Catherine Austin Fitts: Franklin from South Carolina, are you with us?

Franklin Sanders: I sure am. How are you?

Catherine Austin Fitts: Well, you sent me the German constitutional court report today, and you know, I'm used to – it's kind of pretty hard to applaud you, but that one really did get under your craw.

Franklin Sanders: Well you know, the thing about it is that's not exactly what you'd call German precision. When it comes to this court to say there's a high probability this (ECB bailout) is unconstitutional, is it their job to say whether it is or not, and not to give us odds like at some racetrack? I don't get it.

Catherine Austin Fitts: Well, it's called a Constitutional Court. I mean —

Franklin Sanders: They don't know whether it's constitutional or not. It's probably constitutional, yes. Go ahead and do it. But now that you mention that, I want to bring up a couple of points about that. And first of all, I'd like to tie together what the German Constitutional Court did in conjunction with what Draghi was doing a few days ago, Mario Draghi, the head of the European Central Bank, is Bernanke. Because the point of both of those moves is to bail out the banks. In the case of Europe they've got to buy the bad sovereign debt that the European banks own. In the United States, Bernanke's going to buy what? Mortgage-backed securities.

Catherine Austin Fitts: He's going to buy the mortgage-backed securities.

Franklin Sanders: He's going to suck all that stuff out of the banks, all those bad assets off the banks' balance sheets. So what's happened is we've got the garbage can method of taking care of financial problems. It's the same thing they did with the savings and loan deal blowup in the late '80s, early '90s. They created the Resolution Trust Corporation which took over all the bad assets, and gave them time to feed it out so that the taxpayers wound up paying the bill. That's what the —

Catherine Austin Fitts: Wait, wait, wait, wait, wait. Can I just – hold up there.

Franklin Sanders: Yeah.

Catherine Austin Fitts: When the Resolution Trust Corporation, first of all, they sell them at auction so they let the market clear. The second thing is they allowed the fraudulent files to be purchased at open auction. This time, they're not allowing that. So those files are being shredded in the basement of the fed. That's number one. So you know, the p fraud is enormous, and they're not letting the market clear. So this is much worse. As bad as the RTC was, and I don't disagree with you how bad it was – this is much, much worse.

Franklin Sanders: But these are both the garbage can method of dealing with financial – with bad financial assets. And the European, the building mechanism is a completely impossible garbage can. Listen, these are coverage statistics. You're suppose to have 700 billion Euros in it. Okay? And if you get a list of all the European countries and the ones who are going to participate, there's four, the top four – Germany, France, Italy, Spain – makes up 77.3% of the contributions to the bailout fund. And of that, Germany is suppose to give 190 billion Euros while Italy and Spain together are suppose to give 30%, which is 209 billion Euros. More than Germany.

In other words, I want to make this perfectly clear. Italy and Spain are bankrupt, but they are going to contribute more than Germany to the bailout fund for Italy and Spain. It's a perpetual washing machine. It's the most ridiculous thing I've ever heard. It is a perpetual washing machine. Those four economies are more than three-quarters of the whole European union. So the idea of making – if they can do that, then I can climb in a tub and pull and tug on the handles, and pull myself up to the ceiling. It's the same exact thing.

Then Bernanke's got about forty billion in mortgage-backed securities a month. Okay, to be fair, he said up to forty billion a month until – until when? Forever. Until the unemployment numbers make's him -

Catherine Austin Fitts: Right. Now, here's the interesting thing. If you look at what is happening with government policy, the government is doing everything it can with fiscal policy and trade policy to increase unemployment. And of course, technology is doing the same. So if you look at what we're doing with technology as a society and then you look at government regulatory and trade policy, you know, on one hand the government is doing everything it possibly can to grow unemployment. And at the same time, we have the Central Bank saying they're going to print until unemployment drops. So there's a multiple personality disorder here.

Franklin Sanders: Let me just nail one thing down. They can buy all the mortgage-backed securities they want, they can do all the stimulus programs they want – that does not work. And they ought to be adult enough to know it does not work. But like a bunch of communists sitting around in a concentration camp saying Comrade Stalin doesn't know. It's not that Comrade Stalin doesn't know. It's that the system works this way.

So the main thing is, though that these two actions are tied together by a bank bailout. They're both bailing out the banks. And we have to be clear about that. It's the banks that have the problem. It's not as much the economies as it is the banks, because they've loaned all this money and they've got this bad paper that they have to get rid of some way or the other.

But more than that for the primary trend and for our long-term strategy, there's one thing that – one conclusion that we can draw from these actions, and that is that it proves again that they will inflate. And they will keep on inflating, and keep on inflating. And since we know that monetary demand drives silver and gold, we know, in other words, that Ben Bernanke and Mario Draghi are the best friends that gold and silver have, because they're the ones driving up the price. So all that's necessary to happen is for them to continue to inflate.

So anyway, I looked at all that, and I just sort of shook my head. But you know, this is what we've expected that they would do. And none of it makes any sense that I can figure out. Can we talk about currencies a little bit?

Catherine Austin Fitts: Yes, so let's step back and just catch us up on what's happened with gold and silver since we spoke last.

Franklin Sanders: Let me come around the long way and talk about currencies first.

Catherine Austin Fitts: Okay.

Franklin Sanders: It's very interesting. If you look at it on the long-term chart of the U.S. dollar index, it goes back to 2010. The end of 2010 you see that a channel starts there. That channel contains all of the movement from then until now. And a lot of times a channel will have a center line or middle line, and when a market flips from – when it goes through that center line, it tends to go all the way through to the line either above or below. In the dollar's case, it's the line below. So the dollar has come down to the bottom of the trading channel in just a very few months, to the bottom of the trading channel that had been in place since December 2011. Now it's headed for probably seventy-eight if it doesn't stop here.

Let me tell you the reason why I think it might stop here. Right now if you look at the exchange rates for the Yen and the Euro, one U.S. dollar costs 77½ Yen. And one U.S. dollar costs 77.02 Euros. And this is the same band that they've kept them in. It's just that the dollar had gotten too high in that band, so they brought it down to around eighty or a little over eighty, down to this seventy-seven range. It may stop here. This may be a sufficient adjustment for them because the Euro is now back up to oh, $1.30 I think today, nearly $1.30. So this may be the end of it.

And of course, the decline of the dollar. These announcements of planned inflation is what is driving the silver and gold market. One thing that has to be pointed out is that when Bernanke made this announcement, the yield on the thirty-year bond dropped. And he's kept those yields, he's kept those interest rates low for a long time. Now he's working against himself. Talk about multiple personality disorder.

With one hand he says I'm going to keep interest rates low. With the other hand he says I'm going to print more money. Well, you can't do that. That doesn't work. When people know you're going to print more money, they demand a bigger interest rate. So I think for a while though, the dollar's relation to the Yen and Euro is going to be probably not going to change a whole lot. That doesn't mean that silver and gold won't go up.

We've seen silver and gold stage an astonishing rally, and I'm confident that a lot of what Bernanke was planning to do was already priced into the market by anticipation. If that hadn't been the case, instead of jumping $38.50 today to $1,769.10, gold would have moved $50 or $100. Since mid-August silver has risen from $27 to $34.716 today, and rose 148.3¢ today alone.
"Those moves have fulfilled my short term targets. There's a lot of strong resistance against gold at $1,800, so this is the time to sit back, not to buy but to wait for the reaction from this climb. That will be the safest, cheapest place you'll ever buy, that first correction after a move-up. It's hard to say from here where how far it might drop, but probably to $1,640 for gold and maybe $30.00 for silver. Vice versa. I suspect.

Catherine Austin Fitts: Well, you know, I'm grappling with, as we always are, with the folks who have not yet purchased and they're trying to make a decision as to whether they go in or they wait. And I'm struggling with this, because if you look at what Bernanke's saying that he's going to – you know, that this is really QE to infinity, and you look at all the arguments. One, how much the banks have to be bought, or what's happening with unemployment and the election. I think it's fair to say that he could be printing a lot more. So if you look at the money that could get infused into the system in both Europe and here, it's pretty significant, and that argues that the price could be much higher. I think my high for the year was $1,800 to $1,850. So I expect to see it higher before the end of the year.

At the same time if you look at sort of the politics and the games around the budget negotiations after the election, that could argue for you know, a massive correction of all tangible values across the board.

Franklin Sanders: What do you think would precipitate that? A massive correction.

Catherine Austin Fitts: What I think would precipitate it would be a really serious negotiation over recasting the budget. I'm concerned because if you look at the U.S. economy and through it the global economy, a great deal of the economy trades off of government money. Government contracts, government purchases, and government credit. And if you want to recast the budget, and to do that you're going to scare everybody and pool a lot of money. So you can see fiscal policy scare up a very significant short-term deflation.

Now I think it would be politics, not real. I didn't mention during Money & Markets that this is a stunning affirmation that the Central Bankers are going to support an Obama election. So I think the Republicans have just been thrown overboard is what it looks like. Part of the goal is to bail out the banks and get through the elections. But once that's done, you know, how much do they have to or will they continue? Especially if they want to recast the budget with a big negotiation. And if you look at what they're doing with the trade policy, the Trans-Pacific Partnership and this idea of privatizing cities, or some of the things they've been angling to do on the municipal bankruptcies, it looks like they're getting ready for radical reengineering. I'm assuming that's why they're fielding drones all over the country so they can do that. So if that's coming, that's going to be extraordinarily deflationary, so you know, I think the chances of a major correction across the board after the election for the next twelve months you know, is a real possibility.

So I go back to if I want to buy now, do I buy now ahead of the rub, because I'm confident it's going to be more by the end of the year, or do I wait and see if I get a major correction next year?

Franklin Sanders: When you look at it so hard and we think about it so hard, what we see is all the information that everybody has about the price at that time, and what they've known in the past. And you obviously work on the presumption that things will proceed in some kind of orderly fashion. If that's the case, then we've just completed a major correction.

Catherine Austin Fitts: Right.

Franklin Sanders: And gold and silver will be with us for another two years at least. What I'm looking at is gold around you know, above $2,300 by next June. And I don't usually give these numbers, but I certainly – if I look at time and gain, then I come up usually with those numbers and $4,500 at the top of this particular leg. So that's what I look at as possible.

Now I'm telling you and your listeners something right now that I almost never say. And I'm glad you're arguing the other side of it. That is, I almost never say wait, I think you're close to a correction. It's just that this one seems obvious to me. Now if gold went through $1,800 and got through say $1,850, I'd say forget it. There isn't going to be a correction. Just it's going to run wild here for a while. But there's just so much resistance there, if you assume that the market is orderly, then you're going to get some kind of takedown from that level. I mean, we've gained so much already. From $27 to nearly $35 in silver, and from $1,600 really to $1,769, that's $170. That's a huge, huge gain in two or three weeks.

But now my long-term outlook hasn't changed, but I just cannot – I agree with you. If there were a fundamental reengineering of the Federal government budget, that would be a cause for me to say whoa. You know, the time for silver and gold has ended. But I can't see them doing that. They'll talk about it. They may try to engineer prices lower by using that as their blarney cannon, but they won't make that change. I don't think they can yet. There's not enough desperation.

Catherine Austin Fitts: Oh, I think they're coming to a radical reengineering, but I think in terms of the general population and households, they would rather use a slow managed debasement than anything that goes too fast.

Franklin Sanders: Right.

Catherine Austin Fitts: So from a household standpoint, you know, it's going to be slow and painful. It's going to continue to be that way. So I'm with you. They're going to inflate. So they're going to debase our income, but raise our expenses so to speak.

Franklin Sanders: One little thing to sum up the gold and silver picture. There's no question now that the correction is over. The correction is ended. The correction that started in April 2011 in silver and September 2011 in gold, that's over. That's behind us. Now we're headed up again.

Catherine Austin Fitts: Okay, well we've got a whole series of questions coming in from the listeners, so can I proceed with the questions?

Franklin Sanders: Shoot.

Catherine Austin Fitts: We know that the precious metals markets are manipulated to hold the price of metals down, but how much can the price be manipulated? For example, could the powers that be have held the price of gold down to $500 all of this time if they had really wanted to?

Franklin Sanders: No. The short answer is no. And even though I agree that they manipulate the price, the success of their manipulation is the same success any government program has. They have manipulated gold down from $252 to $1,770 today. That doesn't sound like success to me. It might have risen substantially faster had they not been manipulating it, but it's not – they cannot forever keep it down I don't believe. I think the market's bigger than that. I think you disagree with me. I don't know.

Catherine Austin Fitts: Well my feeling is that they have more power to manipulate than I think you do, but it's gradations. It's not a black or white. And I don't think they could ever hold it down at $500 with this kind of monetary policy without dropping nuclear weapons. I mean, you'd have to have a nuclear war. So you know, I always say that at some point the price clears with war instead of with price. So I think the limitation on their ability to control it is that.

Now I also believe the derivatives has given them much more power to manage prices than I ever thought was conceivable without derivatives. So I think derivatives are a big piece of this.

The other thing is you know, I don't believe they want the price to stay low. I think they want to manage rise. Because you know, I've said it a thousand times, but I'm going to keep saying it as long as we get these questions, and that is you know, once I've used the currency to steal everything and own everything, then I want some currency.

Franklin Sanders: Right.

Catherine Austin Fitts: So I want to go back to gold and silver and sound currency, because that helps me keep everything I've stolen.

Franklin Sanders: Right.

Catherine Austin Fitts: Another question. Please compare other assets with metals. What balance should I have with other assets? Is it time to buy or sell out of any asset class?

Franklin Sanders: I'm not really the person to ask that question, because I'm going to tell everybody put all of your assets except what is your major source of income, that is a productive right there, into silver and gold. I mean, that's my outlook. I know you have a different outlook. You look for stocks in particular industries that might do well. When I talk about stocks, I talk about the whole stock market that is the stock market industry in the terms I think. And I don't want to hold any of those. But if you can find particularly productive assets, your own business, a gas station, a restaurant, you know, a farm, a factory. Any of those things that produce an ongoing stream of revenue, then of course, I'm in favor of owning that. It's just difficult to find those in the world of stocks where you've got well managed companies, not over leveraged and you know, that have the ability in the face of depression and recession to continue to produce a stream of income.

Catherine Austin Fitts: Well, I love great companies. I'm an enterprise person and in my heart. You know, when I bumped into Bill Murphy of GATA trying to learn about gold I was basically, in my heart I was a stock person, and I still am. I always struggle with these questions because I cannot recommend a certain percentage in any asset without knowing a person. One of the things when you become an investment advisor, there are very strict rules about you can't investment advice unless you have taken the time to understand a person's unique profile.

And once you spend a lot of time with person after person getting to know their individual situations and advising them on where they should allocate their assets, what you discover is that's very good advice. In other words, every person is different. But the one thing I say to everybody that I believe as strongly as possible, and that is your number one priority should be your health, and making sure you have sources of food and water which can ensure that you have quality health for you and your family number one. And then number two, you should be spending your money on anything that would permanently bring your overhead down, because the way to get out of the matrix is to have as little overhead as possible. Because the more you have to generate an income through assets that are subject to conflicts, rules and regulations, you know, so that you can live nicely, and I'm always stunned, Franklin, at the extent to which we've been intermediated and we don't see the ability to sort of disintermediate and get the system out of our balance sheet, or income statement by you know, doing more for ourselves and investing our money that way.

So on those two counts, I would say it's very important. Then of course, anything you can do to command your own ability, to generate your own income, whether it's you have properties, or you have your own business and on and on. The more control you have and less dependent you are on the system I think the better.

Now that said, I think many of the problems of this world are going to have to be solved by entrepreneurs and new enterprises so I do believe in that. But I think it's very difficult to – anybody tells you need a percentage in this and a percentage in that is somebody who doesn't understand your unique situation, and if you take that advice, you come up with some very bizarre sort of financial plans.

Another question. J.P. Morgan's 80% of $70 trillion derivative or interest rate derivatives, who's buying them and when will it end? Rob Kirby, the newsletter writer up in Canada, has done some great work on illuminating the explosion of interest rate derivatives. And I believe, Franklin, that that's been critical to managing interest rates down and managing all prices, including the gold price. But when you look at the book of interest rates, your derivatives and see Ben Bernanke saying that he's going to keep interest rates at zero to a quarter percent through 2015? You kind of wonder if the derivative book, if the interest rate derivatives are going to be a trillion, trillion. I don't even know what that is. Anyway, got any thoughts on how that's going to end?

Franklin Sanders: I have no doubt that there's enormous derivatives out there. Enormous amount of interest rate derivatives out there. I have no doubt that lots of them are under water, which is probably one of the reasons we keep seeing these bailouts of the Fed and

ECB. But you know, they're creating another problem that's so huge I don't know how it can be solved. And that problem is pension funds work on an assumption of some kind of interest rate above 4%. And when the base rate goes to zero, they can't do anything. They can't make enough money to pay what they've actuarially figured they're going to have to pay.

But back to the derivatives. You know, the way I think of derivatives is they're leverage of leverage. Which means that the power that you have in derivatives is far greater to move the price, is far greater than selling or buying the underlying commodity, which in this case would be interest rates. So there's huge leverage there. No doubt you can do a lot of control of the interest rates by that.

Catherine Austin Fitts: Well, we're getting ourselves into a real vice, because if you look at the pension funds. The pension funds and U.S. retirement accounts are the biggest holders of – obviously away from the Fed, the biggest holders of treasury securities and the bank deposits that buy treasury securities. And we see Basil III coming down the pike, and it's basically designed to make sure that small banks and the banking system have to loan to the government instead of just small business.

And so we're watching a sucking sound of deposits and retirement accounts out of Main Street and into financing the government at a zero interest rate. So the debasement is going to be that much more extraordinary as you said. So this is a real financial drain on savers, and retirees that I think it's hard for people to understand the implications when they see Bernanke make these kinds of announcements. Because basically what you're doing is you're shooting enormous amounts of money into the banks to cover whether it's their mortgage-backed securities, their sovereign debt, or the derivatives, and the price will slowly be amortized by the pension funds, the retirees, and bank depositors who are holding money at zero percent.

Franklin Sanders: I think as a propaganda measure, has abandoned the zero interest rate policy and the announcement today said that. Right? As I said, you can't have zero percent interest rates in one hand and print money with the other. You can do it for maybe a very short time, but eventually that's going to catch up with you.

So I think you know, maybe the deal here is we'll bail out the banks bad assets, in Europe, they'll buy the sovereign bonds, and in the United States, the Fed will take the mortgage-backed assets, or mortgage-backed securities, they clean out the banks' balance sheets, keep the interest rates low until then, and then let them rise. I don't know, but that sounds plausible to me.

Catherine Austin Fitts: I think they can keep them low for some time. The question is how low can they keep them without war or violence? You know, when I get back to the drones headed out across the United States. You know, I think that's why they want that kind of invasive control. Because when you require a whole society, whether it's their pension funds or their bank deposits, to basically be channeled into the government at zero percent, that's a tax much greater than the income tax ultimately.

Okay. Here's a question I always get and I'm never quite sure what to say, but I'll ask it anyway, coming in from Australia. Why are they not able to make gold with alchemy?

Franklin Sanders: Oh, you know, I've heard the stories that you know, the Israelis have figured out a way to transmute other elements into gold and so forth, and I just don't think that's true. The physics of it are impossible. I mean, to be able to transmute one element to another is just impossible as far as I can tell.

Catherine Austin Fitts: Well, off and on I have various scientists and inventors tell me it can be done, and they can do it, and I keep saying well, where's the beef? I honestly don't think they can either. And if you look at all of the different politics and manipulations around the gold and silver price, you know, I would say to date every indication is "ain't no such thing". Not to say that people don't try and create it with titanium, but "ain't no such thing".

One more question. What is the major reengineering? Is it a digital non cash system? That's a good question because I think clearly if you look where the mobile apps and Apple and all these other things are going, and big coins, and the new mint chip cash, and clearly I think where the Central Bankers would like to go is a digital non cash system which would be the most centralizing and worst thing for everybody else. But when I say a major reengineering I mean a major reengineering of the Federal budget. And that is now in America 50% or more of the cash flow within a county, 50% of the households in a municipality, many of the businesses, are basically directly dependent on U.S. government contracts, purchases, appropriations, programs, subsidies and credit. It's enormous. And it's very, very controlling. And by that I mean a reengineering of how that money is organized and allocated including some major changes in various tax policies. So we'll talk about that more after the election, but a lot could happen next year on the Federal budget. And if you look at the stories, do a search on fiscal cliff you'll kind of see the powers that be working up to the question of the competition between retirees and the military, and interest on the Federal debt. It's one of the reasons that what Franklin and I are talking about is interest rates is so sensitive. Because if interest rates start to rise there's going to be a real competition within the Federal budget for those dollars going head-to-head with retirees.

Franklin Sanders: There was an article today – you'll love this. There was an article today in the Wall Street Journal and it was about people who are in the words of the FDIC, under-banked. Got that? Under-banked. 28% of people in this country, over 28% don't use banks. And their payment cards, I wasn't even aware of this, called Green Dot cards. Where you can actually have your paycheck downloaded to this card, and then take the card and spend it like a debit card. So I guess that's not a move away from the cashless society, but it's certainly a move against the bank society, because these numbers of folks under-banked people are rising, and they have been rising since 2009.

Catherine Austin Fitts: They're rising.

Franklin Sanders: Right. That's exactly right. So you know, obviously a lot of those people use cash. They use cash and money orders and things like that. But there's a number of other ways to avoid that system, but would they like to have a system where every payment goes through the same channel? You bet they would. That's what the IRS has been trying to do since 1985.

Catherine Austin Fitts: Right. And that's exactly what we don't want. Which is why, you know what? One of the reasons I love using gold and silver, the idea of using gold and silver as a currency is because it's offline.

And just to remind everybody, if you haven't checked out the gold and silver payment calculator, Franklin came up with – said to me one day, you know, the problem most people have in using gold and silver as a currency is they don't have a calculator that can toggle back and forth between gold and silver and dollars or other currencies. So he had made one, and he made a giant spreadsheet. So we helped put it up online, and you can link to it from his website, or from mine. It's called the silver and gold or Money.com is the direct URL. It's got a list of equivalence. Just click on equivalence. You can get a grade list of all the gold and silver coins, and see what the melt value is. And sure enough, you can calculate back and forth between currencies and gold and silver.

So our theory is if you want to do a community currency, and you can get an app for your iPhone and Android, but if you want to do a community currency, you don't need to have a meeting. You just need to start doing it. So it's really a brilliant little tool. So I would recommend you check it out on the web.

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