Catherine Interviews Franklin Sanders
Precious Metals Market Report with
Special Guest Chuck Gibson
The Solari Report: June 14, 2012

Catherine Austin Fitts: Let's see if Franklin has joined us? Franklin, are you with us?

Franklin Sanders: I'm sitting right here.

Catherine: Last week you were in North Carolina and I was in Tennessee, and now I'm headed to North Carolina and you're in Tennessee.

Franklin: Well, I sort of envy you because North Carolina is just gorgeous.

Catherine: Yes. It really is. I don't know if I ever told you this, but when we started our Solari Circle we were meeting by bridge phone and everyone knew me, but we didn't sort of know each other so we decided to do a simulation. We said, okay, we're going to pretend we're a family of four. We have a million dollars in cash and we're homeless, and so the first thing we need to do is we need to determine what our budget is to buy a home, and we need to decide where on the planet we want to live. So we did a whole search and defined criteria of the best place to live, and as a result, we chose Asheville, North Carolina.

Franklin: Not surprised.

Catherine: And one of the members of the circle ended up moving right outside of Asheville, North Carolina.

Franklin: One of the most wonderful things about it is that they have a very high standard of local craftsmanship. So in the building there is a lot of beauty, and it's handmade beauty. You know, think of those fences, the kind of Adirondack style fences – I don't know really what you call them – but they're made from limbs and branches that are not cut, except at the end where they're fit together. So it's a wonderful place. It really is.

Catherine: Okay. So the Precious Metals Market Report – silver and gold. We've had quite a month since we talked on last month's Precious Metals Market Report. So maybe if you could just start with an update on what's been happening.

Franklin: Well, last month we talked on the 10th, I think, and the market turned on the 18th, and I am as sure as I can be that it did turn on the 18th. I mean turned up. In other words, it completed at bottom and turned up, and I remember because it's the same day I left on my vacation, and it's done nothing since then. Although the trading activity is very suspicious to me when you get these great big climbs one day, and then these great big drops the next day. Your mind runs to the nice government men who don't really want gold to rise.

Gold has come up off of that bottom and has made good strides, and now it needs to clear that area of $1,625, $1,630. Once it clears that area, then very quickly it ought to move for $1,692, which is where the next big resistance is, but the fullness of time is here.

Both gold and silver have had, on that May 18th day, quite a bit of time, based on their previous corrections, to complete a correction, that is complete it as far as the bottom is concerned. Now they do the second half of it, which is climb back up to the old peak, but I think you'll see that slowly across the summer. And if you get some kind of accident, like big trouble out of Greece this weekend, then you can see gold or silver start, but the results have no question in my mind.

I just have to say this: Looking at the markets today, the dollar fell. Now that makes no sense at all. It fell a third of a percent, the dollar index that is, in advance of that Greek election. That makes no sense at all. Everybody is dumping dollars. They're not running to safety. I mean it just doesn't make a bit of sense.

And gold and silver were both hit today very early in the day with very heavy selling, and almost as quickly as they went down, they drove right back up. So there's very great underlying strength in both gold and silver, but I think the central banks were all cranked up to make things look good before the Greek election, to drive the Euro up and make things look good before the Greek elections.

They also made noises out of their latest G20 Summit in Los Cabos, Mexico. Do you ever wonder why they don't meet in Tupelo, Mississippi or someplace like that?

Franklin: You know, they always meet in Los Cabos, Mexico or some neat place like that. Anyway, they're spending your money after all, but they made announcements that they all stood ready to loan more money, loan more money.

The British Exchequer secretary made a speech today that the British government, the Bank of England, was going to do much more to flood the country with money. The European federal banks flooded their banking system since December with one and a quarter trillion dollars. They just bailed out the Spanish banks to the tune of $1.25 billion.

So there's no reason to expect silver and gold to go down in the markets judging from the stock market today. Markets expect governments around the world to continue to inflate and to try more the QE2-type inflationary injections.

So everything looks good for silver and gold. The bottoms look like they're in. Just checking at it from another direction, we got a high in the gold/silver ratio at 57.5, which puts a double top on that, which makes it look like that move has been completed, and usually that marks the end of a correction, too.

So everything looks like it's completed to me. It looks like it's ready to go. It looks very good.

Catherine: As a season, what is summer usually like for precious metals?

Franklin: Oh, it's lousy; it's dead, and usually you get a seasonal low end of June, first of July, but you know the value of looking at seasonals. Right? You can set your calendar by them. That's about it. I mean there's no reason that the seasonals can't do the opposite of that. You don't expect that, but from about where we are, maybe another three weeks into the year, you expect them to turn up, not fast, but the turning point is usually end of June, first of July, and then kind of early in August they start really kind of edging up, and then September take off.

Catherine: Right. Although I will say this year, just as you look at the politics of the election, I can see lots of reasons why the central bankers would like to keep a ceiling on gold and silver.

Franklin: No, but you wouldn't want to run for presidential reelection with gold gaining a percent or half percent a day and the dollar sinking. No.

Catherine: It would be very interesting to discuss if a decision ever gets made that it's going to be Romney and not the sitting president. You know, it would be very interesting to see what that would mean for gold.

Franklin: Well, initially, you know, he's viewed as – I hate this word – conservative. He's viewed as a conservative, and maybe he is compared to Obama. I don't know, but that's a distinction without a difference. He's a big spender. He's just the same old Republican corporation's big spender type. There's nothing different about him.

Catherine: Did you hear the post I read from the subscriber about the firm that wasn't not going to permit trading this Sunday?

Franklin: Yes. I live in a thin market, and by that I mean the physical gold and silver markets are fairly thin; that is, they're small and not terribly deeply capitalized, and what I see out of that announcement is somebody in the management looked at this weekend and said, "You know, we're open when other people are not, and we're just as liable to get dumped on with thousands and thousands of trades that we have no counterparty for, and we're just not going to do it."

So from a management standpoint it was a wise thing to do. People think that they can trade 24 hours a day, and they don't understand that the person who they're trading with has to have a counterparty to lay off those trades. If everybody comes in and wants to sell dollars, for example, who's going to take the other side of that trade? Somebody has to buy them.

Catherine: We're getting into a world where everything is discontinuous, and so normal market operations can't function in the way that we could expect them two years ago.

We just have one question I wanted to ask before we started to talk about hedging, and that was about the gold and silver swap. We have somebody from Texas asking. They had swapped a combination of gold and silver into gold last April, and that was a point in which we were both very aggressively recommending people do that, and they want to know whether they should go back now that the gold/silver ratios touched 57, and I know 57 has been the point at which you were recommending to swap so what about that? Is now a time to swap or not?

Franklin: Well, let me ask that question another way. Let's say that they swapped out of silver when 35 ounces of silver bought an ounce of gold. Today, say, an ounce of gold will buy 56 ounces of silver. So if they swap back they'll have 71 percent more ounces of silver than they began with. Is that a good trade? Well, it would be in Tennessee where I live. That's a great trade.

Catherine: So it would be a great trade if they're willing to live through the volatility over the next two years because my expectation is that silver will over the long run produce more of the return, but it could be much more volatile.

[CAF Note: Per June 21 *Solari Report*, CAF recommends not swapping at this time]

Franklin: Right, but you know the edge of that problem has sort of worn off on me because I've got too many customers who've made everywhere from ten percent to 60, 70 percent gains on those swaps. I put up with a lot of volatility for the opportunity to do that.

Catherine: Okay. So let's talk about hedging now, and I just want to say we've gotten a series of questions over the last six weeks, and I really appreciate both Franklin, and I'll bring him in after Franklin talks about futures, being willing to address the subject because it's not a simple or clear subject. There are a lot of options, and all of them have pros and cons and challenges to them, but Franklin is first going to address using future options, and then I'm going to bring Chuck in to talk about some of the securities. So, Franklin, hedging.

Franklin: First thing you have to think about is that a hedge means that you're willing to forgo gain in order to reduce risk because hedging has a cost. Right? And not only does it have a cost, but it also tends to limit your gain, or it can limit your gain in some ways that it's done.

The best way to hedge is to get somebody to pay you to hedge. In other words, they pay you to hedge. The only way I know to do that is what's called writing covered call options. What that means is that you sell call options – for instance, a call option on silver futures.

Let's say that you had 10,000 ounces of silver that you wanted to hedge, and you could sell options to buy silver if the price falls under – or reaches some number where you would say, "Well, I got a big profit going and I'd just as soon get out there," and people will pay you for those calls that you sell.

The other way to do it is to buy put options, which gives you the right to sell silver futures at a certain price. In other words, let's say you look at silver and you say, "If silver goes under $26, I want to sell my position." So what you could do is you would buy these put options, which gives you the right to sell or to put it to the other person at $26, and that way you're covered.

The thing about an option is that there's a huge amount of leverage in an option so you don't have to buy too many options to cover a fairly large position. The bad thing about options, as all those people who sell options know, is that most of them expire worthless so most of them are never exercised, but if you don't mind reducing your gain by the amount you pay for the option, then it's really the best way to go, and it's the only way I like to speculate on a market if I think the market is going to rise, but if I didn't have enough money to buy the silver or gold, you can buy the options, and I would buy in the money options, and that would hedge the fact that you don't have enough money to buy them.

The thing about options is you pay for the option, and the total risk is the cost of the option. If the option expires worthless, you lose everything. If the option expires with some value, then you win, but these are not options on metal. They're options on metal futures; that's another thing that you need to think about.

The difference between options and futures is with futures you have to put up a certain margin, that is a certain percentage of the value, and the bad thing about that is, as the market rises, the market managers, like the COMEX, change the margin requirements. They raise the margin requirements when the market rises very quickly, and they lower the market requirements when it falls.

For much as the same reasons that OANDA announced that they weren't going to trade this weekend. In other words, they want to slow off trading in these hot markets. They don't want to handle huge volumes, and those higher margins will close people out.

I don't like futures because the losses with futures can be huge. The market moves fast. You get closed out of it. It opens limit down two or three days, you're long whatever the commodity is, and the next thing you know you're presented with a $100,000 loss and you never even had an opportunity to do anything.

Catherine: Right.

Franklin: So I don't like that kind of operation. I want to know what my risks are, and I want to limit my risks, and that's the reason I like futures options because they will work, but again, you've got to figure that your gain will be reduced by the cost of the option.

In the gold and silver business almost everybody operates this way – not almost everybody, but all the big wholesalers operate this way: If I call somebody up and say, "I want to buy 10,000 ounces of silver," and they sell me this 10,000 ounces of silver and we fix the price. They immediately turn around, and at the same price they buy futures contracts for 10,000 ounces of silver, and then what that means is they're not long silver; they're not short silver because they bought 10,000; they sold 10,000 so they got a flat position, and what they're trying to do is only make the spread between buy and sell, that is the spread they buy versus the sell they spread at on whatever this item is – if it's 90 percent coin or bars or one-ounce rounds, whatever. So they hedge.

And I've tried hedging, but in a bull market you will very seldom on a day-to-day basis be caught in a very bad downward move. So you actually make more money by not hedging than hedging, and that's even more true, that holds true even more strongly for a person who has a long-term position, and I understand that when we talk academically about how much money you can make, and opportunity cost and all that sort of stuff, it's very easy to talk about the profits you might have generated if you jumped in and out of the market and all that other stuff.

Well, in my book a lot of that is hogwash because you can't trade that well. You can trade that well when you're looking backwards through the rearview mirror, but you can't trade that well when you're driving forward, and so if you got a long-term position, your strategy is ride the primary trend, and it's a very, very poor practice to change that strategy, your main strategy, in the middle of an investment. So, in other words, if you bought the stuff for a long-term investment to ride the primary trend that runs 15 or 20 years, you don't want to start trying to jump in and out and catch the little bitty waves, the little fluctuation waves on that big long wave.

So that's pretty much everything I know about hedging.

Catherine: Okay. Well, thank you. Now it's my pleasure to introduce you to somebody that I've wanted to introduce you to for a long time, and I'm introducing him to the subscribers at the same time, and that is my partner, Chuck Gibson from California.

I want to tell a story about Chuck. One of the reasons we get along so well is he's an engineer by training, and he thinks very logically about everything. In fact, Franklin, you'd love it, he's always saying to me, "What if we're wrong? What if we're wrong?" So he's always trying to come up with an idea that we haven't thought of.

The way I met Chuck, I had an investment advisory client call me, and they were committed to finding somebody in their local area, in the San Francisco Bay Area. This is a very careful person and they did a search. They got all the names from the Department of Corporations, and then they went and interviewed 13 people and came back to me and said, "The only one I like is this one guy. Would you check him out?"

And that was in 2008, and to make a long story short, we're partners today in Sea Lane Advisory. So Chuck is coming to us from Pleasanton, California. Chuck, are you with us?

Chuck Gibson: I am. Can you hear me?

Catherine: Yes, I can. I should also mention that Chuck is managing member of Financial Perspectives, which is his investment advisory firm in Pleasanton as well.

So, Chuck, Franklin's just covered future options, as you heard, but, of course, a lot of people want to do their hedging through a brokerage account. So if I'm going to use securities, what are my options for hedging gold and silver?

Chuck: Well, first off I'd just like to say that it's a pleasure to be here with you, and also to extend my introduction to Franklin. I've yet to have a chance to talk to him, and I really look forward to it.

But Franklin covered so much of what I was going to say, the one thing, though, that we didn't talk about was in a brokerage account you have basically two investment types that you can do. You can either do options on the underlying paper security, or you can use exchange-traded funds and/or mutual funds that move inversely to the underlying metal price.

Now if I could cover the options really well, maybe what we could talk about is the other thing, which are the exchange Fed funds and mutual funds.

Catherine: But let me just play devil's advocate here. Redundancy is good, Chuck, so I would love it if you would cover the options again.

Chuck: Sure. No, I will, but let's cover the easy thing first. Options are so complicated, and so let's cover the easy things, which, first off, options, you have to be approved by your broker/dealer to even use them in many cases. So they may not be available to everybody that is listening. So the one thing that is available to everybody are those exchange-traded funds and mutual funds that move inversely to the metals themselves.

So you have available to you non-leveraged and leveraged funds, and when I say non-leveraged, they intend to move exactly opposite one-to-one price movement. So if the price of gold moves up one dollar this – let's call it percent – moves up one percent, then this mutual fund or exchange Fed fund will move down one percent.

So those are available to you, and the problem is that they use paper – most of them use futures contracts – and those futures contracts expire, and so what ends up happening is that they're not perfectly correlated.

So, for example, over time gold may go up one percent and your hedge may move down more than one percent or may move down less than one percent. So it's not a perfect correlation, and while that's not such a bad thing, people have to understand that before they get into an investment so they know what they're getting themselves into.

The bad thing about them is this: Is that if you want to have a one-to-one hedge, if you've got $100,000 in gold or precious metals of some sort, you've got to have the same amount of money sitting in cash that you can put into another security as your hedge, unless you're going to do a partial hedge. So most people I know don't sit around with that much cash available and not being utilized or invested, but that's what makes these investments less than attractive.

Now there are leveraged versions of them, and I highly would recommend people not use them because of the decay that is constant in them. The longer you hold them, the less correlated they become to the actual investments themselves, but what we all have to realize is that these are all paper investments, and like all paper investments, if stuff really gets bad out there, like a 2008-type of event, you're really dependent upon the other person, the counterparty on that trade to fulfill their bargain if and when you're ready to sell. It's not like holding a piece of metal. Once it's yours it's yours and nobody can take it away from you, but on a piece of paper you're still reliant on the person who is the counterparty of your trade to make sure that they follow through. So, again, it's just a concern that one has to be worried about.

Really, that's what there is in brokerage accounts, and I'm not going to go into the specifics of which ones to recommend or what vehicles you can use, but there are those investments that move – there's a focus just specifically on inverse correlation to gold, and then there are those that move inversely to silver, and they're all familiar.

The good thing about them is that usually they're very liquid. There's a high number of people trading on them so you're not going to have to be concerned about if and when you're ready to sell, then make sure that there's somebody on the other side of the trade to be able to liquidate for it.

Catherine: Right.

Chuck: Now that's really the simple side of the brokerage accounts, and then you get into options, and Franklin did a really good job of covering what I was going to say.

So before I step in there I would like to say this, though, is that I think what he said needs repeating, which is something I learned a long time ago, and I'm not specifically talking about gold and silver. I'm talking about anything that is in a long-term primary bullish trend. The best thing you can do is to leave it alone. Don't hedge 'cause any hedge, unless you're perfect, unless you're really smart or unless you're really lucky, is a way to separate you and your money, and I just find that really, really difficult. I've learned from firsthand experience that hedging in a bull market really makes no sense at all. So I would caution people to do that because, not only do you have to be perfect in your timing of getting in and getting out, but you also have to worry about the costs that are associated with it.

Catherine: Right.

Chuck: So now we throw out all the negatives, let's talk about options. The beautiful thing about options is that they're highly leveraged. They're a hundred to one, so if you wanted to leverage $100,000 worth of precious metals, you really don't have to have as much money. Put it this way: You have the ability to hedge a large position with a smaller amount of cash that you have to put up as your hedge.

But if I were to do this myself, what I would recommend is that you take a fixed portion of your assets. So let's say you have $100,000 in precious metals. You take no more than one to two percent of that and use it as an insurance policy, and you specify some period of time, and I'm going to spend that for one year. I'm going to spend no more than one to two percent of my portfolio of that position and use that to buy a hedge, and options are the best way because that one to two percent will buy you a lot of insurance.

Again, I'm not advocating this, but think of it as a life insurance policy. Hopefully you don't die, but if you do it's good and it allows you to capture some money from the fact that you've died, but hopefully it will never happen, and the odds of if happening are really, really low.

Catherine: Right. So I remember in April of 2011 when a lot of us swapped from silver to gold, if for some reason you didn't want to do that, and obviously, silver, when it touched $50 was at a remarkable place relative to the moving averages on its chart, and that's the time you might consider doing something like that.

Was that Franklin?

Franklin: Yes. I was just going to say that actually doing the swap does hedge your silver investment.

Chuck: Yeah.

Catherine: Yeah. Oh, yeah.

Franklin: I've witnessed that, actually. It takes a big profit out of your silver investment. Although it's a two-step process, it takes a big profit out of silver investment to hedge any potential loss. So if silver goes down 25 percent, but you have 70 percent more ounces than you began with, well, everything is okay.

Catherine: Yeah, yeah.

Franklin: You haven't lost.

Catherine: Absolutely. One of the things I wanted to bring up in terms of options, if you look at the different securities that different people can invest in gold and silver, there may not be options on their particular security or their particular fund. So is it possible to use options on things that have much more liquidity in the market?

Chuck: Yes, and that is what I would recommend because you think stocks are thinly traded, options are even more thinly traded, and the spread between the bid and the ask is something that one has to watch because if you're giving away, you know, five percent of the money that you're spending upfront just to trade that, to give it to the moneymakers or the market makers, then you have to find something that's a little bit more liquid. It just doesn't pay off, especially, again, when you're in a long-term bull market.

If you're going to do this, you want to do it where a spread is as thin, as small as it can possibly be, and you also want to do it on the most volatile investment. So if you're looking at both gold and silver, for me, what I would do is I would approach it from silver because I would expect to see – and use 2008 as an example – gold lost 20-something percent from its peak to its trough, and silver lost almost double that. So if you're going to hedge something, you want to hedge the more volatile investment.

Catherine: Right. I want to ask both of you now what do you expect for the rest of the year? Chuck and I, Franklin, talk a lot about volatility, and I would love to get both of your takes on what you think of volatility. What kind of volatility are we looking for the rest of the year, particularly with some of the things that we've been talking about, including the Greek elections this weekend? Franklin, why don't you start?

Franklin: I think that we're being set up for more volatility because the expectations are rising. I think I told you earlier that I heard on *National Proletarian Radio* this morning the commentator claiming that the drop in the real estate was over and it was the beginning of the new dawn in real estate, and I think that and the expectations, which a lot of them are borne out of politics, that the economy is about to recover and the worst is over, sets itself for another fall, and then when people say, "Wait. I though the dawn was coming up and I see that we've got a total eclipse of the sun," then they panic, and they tend to panic out.

And there are all sorts of situations in Europe, in Spain, Portugal, Italy, France, for heaven's sakes, that could blow up at any time, and all that increases volatility in the markets, and volatility is also increased by the actions of people like Bernanke, who swing like the pendulum in a gigantic county courthouse clock from one side to the other, mashing down the monetary accelerator and hitting the brakes.
So I think that more volatility is just backed into the whole situation. I don't see how that can be avoided, but I think the volatility will push gold and silver higher faster because we're in this second stage of a bull market where time is compressed and price rises faster.

Catherine: Chuck?

Chuck: I agree with him. I think, though, that while we're going to have more volatility, I think there is maybe a floor that is going to be supporting prices, if you will, from the nice government men or the nice central bankers around the world, who are going to do whatever they can to keep things as reasonably stable as they possibly can, especially during our election year.

So I'm looking at the balance of 2012 being quite volatile, but I think that the downside is limited. I'm not saying it doesn't have more down from where it's at, but I think the downside is limited. What I'm really afraid of is into 2013.

Catherine: Right. You did a chart for us that was remarkable, and it showed the tracking of the S&P versus the QE1 and the QE2, and then Operation Twist, and it really clarified how much this market is trading off of central bank policy, and I say that because we're coming up to a Fed meeting on June 20th, and Operation Twist runs out at the end of the month. Any thoughts on what you think they might do?

Chuck: I personally think that they're not going to do anything that could influence the direction of the election, at least overtly. I think covertly they will do whatever it be. I think they will do an extension of Operation Twist of some form or another, but an outright QE I think is off the table, at least until the election is over or unless we have a complete waterfall event that's caused because of something external to the United States.

I think 2008 was an internal event. I think 2012 or the next one will be caused from an external, most likely Europe or the Middle East, and so I definitely think that they're going to keep things as low key as they possibly can, but knowing that they have to do something because – it depends on what you want to call a recession – we're very, very close to a global recession – and the only country that's actually doing reasonable well, if you look at the numbers, is the United States. Europe is already in a recession, and look at China.

There's all kinds of slowdown warnings out there, and when you look at the slowdowns, that tends to equate to slower growth and slower growth equates to slower revenues, which equates to slower prices, profitability, and therefore, lower prices in the markets, and so to me this is a time to be very, very cautious.

And the other thing I think is worthy of mentioning is the fact that the markets as we know them, for the average person they're really not the markets because right now 80 percent of the trades are done via either high-speed computers that hold these positions for less than a second or they're done by institutions. So they're directing whatever direction the market is going with their underlying purchases, and only somebody, not me, knows which way they want it to go, and that's what scares me probably the most because if all of them switch the sell order all at once or the buy order on at once, we start to see these ridiculous movements in the market that Franklin was talking about.

It just makes no sense. One minute they're down one percent, and then you flip a switch, and then the next minute they're up one percent. It's crazy.

Catherine: Right. That's also an argument for sticking with the primary trend. Letting the skittish swing back and forth while we just align with the primary trending secret of –

Franklin, did you want to add anything?

Franklin: Well, I just want to point out I think you're right that they want stability. They're always working for stability, and they're aware that if they put too much money out in the market they can blow things up, but also I look at the astonishing moves that have been made since 2007, 2008. Bernanke, the Swiss and the ECB just basically opened up the dollar window to the entire world when they just said, "We'll offer unlimited swaps. If you need dollars, we'll offer unlimited dollar swaps," and that together with trillion-dollar increases in these central bank balance sheets, and Bernanke put out $16 trillion during the 2008 crisis to loan that much to various banks. Well, that money goes somewhere, and there's no question when they get into a crisis they have only two solutions: one is blarney; and the other one is inflation, and they'll put the president, the head of the central bank, all the rest of those people on the TV to blather that everything is okay.

Franklin: And then the second thing that they'll do is they will flood the market with liquidity. So, I mean, I'm just emphasizing what you just said, that if they are panicked, they will flood the market with liquidity. Flood it.

Chuck: I don't think they have to be panicked. I think they're going to flood the markets with liquidity because that's what they need to.

But the bottom line is that at some point in time all of that is going to come home to roost, and that's what I'm most afraid of. You can't do that forever without having some ramifications. You've got the fire hose in your mouth and then turn on the spigot. You can only hold so much in your belly before it starts coming out your nose and ears.

Catherine: I just want to mention one thing on politics because we've gone from a situation where it was almost inconceivable to imagine that the sitting president couldn't win to the Republican ticket, despite many, many flaws, looking a lot more serious, and part of that there are lots of little hints coming out of the Bilderberger meetings that there is a real interest in what I would call a radical reengineering of the federal budget. The one thing I would say is I agree with both of you that they're going to print, but if they really are working towards a radical reengineering, and it's too early to tell for sure, but if that turns out to be a serious consideration, and it's one that would be much more supportive of the Republicans than the Democrats. But if they really do take that on, then it always pays to inflict plenty of financial terror to make it a lot more feasible to do.

Franklin: Could you briefly describe what you mean by radical reengineering?

Catherine: Yes. You saw the head of PIMCO, who left PIMCO for a while to run Harvard Endowment, and then came back, and I would point that both Romney and Obama I think of as Harvard Endowment candidates that come out of the same place, but you see the head of PIMCO talking about how we need real structural change in the government budget and government investment, and how we do housing and how we do transportation, and how we do all these different things. If you look at what's been happening in terms of bringing down the natural gas price, making manufacturing more competitive and what technology could do to reengineer the federal budget itself, remember Romney is Larry the Liquidator. He's the guy who comes in and fires everybody and reengineers everything.

So if you wanted wealth, but think about it, a dollar goes all the way up to Washington in taxes, and then comes down in an unbelievably paper-full labor-intensive process from federal, state to local government. If you wanted to reengineer that in the way that corporate operations have been engineered – you are talking about radical reengineering.

I took over FHA in 1989. We had 7,000 employees. I sat down and did a back of the antelope and realized I could run the whole place with 250 people if I could use technology.

So if they decide they want to do a radical reengineering of how government policy and operations work, that could be remarkably deflationary in a manner that would offset inflation in the printing, but to do that they need to inflict financial terror. It's really a matter of how much you scare people before you print like crazy.

Okay. Well, gentlemen, our time is up. Before we finish, anything else?

Chuck: Nothing from me.

Catherine: Okay. Well, Chuck, I just wanted to mention you do blog, and if people want to keep up with your work, everybody knows *The Moneychanger*, but could you mention your blog and how we can find you on the internet?

Chuck: Sure. It's www.financialperspectives.biz, and go to the Perspectives page and you'll see it there.

Catherine: I republish a lot of the Financial Perspective blog posts. They're great.

Franklin, thank you very much. Where are you going to be next month?

Franklin: I don't know. My wife is having heart surgery here sometime soon – her second heart surgery as a matter of fact – so I'm liable to be in intensive care up there. Not myself, but with her.

Catherine: May I have your permission to invite prayers for Susan?

Franklin: Oh, certainly. Absolutely. Please.

Catherine: Okay, dear Susan Sanders, please lift her up in your prayers.