Catherine: It's time for the precious metals market report. Franklin Sanders, are you with us?

Franklin: I'm right here.

Catherine: The markets have been unbelievably interesting since we talked to you last. How about updating us on what's happened to gold and silver over the last 30 days?

Franklin: Well, silver and gold have formed triangles. Different kind. The gold was an even sided triangle. The silver a flat top triangle. If you can kind of picture that in your mind. And the even sided triangle doesn't really tell us how it's going to resolve, but the flat top triangle implies that it'll resolve to the upside. And in the last, oh, two weeks, they have both resolved to the upside. Gold broke out. Went up to 16 31. And then came back down. And for that, what I like to call the final kiss goodbye. It's something that makes do quite a bit. They break out and then they return back to the line, to the point where they broke out for a final kiss goodbye before they take off. So that's what we've seen in both silver and gold. And now they've stalled and it's not really surprising that they've stalled. This is August. And although we have occasionally seen lows in August, most Augusts in the gold and silver markets are spent moving side wise. Gold is always dead during August partly because in Europe everybody takes a vacation during August and so nobody's working. And the market space usually is basically flat.

So what we've seen is that we've got a good sold uptrend going on a breakout from the triangle. And gold is now slugging its way through that resistance between 16 25 and 16 30. And silver's pretty much following along. The analogous point for silver is probably 28 60 right now. Once it gets through that it'll jump. And then gold really doesn't have much resistance above that. Little bit at 16 40, but mostly at 16 80. And then its snake up on seventeen hundred dollars is ready to run further. So I think, you know unless there's some really unexpected thing that happens before the end of the year, election notwithstanding, you could see gold significantly higher by the end of the year. You could see it at eighteen hundred. And there is an outside chance that we might get some more back and forth. You know it might run up to eighteen hundred and then drop back to sixteen hundred and scare the life out of everybody.

But the worst of the correction is over. That's the point. And I found something interesting this afternoon after I talked to you too. There was a Wall Street Journal blog entry today. Today marks the fifth anniversary of the beginning of the global financial crisis. Did you know that?

Catherine: No, I didn't.

Franklin: Do you have one of those little paper hats you can put on and one of those little noisemakers? Cause this is an anniversary. This is the fifth anniversary of the day when the European Central Market injected 95 billion worth of Euros, of emergency liquidity into the market. And what two things do you think have performed best in the last five years? One of them you're going to know, but the other one will shock you.

Catherine: Well, food is the one –

Franklin: Corn and gold have both returned 144 percent.

Catherine: Right.

Franklin: Corn and gold. Third is silver and –

Catherine: Right. Food.

Franklin: And then oil. Brent crude is up 61 percent. So it's just very interesting that it's turned out that way. The things that people fly into for safety, like US treasuries, have returned only 38 percent. So all I can say is that our long term strategy is working.

Catherine: Right. Although, I'll tell you that if you look at last year gold was up 8 percent and so far this year it's up about 2 percent. And that's actually maybe up a little bit more right now. What I didn't expect was the extent to which some of the European and the US stock markets would significantly outperformed gold this year, which they have. If you talk to people in gold and silver, they kind of feel like they've done badly the last year and a half. 2009 and 2010 were so good. But certainly we didn't get a good fourth quarter last year and then so far this year it's pretty much been flat. Kind of churning back and fourth in a channel.

Franklin: Right. But that's the correction. Because you know what people have to understand is that there is no free lunch. Markets move by fits and starts. And you get a great year one year, and then you get a correction following that. And that's precisely what we're having to deal with now. And that's almost over. We've almost come –

Catherine: Well, I went back and if you go the last 12 years, gold was up double digits 2 years, up single digit 1 year, up double digits 2 years, up single. And that pattern's repeated itself I think three times. And so last year was the single digit. And so the question is, if it's double digit again this year, then I think people will feel like we're still in the pattern. If it's single digit, to me, the question I have to ask is do I want to rethink t what the pattern. Because it does seem like there's a lot more tension by the central banks to keep gold from continuing to outperform other markets. I feel sort of like there's a political ceiling here that's very firm and stern.

Franklin: You mean that their back is to the wall? That their –

Catherine: No. I don't – cause I don't think their back is to the wall. But I do think they want a managed rise. And I think they're pretty clear about that. They can't afford for the bond market to unravel. And that means they can't afford for the stock market to fall too far behind gold or commodities.

Franklin: Right. And they – it looked like to me, it's been several years since I did the check. But it looked like to me that they were averaging 15 percent a year that they would allow gold to rise. Or I say allow gold to rise. You know when it does that year after year you have to say, well, look at that, that's quite a coincidence, isn't it? But you mentioned in treasuries really points out something that we may be on the edge of a cliff with. And that is there's been an enormous boom in treasuries this year where supposedly , and I'm not sure that this is true at all, but the way it plays out in the media, the way that it's touted in the media is that there's a flight for safety and so people run into US government bonds. Specifically 30 and 10 year treasure notes, 30 year bonds.

Well, I'm not so sure about that. The yield on the ten year note has broken. It bottomed – there's been about a two month period that it's been bottoming. And in the last few days, in the last three days trading it's gaped up twice. And it clearly has left a bottom behind and started back up. The interesting thing about that is, on the days when bond yields rise, bond prices move the opposite way. So bonds fell. Well, what is a US treasury note composed of? Dollars. That's it. Nothing else.

Catherine: Right.

Franklin: And yet the dollar, even though the dollar index rose today, bond prices fell. Yields rose. Now sometime, at some time or the other there will be a flight out of dollars. And it will begin exactly like that. I am not saying – I wouldn't even say for certain that the yield has already bottomed. It looks like it has. It may take it – you know that's a huge market so it may take it months to bottom. But it will look that way when a flight out of dollars begins. When the bonds start dropping because people are getting out of dollars. And it did that in spite of the dollar rising.

So the whole currency situation looks far more desperate to me than the small moves that we've seen in the last two weeks. Because clearly, attempts to float the Euro are starting to run out of steam. And the ECB made some empty promises and now the market wants to cash in on the promises. They want to see some cash. Draghi simply – he can't do the sorts of things that have been floated because the Germans won't back him. The Germans are already on the hook for about a trillion Euros. For bailouts.

Catherine: Well, we've seen incredible skittishness in the last two, three weeks, as the earnings reports come out, because the market is very much trading off of earnings. You've seen a couple of the most favorite popular stocks who came out with earnings reports that I would say were very good but not up to expectation. You know so you get a company that was expecting a 10 percent increase, still got an 8 percent increase. Which given the slowing of the economy over the last couple months is a very good performance. And their stocks get hit by 20 to 25 percent overnight. You know boom. Right down. And that's what happened in the 2008 coming into the big drop. You saw that kind of skittishness in the most popular or the most overpriced stocks. So we're seeing that kind of skittishness.

Franklin: Do you think that's a realistic market? I mean if a company's worth $10.00 a share today, can it possibly be worth 7.50 tomorrow?

Catherine: Absolutely not.

Franklin: In other words – that's ridiculous. I mean a company, what are you buying when you're buying stock? You're buying a discounted flow of earnings. You're buying discounted for future revenue. And if it's that bad, there's something happened. You know the headquarters has been blown up or something like that. But in the real world, you don't get that kind of drop that quickly.

Catherine: Right. You're getting too much momentum trading. Now, another thing that happened, Franklin, was the CFTC closed out their silver investigation. And I was wondering if you had any comment on what you thought of that or what it means.

Franklin: Oh, my goodness.

Catherine: Yes.

Franklin: - watchdogs refused to bark? My goodness. No, I don't have any comments about it because I never expected anything out of it anyway. I think it's a sideshow. I think if you raise enough noise, if you make enough noise and raise enough sand, then they'll have an investigation and the investigation will discover there's not really a problem after all.

Catherine: Well, I continue to believe those positions are US Treasury positions through the Exchange Stabilization Fund. So they can't have a problem because they're government positions in the first place.

Franklin: Exactly.

Catherine: But –

[Cross Talk]

Franklin: But there's always the cover up of an alleged impartial investigation. And then, you know in the extreme cases, to show you how useless it is, like in the Kennedy investigation, they seal up the investigation report and all of the facts for, oh, 100 years or so. So that nobody can question the investigation's conclusions. Well, that's just silly –

[Cross Talk]

I didn't expect much so.

Catherine: Because of the slow down and, again, you know all sorts of signs of global slow down, US slow down, I don't know if you saw that I put on the blog last week the garbage indicator. Dramatic decline in garbage being thrown away by Americans. Which is a sure indicator of a economic slowdown. In that environment, I wanted to take a look at what does it mean in that kind of slow down to the price of gold and precious metals. Jim Puplava had an interview which I asked you to read this week which I thought was very good.

Franklin: Was very good.

Catherine: So maybe if you could walk us through some of the points that Jim made and why they're relevant to the performance of gold in the slow down.

Franklin: Well, you know the basic case that he made was that the institutional bias is inflation. I mean that the way the world is set up now there's nothing else to do but – there's nothing else in the future but inflation. And so, you know without going through every point that he made, he just points out that most people don't understand what deflation is anyway. Most people think that deflation is a fall in prices. But, of course, it's not a fall in prices. Deflation is a decrease in the money supply. And you haven't seen that anywhere. So the fact that we've had severely falling prices in housing, for example, since 2006, has taken place in an atmosphere where the feds' balance sheet, I don't know, the money supply has probably grown 50 percent, 25 to 50 percent. And there has been no "deflation" that is decrease in the money supply.

So the bias is overwhelmingly toward inflation. And there's just there's no way that deflation really can appear in the circumstances. For example, a lot of people think that debt collapsing is deflationary. But I go back to the example of the mortgage debt. That's huge amounts of debt collapsing, basically. And that causes a decrease in the price of all houses. But that certainly is not deflationary. That's prices dropping but it's not deflationary at all.

Catherine: Well, there's the question. Under what scenario would the Central Banks – two things can impact the money supply. Grossly oversimplified. One is Central Bank policy. So printing or shrinking the money supply by the Central Bank. But the other is the velocity of money through the economy. So the slow down of economic activity can, in theory, shrink the money supply depending on how you measure it. But the Central Banks can always expand, can offset that. Here's the question, why would the Central Banks ever allow deflation to take hold as a policy matter? Why would they – that's where I have trouble imaging a scenario where we could see significant deflation. Cause I can't imagine why they would permit it.

Franklin: Would permit deflation?

Catherine: Yeah.

Franklin: No, they won't. I think I've told you this. I'm sorry to repeat myself I have. But this whole thing became clear to me in an epiphany during a conversation with John Exeter. John Exeter was the vice president for gold operations at the New York Fed during the 1950s. He was just a wonderful fellow. He left the New York Fed. Went to work for Chase. Saw what was happening with the inflation and pulled out in the early 60s and started recommending gold stocks and never looked back. But one of the things – he was very kind to me. He testified in my – came down and testified in both of my trials. I mean he was just – I don't know why he was so kind to me. He's just that kind of person.

And we were talking on the phone one time. And we were talking about inflation, deflation. He said, "Oh." He said, and he kind of dropped his voice. You know when somebody's getting ready to tell you something really important. He sort of dropped his voice and he says, "Oh, when that deflation takes hold, there's nothing you can do about it." And I just sort of stopped just a minute and remembered his background. See, he went to Harvard during the 1930s. He was there during the Depression and the early years of World War II. And so he had grown up in this atmosphere where the Central Bank was facing a deflation that could not be cured. Now they inflated a lot. They inflated by devaluing. But even with that devaluation and the following inflation which was sponsored largely through government spending, still there was another crash in 1938 worse than the crash in 1929.

And so the point that he made just stuck in my mind. Of course, what I am hearing is mythic knowledge. And by mythic knowledge what I mean is the myth that a culture is built on. And the mythic knowledge of Central Banking, and don't kid yourself, there is a culture there. The mythic knowledge of Central Banking is we must not, cannot allow deflation. It is to us what sunlight is to vampires. So if you read the November 2002 speech that Bernanke made, in deflation not here, and look at the measures that he talks about, he's undertaken almost every one of those measures. And he reelects in that that mythic knowledge in the Central Banking culture that at all costs, even at the cost of hyperinflation, they must fight against deflation. Because once it takes hold, they cannot stop it.

Catherine: Okay. But I want to talk about the Basel Accord. And to segue into them, what I want to bring up is the fact that there is not one money supply. Because the money supply on Main Street versus the money supply in the centralized economy – so you have an insider economy, you have an outsider economy. Main Street and small businesses on the outside. Local economies are on the outside. The money supply, in my opinion, on Main Street is shrinking. Which is why, in theory, if you could significantly increase the use of gold and silver as a currency or local currencies, you could get a whole bunch of economic activity going that is basically being shrunk right now because there's not sufficient money supply for the economic activity that wants to happen. If you look at how the bailouts are working, you're constantly infusing money into the money supply but it's all going to one side of the economy. It's not leaking over on the other. So I think you do have a deflation on Main Street of enormous proportion. And it's quite traumatic –

Franklin: What you mean by deflation, the amount of money that Main Street has available to spend, that certainly is true. Because a lot of them are out of work, you know. Either that or they're foreclosed or they've got other kinds of problems. But even if they don't have those problems, they're certainly not spending like they would have. And they're afraid to spend. So certainly that's a problem to the broader economy.

Catherine: Right.

Franklin: But I'm not –

Catherine: Well, all my feedback from Main Street and the smaller banks is there is a real effort by the centralized regulators to shut down credit. So let's talk about Basel III. Because if it's bad now, wait till you see what's gonna happen when Basel III rolls out. And let me just introduce the Basel Accords. They refer to a committee of central banks now currently of the G20, that meets in Basel, Switzerland at the Bank for International Settlements. The BIS as it's known. Bank for International Settlements, is a central bank to the Central Banks. So think of this as a convening of Central Banks of all the G20 major economies around the world, as well as Hong Kong and Singapore. And they meet on this committee and come up with global standards for capital and other sort of regulation and enforcement, really dealing with the soundness of banks. And put out recommendations. And then it's up to the countries on the committee at a national level to implement it. So there can be a long period of time between when an accord is reached and the specifics go into implementation and financial regulation in any given country.

The first Basel Accord was in '88. The second in 2004. and then when the financial problems occurred in 2008, a new one was created, Basel III, which was published in 2010, 2011. And now we see this summer in June the Federal Reserve, the OCC and the

FDIC putting out a notice of proposed rule making. Are you ready for this, Franklin? It was seven – now remember, this is coming out at the beginning of summer. So when everybody goes on summer vacation. So right in the middle of everybody's summer vacation they plop out a notice of proposed rule making to implement. It's a modified version of Basel Three integrated with the Dodd Frank legislation. So the complexity is mind-boggling. It's 750 pages long. They plop it out at the beginning of summer. And you ready for how many days they gave people to give comments? Ninety days. Which is –

Franklin: [Laughter]

Catherine: I mean this is kind of – I won't use the F word. But, you know this is kind of in your face. But here's what was very interesting. The Wall Street Journal reported a conference call with small bankers a couple days ago. And I just have to read it because I can't imagine this happening. This is amazing. It was supposed to be a routine conference call where bankers could ask US regulators about a proposed rule on capital levels. The Fed was running a conference call. You could dial in. And then a man who identified himself as a fourth generation banker from central Minnesota started to complain about the possibility of having to set aside much more money when making nontraditional mortgage loans. As about fifteen hundred other bankers listened, the banker pressed officials at the Office of the Controller of the Currency, that's at US Treasury, to justify the proposed changes saying he had much such loans for 40 years with almost no defaults. Then came an eight letter barnyard epitaph. OCC officials cut him off to take another question, but the next few bankers in line said they agreed with him as well.

Okay. So the Feds just announced that they're delaying the comment period another 45 days. Now I want to talk about what this means to gold, but first let me tell you what it means to Main Street. Essentially what, from my read, and I had my attorney go through and get really detailed notes on what this could do and the specifics. And we're going to post the notes up on the blog post so you can read it there. But essentially what this does, Franklin, is it takes all the different ways that small business finances itself through small banks and it makes them much more expensive and harder for the banks to do. Now, it significantly raises capital requirements, particularly equity capital across the board. In fact, a lot of small community banks are pretty good on that score. But it significantly raises the cost of capital and the cost of equity capital. But then what it does, it slams nonconforming mortgages. It makes small business loans – there's been some reports that it eases up. I don't see it at all. But it really hits commercial real estate hard, which is, of course, how many small business – you know small businesses don't finance their business. They just finance their office or their building.

And so if you look at it, you can certainly understand why the bankers on the call went nuts. But it's a real slam on Main Street. And if anything, it basically, to me, it helps the guys who caused the financial crisis and slams the guys who didn't make money on the financial crisis. As I've described us, to a utility model for banks. You have much more central banker control. And, frankly, you know one thing I will say is the guys who now have consolidated control of all the gold are really in the catbird's seat. So, you know this is how once you've won and stolen all the money you get lockdown. It's quite –

Franklin: You do it by – you do it by regulation.

Catherine: Well, you basically say, okay, we're going back to where we were before we pumped this thing. And you know we're going back to having a reasonable amount of equity. You know in the face of it it sounds wonderful. More equity capital. More capital. More thoughtfulness in how you rate different categories of things. You know there's more complexity in the risk waiting system. But essentially what it does, it gives immense power to the central banks and top down control.

Now, let me just mention gold, because there have been all sorts of reports that gold is moving to a zero risk waiting. And I thought that was true from some of the reports. But having gone through and having my attorney go through all 750 pages, as well as numerous summaries, it's silent on gold. Which is very strange. And says to me, you know something surprising could pop out top down on gold. Gold is now mentioned as collateral. It's really technically an "other asset." So it's quiet on the risk rating. And, again, it's added as a potential collateral.

What it says to me though, if you look at the whole construct of what they're doing, it's going to make gold even that much more important. And I continue to believe it's going to be one of the critical, if not the critical settlement mechanisms at the big bank and central bank level. So – go ahead.

Franklin: Go ahead. This latest, in this latest transmogrification, does it say that gold is a zero risk weighted asset or is it still in the 50 percent?

Catherine: Completely silent. In the risk weighting that I can find it's completely silent. We've gone through 750 pages and numerous summaries. It's just listed as other assets and it's silent. But I think if you look at the entire model and construct, the guys who have the gold are even more so in the catbird seat. Now what's interesting is it's moving back much more to utility model and the innovation is flipping to the digital side of the house. So I think where you're going to see the creativity and the wild and crazy stuff going on is the shift to digital currency.

And so the basic banking business they're getting back to a much more grounded utility model. You know like in the old days. But one that's much more consolidated. Right now we have about 7,300 banks in the United States. And if you look at what happened on this call, I think the clear notion coming from a lot of bankers is you know you're pushing the mortgages into Freddie and Fannie and you're making the small business that much more difficult.

Now, I'm going to say something that you and I have been saying for years, which is if anything this underscores the importance of building ways of circulating money, including equity capital, outside the regulated systems. Now, that's something you and I have been trying to do for years. And frankly, it hasn't happened yet. But it needs to happen because if you look at how draconian the regulated systems are gonna be, there's an enormous opportunity if we can start to create liquidity outside of them.

Franklin: Well, what you're describing is they are making impossible borrowing from a bank. For a small business. You know somebody that does less than 10 million dollars a year. There's just not gonna be a way they can borrow from a bank. Because the number of hoops that you have to run through just get bigger and bigger and bigger. And the kind of banking that has been done by small banks, which is you know they loan on character. Let's face it. They loan on character. They know the character of the person. They say, yeah, this person's a good risk because I know that if he has to sell everything in his house he'll pay the loan back. So, yeah, -

Catherine: See what they're making the small banks do is collect out the deposits and then put their money in the investment portfolio and treasuries instead of lending to small business. So government is basically regulating so that they can borrow the money as cheaply as possible instead of the banks loaning it to Main Street. So what you're seeing in the regulation is a face off between treasury financing the government versus the banks financing small business. In other words, is the deposit's gonna shoot to Washington and Wall Street or are they gonna circulate locally?

Franklin: Well, let me turn that lens just a part of a turn and say that in my mind it's a shift from – it's another step in the shift from production to speculation. You see those small banks make loans for production. They don't make loans for speculation. But what they're being forced to do, as you explain it, is they're being forced to stop making loans for production and become intermediaries for speculation.

Catherine: Well, except for this. If you look at how they're locking down the whole system, I think the speculation is moving more out of the banking system. And the reality is, where it's gonna go is not as much speculation, which is where it's going now, but into the government's hands to build global empire and pay Social Security checks. So the speculation comes with what's the government gonna do with its budget.

Franklin: Well, the end point is for all of us, that entrepreneurs are going to find it much more difficult to get financing.

Catherine: Unless we build alternative mechanisms. And I refuse to give up on that. Because the minute we say, you know something? This is what it's gonna take to survive, to build ways of – I mean we're just gonna have to get a massive angel network. But until we find ways of financing each other and using each other's services, you know this is going to get – what this says to me is the squeeze is gonna continue in a big way. So the slow burn will take a really big step up. Cause the small banks in this country have done an incredible job of keeping liquidity going. You know if they hadn't been there things could be much, much worse.

Franklin: Yes.

Catherine: Anyway, so if you're not banking locally, you definitely want to do that. Okay. So can we turn to let's go to the movies?

Franklin: Go ahead.

Catherine: Okay. Anything else though before we start on the gold and silver market for the next 30 days? Any thoughts about what we're looking at?

Franklin: You know the one thing that might slow things down is the, as we get closer to the election the markets can be counted on to sort of hold their breath if it looks like it's not clear whether Romney might win or not. I frankly think Obama's gonna be reelected. And that might slow the market's down. And if Romney did get elected, then that probably would be – that might slow gold and silver down for four or five months until it became completely obvious that Romney's gonna do the exact same things that Obama would have done. But the point here is that there is no fundamental change in our underlying strategy, which is that the inflation is going to increase. And that's what drives the price of silver and gold.

Catherine: Right. No matter who the candidate is or who the president is.