I just go from the first of January to the end of December of every year and look at what the return is. Gold has averaged since 2001 – this is a 10-year period – 17.1% yearly gain. The Dow has averaged a 1.7% yearly gain. So there's not much question what's going on.

Catherine: Right. Although, here's the funny thing. Because I spend a lot of time looking at the equity markets because obviously I'm more excited about equities than you are and, you know, if you break it down in sectors, there are sectors, the growth sectors or the essential sectors that are out-performing gold. And then you have all sorts of other sectors that are, you know, going the opposite direction. So it gets very quirky once you break it down. I think I sent you the chart that Potash, the fertilizer company – Fertilizer has out-performed gold.

Franklin: Right. Exactly.

Catherine: Being a farmer, that would not surprise you.

Franklin: But the thing is, the point I'm trying to make is there are people who were thinking in the 1990s that they were going to make it by investing in index funds, and an index fund is simply a mutual fund that tries to replicate the performance of the S&P or the Dow. And the reason that won't work is that the stock market in general is in a bear market trend. That is, it's in a primary down trend. So that works when you've got a primary up trend. It does not work when you've got a primary down trend. You have to pick–you know, the stock market is huge. It's extremely broad and when there's a bear market raging, then what you have to do is pick which companies and which industries are not locked in that downward trend, and that takes a considerable amount of skill that most people don't bring to the game.

Catherine: We saw the speculators in hedge funds in the futures markets dominate in 2011. As an investment advisor working with individuals, when you see silver go flying up to $50 and then come crashing down, it's a very nerve-racking experience and you kind of felt like the yahoos were in charge of the market. Because before 2008, they really weren't that present and now they're very dominant players in the movements and when they pull out, it comes crashing down.

Franklin: Well, they're like hyenas. They go where the smell of blood is or the smell of something to eat so when they come, they bring a lot of new money which in itself drives the market up or down faster, but they also bring program trading which is computerized trading and that just increases the volatility both up and down because you've got massive numbers of traders who are jumping in and out of the market at the same levels. So it just creates volatility and chaos in the market.

On the other hand, I have to say it really doesn't change anything fundamental and because we don't jump in and out of the market to trade it, it's really frustrating to us and it can be frightening at times, but it really doesn't change the whole picture.

Catherine: If you have been in this market since the beginning or for a long time, then in percentage terms, you've lived through bigger drops. I remember the first time I had to live through a fast drop of over 20% and I remember I would go out and I would talk to the cows in the pasture by myself, and I would get intensely interested in planting orchards or having a garden. I would just say the whole thing's ridiculous and I need to get re-grounded in the dirt. And you just go off and kind of do something else but the more you live through them, the more you get used to it and of course then, after you've lived through your first big 20% drop or two, it's cutting into your gains but it's not cutting into your principal. It was very painful in 2008 and 2009 as it was this year if you bought near the high in April in silver or August in gold and then had to live through this drop. You know, it's a big cut to take right away.

Franklin: Yeah, but that's part of any market. I think it's a mistake. For one thing, Americans all look at everything in terms of the dollar and therefore, they look at it in terms of the gold going up in the dollar price instead of the dollar going down in gold terms. And that's what you're really witnessing. And if you just take that gold chart and flip it over and turn it upside down, then you get a better idea of what's happening to the dollar and you feel a lot more comfortable about what you're doing. You just have to–

Source: www.jsmineset.com

Catherine: But it's like if I have $100 sitting in my account and the U.S. dollar index goes down 10 points, I don't notice it because I still have $100 in my account.

Franklin: Right. That's exactly right. But if you go to buy imported wine or imported cheese or posters from China, you're not going to buy any of them. But people don't really pay attention to that. They think in terms of dollazrs and that's all they can think of.

Catherine: My impression in 2011 was that the physical market was pretty good. In other words, more and more of retail were understanding the advantage of buying physical coins and so physical coins represented not only an investment, an insurance policy, but a way to diversify outside of the financial system. You just get it and you take it home. So you tell me, as a dealer, do you see greater interest from retail on that physical side?

Franklin: Well, our sales are on an upward growth curve and it's not exponential yet, but it's fairly strong. It's very strong in fact, and we continue to see that year after year after year and I'll be honest, I see numbers that take my breath away. It's evident to me people are taking–they want the physical. They want to take delivery of it.

Now this year, we didn't see any big bottlenecks in supply; a little one when silver got up around $50, but we haven't seen any big bottlenecks in supply and in fact, supply did not start tightening until the last three weeks when silver and gold fell so sharply. But we know that huge amounts of physical demand have been put on the market.

I saw an article a day before yesterday that said that the U.S. Mint had sold more Silver American Eagles in the first two weeks of this year than they sold in the last two months of 2011.

Catherine: That doesn't surprise me.

Franklin: That's huge–and then if you look back over the last 10 years' Mint production, you see the same pattern–just huge growth in the production of Silver American Eagles which, by the way, ain't such a good way to own silver but, because it's expensive, but nonetheless, the consumption, especially in light of those high premiums, tells me that there are a lot of people who are just saying, "Look, I'm going to take the stuff. I'm going to put it in my basement. I'm going to put it in my safe, and I'm not going to worry about it anymore." And this is before, Catherine, before my suspicions come true and some big silver storage scheme, whether it's an ETF or an outright storage scheme, goes belly up and admits in public, "Well, we don't have all the silver and gold we're supposed to have."

Catherine: Which brings us to MF Global.

Franklin: Which brings us to MF Global; right.

Catherine: Yes, which was a very important–we have MF Global end of October/beginning of November coming into a bankruptcy. MF Global is mostly a commodity futures trading firm and so maybe 80% commodity futures and 20% securities, filed bankruptcy and customer accounts which are supposed to be segregated and protected grabbed by or assets sold off to Goldman Sachs, customer accounts grabbed by J.P. Morgan Chase as the lead creditor and the bankruptcy trustee sitting on gold and silver being slow to pay it out even when it's supposed to be on an allocated basis. And sending those shockwaves and real fears through the markets and it appears as somewhat as a result, the futures market takes a dive and, of course, gold and silver, which was very strong at the end of November and December, just plummets.

Franklin: Well, yeah, one of the things they did, they did something that has never been done before, and I'd like to emphasize this that since 1848, the Chicago Exchange has bragged that "Since we've been in existence, no customer has ever lost money on the defalcation of one of our seats. That is that all the brokers have made good on whatever it was they owed to customers or if they went down, the Exchange just parceled out their customers to other dealers and that was the end of it. Nobody lost any money. Well, in the MF Global debacle, the CME liquidated hundreds of positions, thousands of positions. Well, here you are. If they freeze your account or they force liquidate your position, you're just in deep trouble. There's nothing you can do. You're cut out of the market so that casts appall of suspicion over the integrity of the market, over its ability to continue to function.

Let me tell you something else that's kind of a little known fact. A lot of gold and silver dealers had accounts with MF Global. I know one that had a $600,000 account with them and he has today gotten back $200,000 of his $600,000. Now, most dealers the way–well, not most–but a lot of dealers the way they operate is if, let's say you call me today and you buy 10,000 ounces of silver in the form of 90% silver coin and I don't have all that 90%. So what I do is I go in and buy–I've sold you 10,000 ounces–I go and buy 10,000 ounces in contracts on the futures exchanged, and now I don't have any exposure. You see? All I've got to do is go out and find the 90% and buy it and pay whatever the difference is between the 90% and the futures, and that's my profit. And that's just the way dealers work. That way they reduce market risk. In fact, they basically eliminate market risk.

Well, what if they can't hedge? That's all called hedging. What if they can't hedge? There's only one thing for them to do. They have got to trim their inventories and they have to charge a wider spread because they're taking more risk. So far there has not been any tremendous affect that I've seen of that, but you can be sure that there will be an ancestral memory of the affects of MF Global and dealers will be a lot less likely to leave any kind of excess funds sitting in a brokerage house and they'll be a lot less likely to trade futures if they can avoid it. So I think there's a–

Catherine: Let me ask you a question because maybe I'm just being a self-righteous person who was raised as Quaker. For more than a decade, I've been saying you cannot do business with a financial institutions that behaves in corrupt ways or is led by corrupt people. It's too risky; it's too dangerous. I've been pounding the pavement about this issue again and again. If I was trading in a firm and John Corzine got appointed as the new head, I will pull my money immediately. And I don't understand why a lot of these folks didn't.

Franklin: Well, see, this is one of–I think part of it at least–part of their coma at least was generated by this idea that oh, it's government-regulated and therefore it's safe. That's the worst conclusion you could ever draw. You ought to draw exactly the opposite conclusion. It's government-regulated; therefore, it's not safe. I mean, Corzine, surely, they had parameters, accounting parameters about how much of clients' funds you could dip into, namely none of them, and yet they did. So how did that happen? Where were the regulators when that happened? They were nowhere. They never show up until things blow up. So I think that's one thing people will learn.

But the other one is if there's no integrity at the top, there's no integrity anywhere in the system and you're right. I mean, somebody like Corzine takes over the helm of an institution and immediately you know, well, it's time for me to check out.

Catherine: Especially if he's doing very sensitive, political proprietary trading, which he was. But Corzine is going to do that wherever he goes, I'm assuming. In 2002, I was in London at an investment conference and a guy weaseled his way over from the Department of Defense and literally was there just whacking at me every chance because I'd been publishing articles about $4 trillion missing from the Federal Government, including from Department of Defense. So, he was kind of a hit man there to kill my credibility. And literally, the guy would just keep attacking me. It was unbelievable. I was checking into the hotel in the middle of London in the middle of the day, and this guy's just screaming at me in the lobby.

And I turned to him and I realized he thinks his pension fund is secure. He thinks $4 trillion can go missing and his pension fund will not be affected. He does not understand that this is real and this is going to impact him, that you can't have this level of corruption. This isn't business as usual. This is a fundamental shift and his retirement savings and everyone's retirement savings is in jeopardy. You can't do this within an financial ecosystem without threatening the whole system. And there was no concept, and it goes back to your lovely word of the coma. There was no concept. He was in a coma. He was in a coma and he was thinking this is a good hit and then he flew to London and did everything he could to pull my credibility that he'd go back and he'd get his little benefits and everything would be all be hunky dory and he'd get his pension fund and be loved. And there was no concept that this was real. To him it was just a game. It was like a video game. He was in a coma and the whole thing was a video game.

Well, I hope one of the lessons we can all take from MF Global is it's not a video game. It's real. The money is real and you have to be unbelievably careful about anytime you can avoid the fraudsters and the tricksters and the attack poodles, please avoid them at all cost.

Franklin: Absolutely.

Catherine: It does matter who you do business with.

Franklin: Yes, it does. Doesn't it?

Catherine: That's why they're trying to give Wegelin such a hard time. I mean, here we have a group of people who are people of great integrity and great intelligence and willing to stand up on behalf of property rights. You know, it's making everybody else look bad and of course, the problem is money wants to leave and go there.

Okay. Well, I have one other comment on 2011 but before I give that, why don't you go ahead. Anything else on 2011?

Franklin: Well, yeah. I mean, I got a very bad personal lesson out of 2011. We got to the end of 2011. You know, one of the things that I'm always afraid of is that I will listen–the only voice I'll be able to hear is my own and for that reason, I literally force myself to read people who I think that I probably will disagree with, and I think that's a very healthy thing to do because it forces you to keep re-examining your position and look at it from every critical side. I never broke in 2008, even when silver had lost 105% of its preceding gain. But this time in the middle of December, I thought, "My goodness. We're in for a huge correction." And I could see gold going down to $1,100 and I just got spooked. And the lesson in that for me is if I can get spooked, and I've been doing this as long as I have, what about people who are not used to it? What about them? I mean, what is it going to do to them? Okay, I was humiliated. I got a lesson. I got humbled. What could I say?

Catherine: Well, you know, here's the funny thing. I didn't get spooked on the downside, but I blew it on the upside because I started the year and said we'd end the year at $1,650 because the central bankers would never let it rise that much against the stock market and the spread against the stock market would have to be held to a tighter amount, so we couldn't have a good year. So I said $1,650 and then when it ran up into the $1,800s, I said, "Okay. I'm shifting up to $2011. It's going to go through a big shift." Well, of course, I was dead wrong. So, if you got spooked on the downside, I got spooked on the upside.

Franklin: Well, now, I don't know what it is. I started putting the brakes on on the upside because I know whenever you have a market that starts going straight up, the end of that is pretty close. You know, I mean it just–because nothing goes straight up and you have to keep looking at it. But I've been caught that way too, so I guess, you know, part of dealing with markets is learning–being taught humility repeatedly.

Catherine: Well, I put up in the private spaces of the blog for subscribers, a wonderful chart that Matterhorn Asset Management in Zurich had published with prices as of November 25th – and remember, MF Global bankruptcy was early November – at the end of November, the spread between the price of gold in the local currency and local equity performance, so the performance of gold in that currency versus the performance at the equity market in that country, the spread was enormous. I mean, absolutely enormous and of course, by the end of the year, it had been narrowed back. Gold was up 8% to 10%. The S&T was flat, but it's a much more narrow spread if you go back and look at where it was in November. It was very, very wide–very, very wide.

Gold outperforms all stock markets in 2011

Country	Index	Index % change	Gold in local currency % change
USA	S&P 500	- 8 %	+18 %
UK	FTSE 100	-13 %	+ 20 %
GERMANY	DAX 30	- 21 %	+ 20 %
FRANCE	CAC 40	- 25 %	+ 20 %
ITALY	MIB 30	- 29 %	+ 20 %
SPAIN	IBEX 35	- 20 %	+ 20 %
SWITZERLAND	SMI	- 15 %	+ 18 %
SWEDEN	OMX	- 22 %	+ 21 %
JAPAN	NIKKEI 225	- 19 %	+ 13 %
AUSTRALIA	ASX Ord.	- 15 %	+ 25 %
HONG KONG	HANG SENG	- 22 %	+ 19 %

Prices as at 25 Nov 2011

And there was one other thing I wanted to point out about 2011. I saw a wonderful chart on financial intermediation. It showed the household assets and the extent to which a household managed its own assets directly versus putting them in mutual funds and pension funds and other forms of intermediaries. And what you see throughout, you know, basically you start at the time that the Federal Reserve is created and what you see is households go from owning and managing and controlling 100% of their asset to putting more and more into professional intermediaries, particularly the pension funds and retirement accounts, et cetera, and you can literally see, of course, what you and I know is at the same time we're watching a significant increase in the dependency of households on the government and, you know, sort of intermediation by the government as well. And as that happens, not only did their returns deteriorate but their freedom has deteriorated at the same time.

And I think what I'm hearing from lots of people in our network, and I'm sure you're hearing it at the Moneychanger, is "how do we disintermediate?" How do we pull out of the financial intermediaries and start to do more for ourselves? You know, so whether it's buying real estate or buying precious metals or literally not having a mortgage, you know, rather than having a mortgage and putting the money in a brokerage account and arbitraging the two, saying, you know, "To heck with that. I'm going to pay off my mortgage." So I think what people are struggling with is they're seeing the long term cost of too much intermediation and asking how can they disintermediate and take back control.

Franklin: Let me make a point about something here and you and I talked about this. I manage accounts–I don't manage accounts for the public, but there are several charitable institutions and funds that I manage for, just the very few, and back in 2000 already, I had started just holding idle cash balances, cash that I didn't need for the next 12 months, so I'm out of that short-term volatility area, holding that in gold or silver. And I've swapped from silver to gold maybe three times in that period of time and I picked up some new accounts over the course of the last 10 years but the early accounts more than doubled. I was checking them just a couple of days ago and the worst one has 21–the newest one has a 21% increase and the oldest one has a 71% increase.

Now, I haven't done anything more clever than just take idle funds and put it in gold or silver. And remember, gold and silver is going up and down all the time, so some of that gold and silver are acquired regularly so every month or every two weeks, there's some more that's been put away and that's a huge return for not doing anything more than just keeping it in the form of gold. And so this is the premiere disintermediation as far as I'm concerned because what you do is you take–you're not only out of the risk of an intermediary, you're out of the risk of the entire system. So, it works. I mean, I know that it works.

Now, that won't work for ever, I hasten to add. It works only because we have a gold and silver bull market going on and once that bull market is over, it'll work the exact opposite way. That is, it will eat up your capital. But we're not there yet. We're still in the bull market.

So, one of the ways I would disintermediate is I would look at funds that I don't need for the next 12 months at least and I'd say, "Well, I'm going to just take that and put it in gold and silver, and I don't care what the price is." I don't care what level you get in at. It doesn't make any difference. You're holding it for the long term and therefore, the long term is on your side. If you're at a long term marriage of bull trend and therefore, the trend is on your side. So that's one of the ways of disintermediation that I've seen.

Catherine: Right. The rule on a bull market is just buy and hold. And I continue to struggle with a whole world of people who think you can trade–you know, I worked on Wall Street and I knew the benefits of trading on inside information. I don't mean that illegally, but being in the business and having unbelievable information and you trade the swings, I don't know how to trade these swings without inside–without illegal inside information.

Anyway, let's go to 2012. So tell us what you expect this year, what you think is coming.

Franklin: Well, you know, I look more at the technicals than I do at the fundamentals, although I look at the fundamentals, too. But the technicals are saying this is going to be–we're entering into a phase in the bull market that is going to be wilder than anything we have seen before, and I'm certainly aware that when I say this is going to be wilder than what we've seen before, that we had one heck of a wild year this year. But the next year is going to be much wilder than that and it will get wilder still. We have just entered into or we're about to enter into the third leg up of a third leg up and a third leg is generally, it's never the smallest or shortest and oftentimes it's the longest and wildest of a five leg move up. So we're going to see things we haven't seen before. It's going to get much crazier. It's going to get more volatile. You'll hear more critics who, you know, every time gold drops they'll be jumping on and saying, "Oh, that's the end of it. That's the end of it."

And a bull market, what you have to remind yourself is a bull market climbs the wall of worry. So you're going to be hearing that all the way up. But I think that you're going to see this year end above $2,660 and the target now for this leg that we're just beginning, in my mind is somewhere above $4,500. Now, I know that sounds crazy but that's what the numbers show, and I just have to run with the numbers.

Catherine: Well, remember, we're in a world where the U.S. Government uses the Department of Justice to threaten criminal investigation of a rating agency just to maintain its ratings. So when you look at what else is going on, maybe it's not as crazy. I know you're more bullish than I am I think we'll end the year because I continue to look at a politically-managed system. I think, you know, I expect to end the year about 2000 and we could get as high as $2,250 will be my number. But I'm a little bit more conservative just cause I have more faith in the central bankers than you do, Franklin.

Franklin: Well, I think you're entering into a short period here at least and it may last six months and it may last longer when they're going to appear to have everything under control unless, of course, some other big thing blows up in Europe. They will appear for a while to have things under control but then things will begin to come unraveled as the disappointment begins to build when, you know, the Promised Land does not arrive. And the Promised Land is not coming. The economy still has not dealt with massive bad debt that was built up over the course of the last boom. And you know as well as I do, all of that bad debt is still out there on the bank's books somewhere, that whatever is left at the Fed hasn't already taken onto his books, and there's a lot of bad debt left out there. So that continues to act as a drag and neither the Fed nor the Federal Government will allow the one thing to happen that really would create hope for the economy and clear the way for recovery. And by that I mean, just let people go broke. Let the people go down who can't pay their debt and wipe it all off. But they're not going to do that. They're going to continue to prop up the very worst offenders and the very worst debtors and the very most bankrupted organizations. I think sometime this year, there'll be another bad surprise and when that bad surprise comes, then things will begin to fall apart.

Catherine: From everything I see both in the banking system and on the grounds, you know, whether it's farms or manufacturing or small business, everything I see is the government is cutting off all capital to small business. They're doing everything they can to drive small business out of business.

Franklin: Well, I think that's a fact and clearly what that means is that there's more trouble ahead because who creates all the jobs? Small business. They don't create all the jobs but they create the vast majority of the jobs and so if they put the job creators out of business, things will not get better. Unemployment will grow.

Catherine: Well, you kind of wonder what the end game is on all of this. If you keep driving people out of–you know, if you keep destroying the economy, exactly what do you think is going to happen?

Franklin: You know, I never know if the end game is planned or they're just opportunists who are taking advantage of events, but I know that their response is always the same. Their goal is always the same and that is to increase control over the economy and over individuals. That's what this is all about. We can't have all you hoi poloi out there running around just doing whatever you want to do. Heaven knows what would become of the world!

Catherine: Well, I know you and I have been discussing this week the rules related to chicken and dairy farming which are particularly irritating to both of us. And, you know, what I'm seeing in the small banks is, you know, incredible regulatory pressure to make sure small banks are not making small business loans but buying treasuries and so it's easy to say, "Well, the government just needs the capital. They just got to take it away from small business." And then on the agriculture side, to protect the large campaign donors, they've got to keep small business out of the agricultural business. So you may be right. It may not be intentional. It may just be protecting their interest.

Franklin: Well, you know, as I always say, it's a big mistake to underestimate human stupidity and in the case of bureaucracies, that stupidity is raised to the third or fourth power.

Catherine: When I was Assistant Secretary of Housing on mortgage fraud, I used to always say, "Never explain with conspiracy what can be explained with incompetency," and I used that to describe a whole bunch of programs and after digging much deeper for many years, I discovered I was completely wrong. In that case, it was a black budget.

We have a couple questions from subscribers. I want to make sure we get a chance to talk about them. One is there was a series of questions about an interview that Webster Tarpley did on Ron Paul talking about how deeply deflationary some of Paul's policies are and also talking about the importance of auditing the Federal Reserve. I just wanted to ask you what you thought of Paul's efforts to bring transparency to the Federal Reserve and if you think his policies are dangerously deflationary?

Franklin: You know, you have to understand that the term deflationary in this sense is a Keynesian concept. In other words, Cain has this critique of the business cycle that says that the problem is deflation. And the problem is only deflation when there is the preceding inflation of credit and money by a central bank or the banking system or the two of them in conjunction. So really the term deflation or the concept of deflation becomes almost meaningless if you have a sound monetary system and an economy that is freed of the incubus of the banking system. I mean, it kind of goes away, if you follow what I'm saying. So would his policies be deflationary? Yes, they certainly would but at the same time, he would be getting rid of so many drains on the economy, especially drains from the government on the economy that the net result would be a growth–not just a growth of the economy, but a huge upward spurt in growth that would more than overcome any deflationary affects that his policies had.

Catherine: All right. If you look at the drain, it's so much more enormous than everybody realizes.

Franklin: Oh gosh, it's more than 50% of the economy. Think about this. Of every dollar in the economy, one out of ever two dollars in the economy goes to totally non-productive functions. It's paid to completely non-productive uses. So if Ron Paul could cut that down at all, then you're going to have a much more productive economy which means more money for everybody.

Catherine: Okay. The next one I'm going to answer because it's a particular bug-a-boo of mine. What percentage of one's portfolio do you now suggest should be in precious metals? I don't – every person is different. Every circumstance is unique. Different people have different needs. I'm a great believer in precious metals and I tend to recommend what is a high percentage, probably not as high as you, Franklin, but I just think that circumstances are unique and you should be very aware if somebody says, "Oh, you should have x percent of this in your portfolio," because your situation is specific. So I would very much say it's specific to you and maybe at some point nwe could go into a lot more detail of how you figure that out or how you break that down.

Another one, "I appreciate precious metals. Yet, how do you make peace with toxic mining practices? Even if buying old coins, one is still increasing demand in there for mining. Thank you for all your work."

Franklin: Well, I'm not too worried about toxic mining practices because I think toxic mining practices are not nearly as bad as toxic central bank practices. It's the central bank practices that really cause the environmental damage, not so much mining. You know, I mean although I know mining has its problems. I'm not denying that but still it's nothing like the damage central banking does.

Catherine: Right. If you look at the toxic environmental practices that come from using the dollar, they're much greater than coming from toxic mining and in fact, to me, the important thing is what kinds of people and behavior does a currency system incentivize and when you put people who are indifferent to other people and indifferent to the environment in charge, whether the mining industry or in any industry or in any government, that's when you get your mess. And so the question comes down to, who's in charge and what kind of behavior, you know, how are they behaving and how are they incentivizing us to behave. And that's why the current currency system is so–to me, you know, toxic mining for all the horrible things it's done doesn't begin to touch the environmental damage of fiat currency, particularly the dollar as Reserve currency.

Franklin: You know, if you look at mining in this country – and I'm thinking not so much about coal mining which has some real problems, but silver and gold mining out in the West, the fellows who do that are not a bunch of lightweight crooks. You know, these are not–when you build a gold or silver mine, it might take you as much as five or 10 years to get the thing in operation and you've got to be a pretty serious adult to do things like that, to be engaged in any undertaking like that. And these are not people who just set out to build systems that ripe up the land and then beat it.

Catherine: Right. I completely agree. Well, we're almost out of time, and I'm going to go to "Let's Go to the Movies" but before we end, Franklin, tell us what your New Year Resolutions are.

Franklin: My New Year's Resolutions–I try not to make New Year's Resolutions and that way I disappoint myself less than I would otherwise. The only resolution I've really got is to get out this book. I've got the first volume of three books that's almost done and my resolution is to get that done so I can rest for a while.

Catherine: And can you give us just a peek preview of what the book is about?

Franklin: You know, I write every month in my newsletter a column about what we're doing in my family and I've been doing that for 16, 17 years. And so I have a complete record of our whole move to the country that change in the way of life all the mistakes that we've made. It's sort of like a catalog of all the things you don't want to do. But some of the things you should do, too, and I'm going to put that together. I'm in the process of putting that together in a book. I've got one more edit to do and then I'm hoping it will be out by sometime in the spring, and then that'll be the first volume.

There are actually three volumes. That'll take us up from about '96 up through 2001, and then there'll be two more after that.

Catherine: Well, one of my New Year's Resolutions was to grow in coherence. I was very inspired by Bill Tiller who we had on who talked about the importance of each individual being coherent to create a coherent world, and I want you to stay 'cause our movie this week in "Let's Go to the Movies" is a wonderful documentary called "Buck" about Buck Brannaman. I tried to persuade you at Christmas to make sure to watch it and I doubt you have yet. Have you?

Franklin: No, no. I haven't.

Catherine: Anyway, you would absolutely love it. It's about the horse whisperer who helped Robert Redford make the movie, "The Horse Whisperer." This guy is an unbelievably coherent human being. He travels around the country 40 weeks of the year giving clinics on what's called "Natural Horsemanship" - trying to save horses from incoherent human beings. It's one of the most inspiring documentaries I've ever seen. So if you just want to feel good and enjoy a great true story, I recommend it. It's called "Buck". It's in the stores. You can get it on Netflix. You know, in a funny kind of way, he reminds me a little bit of you, Franklin.

So ladies and gentleman, that's it. That's our precious metals market report and our wrap up for 2011. Looking forward for 2012.