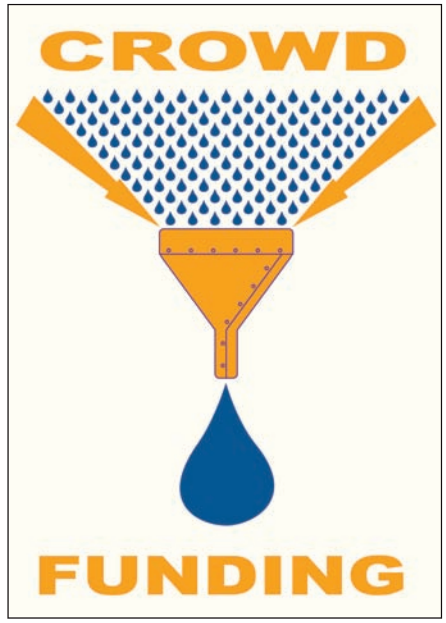
CROWD FUNDING

by Catherine Austin Fitts

The Solari Report



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Catherine Austin Fitts is the president of Solari, Inc., publisher of *The Solari Report.* She served as managing director and member of the board of directors of the Wall Street investment bank, Dillon, Read & Co., Inc. She also served as Assistant Secretary of Housing/Federal Housing Commissioner at HUD in the first Bush Administration and was president of the Hamilton Securities Group, Inc.

Crowdfunding

"Crowdfunding is the collective effort of individuals who network and pool their money, usually via the Internet, to support efforts initiated by other people or organizations. Crowdfunding is used to support a wide variety of activities, including disaster relief, journalism, support of artists by fans, political campaigns, start-up company funding, motion picture development, free software development, invention development, scientific research, and civic projects. Crowdfunding can also refer to the funding of a company by selling small amounts of equity to many investors. This form of crowdfunding has recently received attention from policymakers in the United States with direct mention in the Jobs Act, legislation that allows for a wider pool of smaller investors with fewer restrictions."

—From the Wikipedia definition

Crowdfunding by Catherine Austin Fitts

I began talking about crowdfunding on the *Solari Report* when several websites, the most famous of which is *kickstarter.org*, started to facilitate donations for projects of many kinds. Kickstarter's primary focus at the time was funding artists, musicians, game app developers and filmmakers. In the three years since, crowdfunding has literally exploded.

A favorite example is that when Kickstarter got going, the National Endowment of the Arts gave $167 million in donations to artists. Three years later, they gave $147 million. That same year, Kickstarter facilitated $260 million in donations coming from 2.2 million people.

With the Internet and other technologies allowing millions of people to give tiny amounts of money in very efficient ways, we now are watching collective individuals blow by the National Endowment of the Arts as a source of funding for artists. It's kind of the *just do it* method. Kickstarter and its donation form of crowdfunding have generated a lot of interest in this movement.

A similar approach which has encouraged a great deal of interest is *kiva.org* and other web sites facilitating non-interest bearing loans. I have personally participated in 10 or 20 syndicates of people who have loaned money to entrepreneurs all around the world—we're talking about very small amounts of money.

During the fiscal crisis of 2008, one of my investment clients was in the process of buying a Swiss bond. When interest rates turned negative, I touched base with them to ask, "What did you do?" My client responded, "I went to Kiva and made a lot of loans—at least I know I'll get my money back from those people."

Yahoo Finance recently conducted a poll on "What would be better for society?" with three scenarios:

- **If the wealthy gave money to charities**
- **If the wealthy paid more taxes**
- **If the wealthy gave money to help create businesses**

Ten percent of the respondents selected, "If the wealthy gave money to charities." 28 percent selected, "If the wealthy paid more taxes." And nearly two thirds—62 percent—selected, "If the wealthy gave money to help create businesses." Obviously, start-up businesses are significantly more popular than government or charities as a means of creating and circulating wealth.

Let's look at crowdfunding at the macro level. What is crowdfunding? Why is it happening now? And, what is it going to do in the broader economy, both in North America and globally?

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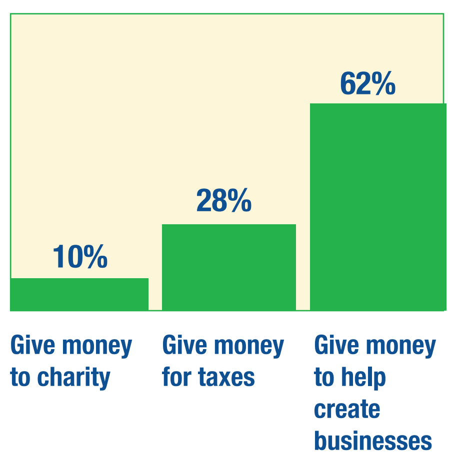

This discussion is divided into two sections. The first section will focus on fundamental economic trends. The second section will discuss why the political leadership is pushing crowdfunding, because we're very much seeing a top-down agenda with this movement. We have tremendous fundamental economic forces pushing for crowdfunding and, at the same time, we have a political agenda. The two will meet to create a hybrid that will go forward when the SEC finally promulgates regulations.

After covering the macro view, I'm going to discuss what this means to individual entrepreneurs and to individual investors. I believe that crowdfunding is about to become very important whether you are a potential investor, a potential entrepreneur, or simply the member of a network or a community where investments are going to be happening.

It is extremely important that you see "the game" because we're talking about surfing an enormous wave. If you're unable to see that wave, instead of surfing it you might be run over by it.

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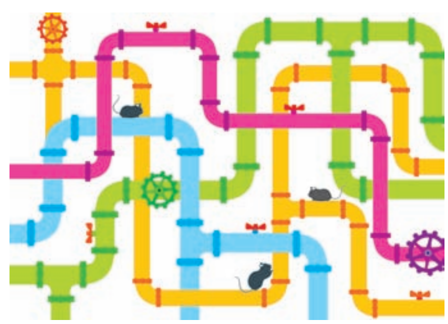
9 Reasons Why There is a Very Powerful, Fundamental Economic Trend Underway

> **"The time came when they [partners] wanted some shares, so they could take part in the growth, and so we just sold them to them."** *— C. Douglas Dillon, 57th Secretary of the Treasury and Chairman of Dillon Read*

1. Wall Street Deals in Size

Think of capital as a plumbing system or as a hydraulic system which organizes and sends water to a series of pipes and pools. At this moment, if you look at the capital which has been collected in communities throughout the United States, the majority of that capital goes to Wall Street. Later, it comes back around and is distributed to companies around the country.



Think of capital as a plumbing system or as a hydraulic system which organizes and sends water to a series of pipes and pools.

This represents a very centralized model. If you look at the amount of money that must be aggregated to go through that pipe, it is large. In most cases, institutional investors won't look at deals valued at less than $50 million: they have too much money to allocate. So, by centralizing the financial system, we're aggregating money into pools that are relatively large.

Here's an interesting point: Congress passed the JOBS Act of 2012 authorizing crowdfunding to be used for equity securities in the United States (once the regulations are promulgated). This act contains an exemption applying to small businesses with $1 billion of revenues or less: there are approximately 25 million such businesses in the United States. This means that 90% of U.S. companies are eligible for funding under the JOBS Act. Obviously, the vast majority of U.S. businesses (90%) are generally too small to be funded by Wall Street. You might say that most U.S. businesses are ineligible to tap into Wall Street's capital pools. As a result, those businesses are completely dependent on bank credit.

Something we've seen in economic cycle after cycle is a series of slowdowns in our economy. Bank credit stops and small businesses are starved, which makes it possible for the big businesses to move in and buy up their market share. We saw this during the end of the housing bubble in 1989-91. The banks and credit markets crashed, but the stock market went up and large corporations had a field day buying things. That was when the big companies and franchises moved in and took over significant local market shares.

Again, Wall Street deals in investments of a certain size: *large*. But, if you look at the small business market and how much small business income there is—including how many start-ups want to happen and how much income that would create—there is enormous potential for revenue and income flow. And such income flow requires access to equity capital. Ultimately, it requires access to *liquid* equity capital.

In the 1990's, I was in the process of developing venture funds for local communities. Today, there is no econonmic reason why such community funds can't exist, particularly now that transactions fees have dropped dramatically due to the new digital and Internet payment systems. Because these technologies are bringing transaction costs down and creating improved means of communication, they're making investment very robust and very inexpensive.

Ultimately, there will be no way to hold back the water behind that dam.

What I referred to as the "plumbing system" is now struggling to control this huge demand—90 % of the economy—in existing capital pools. The demand is poised to explode through the pools. Although Wall Street deals in a certain size, the need to go lower into the micro world is simply too great and lower transaction fees are making it increasingly difficult to stop that flow from happening.

2. Alienation from Traditional Systems

We've recently come through a period in our financial system, including the 2008 bailouts and what I call the *financial coup d'état,* which has alienated an enormous number of people from the financial system. I often hear people say, "Look, I am not investing in a brokerage system. I'm not putting my money in a brokerage account because they're liars."

90% of U.S. companies are eligible for funding under the JOBS Act.

Now, I believe that's a bit extreme because I don't think they're *all* liars. But, the corruption throughout the financial system has been very bad. I believe, in fact, that we have experienced a *financial coup d'état* that was engineered with fraud. And this fraud was a matter of state policy at the highest levels of government and Wall Street. Many people are now aware of this.

We are seeing a kind of psychological and spiritual *walk-away* where people are saying, "I would rather invest in my family. I would rather invest in people I know or in myself. I've had it with those folks." Nowhere, in my experience, is this feeling more powerful than with the millennials: the younger generation. This generation values their time and they know that the system is "harvesting" them. They can see it and they can feel it. They may not understand the details of it, but the millennials have nearly a complete lack of trust.

People are beginning to say, "I'd rather give my money to an artist than put it in a brokerage account."

This makes it even more urgent that we have vehicles to accommodate the demand for creating financial support. And this is why I believe the donations have taken off. People are beginning to say, "I'd rather give my money to an artist than put it in a brokerage account." Personally, I do it all the time—I prefer to give it to artists and to see a documentary on banjos get made.

In the *Solari* model, an investment has two returns: *a return to the investor* and a *return to the network*. These combine to create a *total economic return*. Traditionally, when I attended Wharton Business School, I was taught that all investments must have a positive return to investor—or that your intention would be to create a positive return to investor.

Subsequently, I learned that it is very important to understand the *return to the network* of any investment and to strategically use that knowledge to:

1. **Find opportunities**
2. **Reduce risk**

In addition, I learned that when people come to know you as someone who always attempts to create a positive return to the network, you will:

1. **Build a tremendous brand**
2. **Create advantages in the marketplace**
3. **Create advantages in your life**

As a result, the Solari model adds a rule I wasn't taught at Wharton: "Do no harm."

This philosophy states, "Always endeavor to optimize the return to investors subject to one rule: never intentionally do anything that has a negative return to the network, because that will create problems and risks down the road."

I have consistently identified great primary trends that worked for me as an investor by following this system. But, I also learned something very valuable: following this rule has *always* helped me avoid investments such as Enron.

When Enron's stock was skyrocketing, I kept looking at it and saying, "I don't understand how this company adds value. The only thing I can see about Enron is that it's having a negative impact on the network here, here and here. But, I can't figure out where its business creates any fundamental economic value."

When the Department of Justice brought its suit against Goldman Sachs over their fraudulent mortgage deals, Bill Clinton said in an interview, "The big problem with that deal was not that it was fraudulent. The big problem was that it served no fundamental economic purpose." Imagine that: things have gotten so bad that *Bill Clinton* was citing this about Goldman Sachs! And his son-in-law works at Goldman-Sachs.

We have a generation of people who intuitively understand that if everything you do shrinks the pie, there will be no pie left for anyone. They understand that we need to be part of something that makes the pie *bigger*. That's how a market economy is supposed to work; one in which you don't have huge amounts of government subsidy, intervention and fraudulent schemes proping up economic activity.

Deep down inside, people know that if something is to be sustainable, it must contribute to the larger whole. Intuitively, people want nothing to do with systems that don't understand and provide this. Talk to them about Wall Street and they'll say, "Those guys just don't get it." This represents a big change in many people's economic framework and I believe it's having a profound impact on the economy in a quiet way.

3. Align Financial Ecosystems with Living Ecosystems

In order to create a positive total economic return, people need to be aware of what's happening in our environmental ecosystem. If you look at what's happening to the sky, to the trees and the landscape and to all the lifeforms on the planet, it is very disturbing. Environmental pollution has increased tremendously. We don't seem to understand that one of the reasons this is happening is because our financial ecosystem is out of alignment with our living systems.

And, many people have a powerful hunger to bring these two systems into alignment. This is why: people intuitively sense that if we can bring the two systems into alignment, everyone will be able to make money by making places *healthy*. It's true. You can generate enormous amounts of equity capital gains by increasing the health of a community or a place.

I get rather irritated when I hear people say, "Because of what's happening in the environment, we'll have to reduce consumption. But, if we do that we'll destroy the stock market and hurt investors. So, let's *increase* consumption for financial reasons." That concept is entirely false. If cities, towns, and communities are financed on an equity basis, you will generate enormous capital gains in the equity markets—both private and public equity—by *reducing* consumption.

Imagine reducing consumption, preserving the environment, and watching the Dow Jones index go *up*. This is absolutely possible. And one of the hungers in the body politic (or the body investment) is to begin organizing our investments by place so that we can optimize living ecosystems. This *wants* to happen.

The Internet and new information technologies have made it possible for people to see this. These new tools allow people to deal with the complexity, to break it down and to work with it in groups. We now have a remarkable opportunity to see through government rigging behind the scenes and to ask ourselves, "How can we optimize the health and well being and happiness of places?" If this sounds far-fetched, consider that an ETF for city of Nashville was recently introduced.

Imagine reducing consumption, preserving the environment, and watching the Dow Jones index go *up*. This is absolutely possible.

4. New Technology is Decentralizing

New technology is decentralizing. It is amazing to watch digital technology being used to centralize because if you look at how technology should work, it should decentralize. Technology should make it possible for a small company to aggregate with other small companies to create powerful back-offices that compete and do business with people in Shanghai. It should be *very* decentralizing.

This hasn't happened because of two factors. We have literally seen enormous financial intervention on behalf of large business entities. The theory is that if big, American companies can aggregate all the marketshare here, they can out-compete the big companies on the other side of the world. That's one part of it.

But there is a second part: covert force has been used to ensure that capital flows are moved into the big companies. I sometimes remark that there is a group of people who have the power to "kill with impunity." Effectively, there are certain players with central bank and government money who are free to act above the law. This has been the primary cause of the centralization.

Once again, technology should be very decentralizing. Of course, in terms of fundamental demand, we have thousands of entrepreneurs seeing opportunities and wanting to exercise them. For example, an entrepreneur might seize upon one of the new fabrication technologies and say, "We can manufacture right here in our own community—we don't need to ship in manufactured goods from China."

I live in a community, as do many people in America, where Wal-Mart has wiped out many of the small businesses. Now, entrepreneurs will be able to use 3D printers and fabrication technologies to completely out-compete Wal-Mart's bring in of goods from China. People will simply manufacture products on a 3D printer. Who needs to go to Wal-Mart for a plastic toy? Just go next door and print one. Just e-mail your design into a 3D printing or fabrication community and have it shipped to you.

The economics are going to be there. There is a very powerful desire in the fundamental economy to make this decentralization happen.

Who needs to go to Wal-Mart for a plastic toy? Just go next door and print one.

5. The Amazing Hamilton Securities Secret

When I left the Bush administration and started Hamilton Securities Group in 1995, I discovered the Internet and relational databases. I immediately recognized the incredible potential of these tools. I saw that they would be able to increase the learning metabolism in a place by many multiples. They would make it possible to do the kinds of things which I believe we'll be able to do with crowdfunding.

I asked my smartest associate at Hamilton—someone with a Ph.D. from MIT—to go off and simulate the impact. At the time, we were serving as the lead financial adviser to the Federal Housing Administration and were able to access a treasure trove of data. We were connecting to databases showing mortgage and real estate transactions in places, including real estate valuations. In addition, we were building a software tool called *Community Wizard* that collected, aggregated, and looked at all federal resources and economic data by place.

We built remarkable simulations of what the valuations of small business income, real estate, and small farms would look like if we could finance places with equity, including with liquid equity. Basically, we were conducting these simulations simply to see what would happen. One day, my associate came back following a simulation and showed me the capitalization of publicly traded stocks in the United States. It had increased by a 600 percent in a 10-year period. Ten years is a relatively short period of time.

The numbers were so enormous that I didn't believe them. I said, "Henry, you must have made a mistake. Go back and try it again." To my surprise, he kept coming back with the same results. Bear in mind that this guy was absolutely *brilliant*. Finally he said, "You've got to look at this—the data is correct."

So, I looked at the numbers. Of course, this was before I understood anything about new technology other than the Internet and relational databases. I had no idea about Tesla, Rife or what was about to happen with nanotechnology or biotech or any of those things. I looked at the results and realized, "There is no reason for poverty."

I never get upset or concerned that we have an economic problem now because I truly understand that we have a *politica*l problem. Ours is not a financial or an economic problem. There is so much wealth in this world that it's actually difficult to fathom. We live in an *abundant* world.

I know of no reason why we can't live a civilized existence on this planet… one without poverty. Of course, we would have to bring the population into alignment with the planet, and I don't know what that means in terms of what our capacity is. We would have to manage in a civilized fashion. We would need a much less primitive civilization than we have now. But, there is no reason for poverty on planet Earth.

When you look at a fully optimized simulation of the economy, it is extraordinary to see how the *black budget* has been draining trillions and trillions of dollars from our financial system. This whole planetary economy has been harvested over and over and over again. When you see the extent of this drain, it's remarkable how wealthy we are, let alone what might happen if the drain didn't move so much wealth out. There is no doubt about it: a harvest is taking place and it is very, very costly to our economy.

Again, ours is not a problem of fundamental economics—it's a political problem. Of course, if the drain were to stop, it would undoubtedly create some problems for the people who have been receiving it.

I realize that this may be a difficult concept to accept. It required many decades of tracking and mapping money on my part before I could see it. It was only after I mapped money by place and by function, then looked at it relationally and started to do these kinds of simulations, that I was able to see what was happening.

Of course, the big question is, "How could this be going on without anyone knowing about it?" It's a question I asked myself many times when I was in litigation with the U.S. government. How could this kind of fraud be tak-

Sadik Gulec / Shutterstock.com

"There is no reason for poverty on planet Earth."

ing place in the mortgage markets without the Assistant Secretary of Housing knowing about it? I needed quite a bit of time to work out the nuts and bolts. It took me years to understand how this could happen right in front of me without being able to see it.

Remarkably, some very sophisticated people can't fathom the depth of the mortgage fraud in the U.S. being as bad as I have described it. This follows $27 trillion disappearing into the banks via the bailouts and various Fed interventions; and God knows how much shredding of fraudulent mortgage securities files via quantitative easing. My estimate is that the *financial coup d'état* literally got away with $40 trillion – we're talking about fraud at that scale. And despite everything we have watched and seen, there are people who are either unable or unwilling to see it.

6. Let's Create Income

We've gone through a period since 2000 where incomes have generally been falling and unemployment has been rising – and people need income. One of the ways they're going to get income is by creating a product or a service, because there are fewer and fewer employers to hire them. In fact, it was recently reported that the federal government has been downsizing: the government is actually laying off. For a long time, government had been taking up the slack.

If you look at analyses by the Kaufman Foundation, a foundation in Kansas City that focuses on entrepreneurship, the two greatest sources of employment growth in the U.S. have been the military and small businesses. In my experience, the reason why so many people create small businesses is to ensure that people have jobs.

During the Great Depression, Father Divine was a wonderful example of someone who created thousands of jobs. In fact, people like Father Divine were one of the driving forces behind the creation of the Works Progress Administration. There was a real power-shift going on.

I know of several cases where people opened restaurants not because they wanted to run a business, but because they wanted to create jobs for other people. In Cambridge, MA, one of the most popular restaurants evolved because someone said, "We have all these Armenian immigrants and they need to work. What can we do?"

This trend is going to increase because we're seeing robotics and other forms of automation introduced. A recent study found that 50 percent of the jobs in America are going to be canceled, replaced, or influenced by robotics. A firm in Silicon Valley just announced that they can save the fast food indus-

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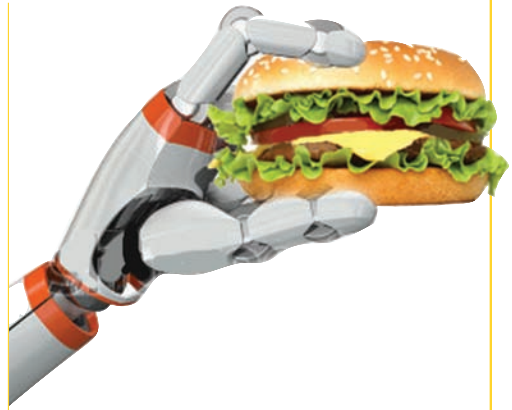
try $16 to $18 billion annually by automating with robotics. They plan to develop a robot that will cook and package a hamburger. That could very well be $20 billion in low-income jobs disappearing.

Obviously, we're going through an enormous transition. What we're talking about is literally a third industrial revolution where there will be enormous transition in the workforce.

And, globalization is also a factor. I just read a very interesting article about outsourcing construction to the Philippines. We send over a design, they send the building materials back, and we literally construct a building from the fabricated components. This will make it possible to save so much on labor that it makes economic sense to do it. But, it means that many of us are going to be forced to reinvent ourselves. New technology will give us the opportunity to do this. Again, I see a time coming when it will be cheaper to make a product on your 3D printer than to buy it at Wal-Mart.



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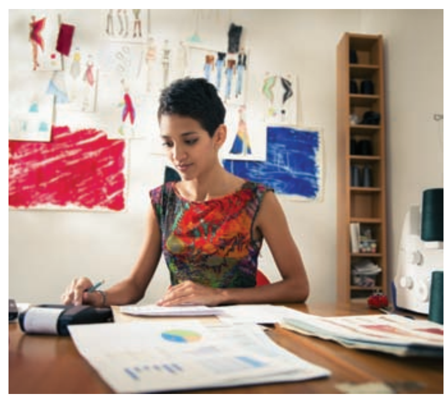
7. Some People Prefer the Entrepreneurial Lifestyle

Another very important shift will be lifestyle. Increasingly for many people, the corporate environment is not an environment where they want to work. I don't work in a corporate environment: I prefer to have control. We all like to control our schedule.

I have rarely seen a person, whether they wanted to leave a corporate job or not, doing something entrepreneurial who didn't look healthier and happier. It's like coming out of a trance. I think many people prefer an entrepreneurial lifestyle.



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8. Shifting from the Bond Bull

Up to this point, our economy has been the recipient of enormous government subsidy. It has not operated as a free-market economy. In fact, it has operated as sort of a friendly "Soviet" economy, if you will. We've had enormous government intervention in the credit markets and government subsidy in the mortgage markets. For example, I live in a county where at least 50 percent of the households are directly or indirectly dependent on the federal government for government subsidies.

This has all been made possible by the bull market in bonds. Interest rates have come down-down-down for many years, and the bond market has attracted an enormous amount of money as a result. But, it would be very difficult to imagine how interest rates will continue to go lower. Or how we will continue to command the level of global capital that we've sucked into the bond market.

There has been a giant sucking sound moving capital into the bond market. As interest rates have come down-down-down, bond prices have gone up-up-up. And we've finally reached a saturation point where the person who runs the largest bond fund in the world has declared that the long-term bull market in bonds is *dead.* Try to imagine that. Imagine being an employee who runs a bond fund and your boss, Bill Gross, stands up and makes that comment. If the head of the world's largest bond fund suddenly declares that the bond market is dead, you *know* that the game has reached its relative conclusion.

What does this mean? It means that we're no longer going to be able to prop up the economy with cheap government money. We have to go back to financing things with *equity.* And that is a very different model. When I finance a business with debt, I don't care if that business lives or dies so long as I get my money back. Debt throws people's incentives out of alignment with one another.

When I was the lead financial advisor to the FHA, I was dining at the Jockey Club in Washington with a man who later became the Lieutenant Governor of New York. He said to me, "Look, as long as I can get government subsidies, what do I care if people have education or jobs?"

What he really meant was, "As long as I am financed with cheap government debt, then I don't have to worry about the return to the network. I don't care if society has a positive total return because I'm making money and it's good for me."

In effect, these are the words of people who are sitting on the deck of the *Titanic.* They're saying, "Why should I care? I have government guarantees." Well, when the ship starts to sink *they'll* have a problem.

We've created a debt system where many people don't care about the whole. They don't care if government works as long as they get their check. We've created an incentive system where few people care about making the whole *work.* But, we need to get back to a society where people have an incentive to cooperate and to work together. And that will happen with equity. I often tell people, "If we had lots of equity in Iran, we wouldn't want to bomb it."

Equity is a way to create incentives and alignment between many different kinds of people. Of course, with crowdfunding, the big challenge will be creating alignment between different people and what I call our *human ecology.* Your customers will become your shareholders. Your vendors may become your shareholders. All sorts of people you'll be doing business with will have the opportunity to become shareholders in a way that will create a far more dynamic and intelligent operation.

All sorts of people you'll be doing business with will have the opportunity to become shareholders in a way that will create a far more dynamic and intelligent operation.

So, the long-term bull market and bonds is coming to an end and that means we're turning towards equity. You can feel it. At some point, rebuilding the financial system with that kind of incentive-based approach will be critical. Not so we can start businesses or rebuild the economy, but to align our living systems with our financial systems. And to create something that's authentic. All the different things we've been talking about—they hunger for an equity model.

9. Greater Financial Literacy

One of the beauties of the Internet is that it has created extraordinary opportunities for financial literacy. We're seeing all sorts of non-financial people finally making sense of the mumbo-jumbo and saying, "Wait a minute, how did the SEC allow Madoff to happen?"

In the early 1990's, I was appointed to the board of directors of First American Bank which was Clark Clifford's bank in Washington D.C. that was part of the BCCI scandal. Harry Albright, who was the trustee, had a Washington law firm deliver tens of thousands of pages of legal documents to my home in McLean. The men in the Brinks truck literally brought in case after case of legal documents.

I stayed at home for three days—all weekend—just reading everything. And when I had finished, I realized, "This scandal was authorized at the highest levels of government. The White House, the Department of Justice, the Treasury: they let it happen. In fact, they *protected* it."

"The SEC had no problem with Madoff."

The Internet is giving everyone these "a-ha" moments. People are saying "Wait a minute: you're telling me that I can make a call and have cocaine or methamphetamines delivered to my door within an hour? Or, I can go to the grocery store and buy $1 million in lottery tickets and wipe out my family's savings? That's okay, but I can't invest in a community grocery store because it would violate SEC rules designed to protect me? Sorry, but I'm not buying it. Because the SEC had no problem with Madoff."

People are beginning to see all kinds of rigging going on within the financial system. And it has nothing to do with the law. At this point, I think it's become nearly impossible for anyone to say, "You can't do this." So, they have to find a channel that will permit some of this built-up pressure to bleed off.

Another important factor, particularly since the year 2000, is that the number of start-ups and new businesses in the U.S. has dropped dramatically. If you look at the rate of new business start-ups in the U.S. versus China, it's pretty scary. We are really being left behind.

I can attribute this to several factors. One, is that we have completely saddled our next generation with student loan debt. We've set it up so that when people emerge from college or graduate school, they either have to work for a big corporation or go into the army. They're basically in a "serf" situation. We've also sent a huge number of young people to war instead of placing them in situations where they can start businesses.

And, we've shut off capital to Main Street—equity capital. Without community venture funds, there are no apprentice programs to help young entrepreneurs work in different businesses. Or to help young people buy their parents' business. One of the big issues on Main Street is having heir apparents take over a family business. A lot of equity value is being lost because there's no heir to continue running the business: no apprentice program, no ongoing business. Angel networks and small business networks have done a lot to keep equity investment happening locally, but it is limited relative to what the limited markets free of rigging and dirty tricks can facilitate.

Finally, rules, regulations and dirty tricks have become very oppressive. My own company, *Solari,* Inc spends an inordinate amount of time and money on regulatory compliance and taxes. Due to my background as a regulator, I really care about doing a good job at that. And we have extraordinary resources to help us understand and deal with these issues. But, if you look at how much time and money we spend on them, I can't fathom how small businesses cope. We have access to all sorts of wonderful lawyers, CPAs and other experts. But, I don't see how typical small business owners could sit down and figure things out by themselves.

Obviously, a great deal has been done to discourage small business start-ups over the past 20 years. And I can't fathom that this has been anything other than intentional. Clearly, our young, talented people have been channelled in a direction that creates equity for the large companies: whether they go into the army, become employees, or create not-for-profits that end up generating value for the big companies. These people have been "herded" into supporting the large organizations. With rare exceptions—Silicon Valley being one—start-ups have been deliberately discouraged. Where there are start ups, there are plenty of large companies buying them up to feed their own or prevent competitive innovation.

We have completely saddled our next generation with massive student loan debt.

10 Reasons Why There is a Powerful Top-Down Political Agenda Underway

"The Internet is the ultimate op."
—Andrew Vachss

If you look carefully at what happened with the passage of the JOBS Act—how it went into effect, who supported it, and the news covering it—it is clear that there has been tremendous top-down support for this movement. I also happen to believe that there are some very legitimate people within the enforcement bureaucracy who are afraid of it. The SEC has very much dragged their feet on implementing the Act. I believe that their reasons for moving so slowly are probably legitimate: when this thing gets going, they are afraid of what might happen in terms of fraud.

Obviously, there is a fundamental economic hunger to see crowdfunding happen. You have an enormous natural wave that wants to live and grow and optimize…to burst forth. It's full of desire. It's full of lovely ambition. And it is a *huge* hunger. But, we're also seeing a desire coming from the political leadership to direct that energy in a way that will serve a variety of their purposes. Crowdfunding is something they plan to use.

That doesn't mean there won't be opportunities for people to benefit from this movement. Think of it as a wave that you'll have an opportunity to surf. But, be cautious: I don't want to see anyone run over by "Mr. Global's" surfboard.

There has been tremendous top-down support for this movement.

1. Prototype New Technology

We are watching one of the most unprecedented, if not *the* most unprecedented, un-suppression of technology in recorded history. Remarkable new technologies are moving out of the laboratories. We're seeing a fundamental shift in access to knowledge and technology which is explosive, beautiful, and terrifying all at once. And these technologies are shifting into North American equity markets in a big way. It's happening in the area of fabrication technology such as 3D printing. It's happening in composite materials. It's happening in robotics. And it's happening in biotech.

There will be integration of digital technologies into basic infrastructure. I call this the *Digital Heartland*. Picture driver-less cars on digitized highways where the cars communicate with the highway…and the data is all in the cloud. You won't need to know how to get to a place. You'll just tell your car where you want to go and start playing with the kids; you won't lose that time anymore. The car will simply take you door-to-door because you'll have digital highways and driver-less cars. That's the digitization of the heartland. That's how the integration of new technology into the infrastructure will look.

And this is one example among thousands and thousands.

When you have an explosion of technology such as this, it can reinvent the manufacturing base in the U.S. and put that base back into competition with Asia and global emerging markets. This means that the U.S. is going to get "back in the game" in terms of manufacturing. We're about to digitize the Heartland and to make infrastructure much more efficient.

When you have this kind of technology and you want to roll it out quickly, it's much better if there are thousands of new companies working on it. In this way, you'll have a more organic, creative and dynamic process. If there are lots of companies, they'll bring more imagination and inventiveness to the process: there will be a much higher level of intelligence at work. In addition, there will be competition—a positive kind of competition. So, if you're the leadership and you want to simulate all kinds of approaches just to see what works, you'll want *thousands* of start-ups.

This is one of the reasons why the recent NSA revelations are so important. Edward Snowden reminded everyone that when a start-up company prototypes a new fabrication technology, the NSA (and its corporate partners) may not have to wait for patents to be filed. They may simply listen in on the phone calls and steal the technology.

If you are an entrepreneur starting a company, it will be important to consider security in a world where security is a very different game. *The Listening* is another excellent film in this respect. It's shows how invasive technologies can allow people to steal your secrets. This tactic will provide an inexpensive way for large companies to prototype new technologies. It will be part of the top-down agenda.

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2. Make New Technology Socially Acceptable to the Younger Generation

It's going to be important to market new technologies to young people and to make these technologies socially acceptable. Smart phones are a perfect example. Because young people will be leading the invention and development, their approval will be very important to getting things adopted widely.

The younger generation believes that older people struggle as they adapt to new technologies. Whereas young people say, "Cool, now I don't have to drive—I can just talk to my kids!"

So, the leadership wants the kids to push adaptation of new technology. Kids can help them "sell" this to everyone else.

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3. Buy the Younger Generations with a Tiny Portion of the Money You Stole from Their Parents

Until recently, we had an economy with $100 trillion of liabilities and $100 trillion of assets. Then, $40 trillion of assets was moved it into what is sometimes referred to as the *breakaway civilization.* This $40 trillion was, essentially, stolen from our economy. Currently, the old economy has $100 trillion of liabilities and only $60 trillion of assets—and different factions are beginning to fight over who will get the remaining assets. Some people will get 100 cents on the dollar, others will get 50 cents on the dollar. And some will get nothing. As fights break out over the remaining assets, things are getting scarier and scarier.

How can this situation be dealt with politically? One solution would be to return a portion of the stolen money to the "legacy" economy. You could give it to the top one to ten percent of the younger generation and say, "I want to finance your business."

Let's look at how this might work on a household level. $250,000 was stolen from the younger generation's parents, which means that the kids are not going to inherit that money. Instead, someone else is coming back in and using the money to buy their attention and their loyalty.

I'll be more specific:

- The Internet and telecoms stocks were pumped and dumped. That caused losses of $40,000 to the family's portfolio.
- Debasement of the U.S. currency cost another $40,000 of equivalent purchasing power, if not more.
- The housing market was pumped and dumped causing three foreclosures on their block. The value of their house is now $100,000 less.
- The family's bank deposits were used to finance a company that moved jobs abroad causing the homeowner to lose his job. He gets another job at a lower income.
- The family had money in Fannie Mae. It got wiped out when Fannie Mae went down.
- The family had money in an ETF serviced by AIG. It got wiped out when AIG went down.

So, a family has lost $250,000. In the meantime, that $250,000 is sitting in someone else's pocket and they're using it to finance the *kid's* company in which they have a sizable equity position. Then, every weekend the kid comes home for dinner and tells his parents that the American Dream really works and they just have to *try harder.*

The guy who destroyed you—you're supposed to thank him for his help saving you from some terrible event. And that event was actually *his* fault. At the end of the day, I believe there are no secrets on a spiritual level. Everybody knows that something is terribly wrong. But they can't quite put their finger on it.

When I was growing up in Philadelphia, I saw the drugs come into the black neighborhoods. And televison would explain that this was the fault of the people who lived in those neighborhoods. They blamed the victim. Then the best and the brightest kid would get a scholarship to an Ivy League university and the guys running the drugs would come down to do a photo-op with the kid in the same neighborhood. It's the ultimate *beat down.*

As a political matter, it has always worked as a tactic. It's been very successful. It's been very, very successful for these guys. I'll never forget it. When they seized Hamilton in 1998, right after, we were still dealing with the FBI teams being in the building and managing that process. It was right at the point when they tried to falsify evidence against us and we caught them and turned in an affidavit and were able to prove that they were engaged in a criminal conspiracy to falsify evidence, because they couldn't find any wrongdoing. We were too clean.

At the time, George Soros was a member of the executive committee of the Council on Foreign Relations. Literally every other week I was getting a call from somebody who was a member of the Council on Foreign Relations with a little message, "Do this; do that." I learned a lot about the Council on Foreign Relations just from all the phone calls.

Right after this, I get approached by one such member who says, "We"—it's always the royal 'we'—"We would like you to apply to Soros's foundation for a grant to do your work." I thought, "Wait a minute. I had a private business that was wildly successful that was worth a lot of equity. As I was successful, it was building equity value for my shareholders and me. Now you want me to start a not-for-profit to do what I was doing so that it creates no equity for me and for my shareholders? Meantime, you guys just stole all my software, you stole all my people, you stole everything, and now you want me to beg for a little piece of it from a guy who's sitting on the executive committee of the Council on Foreign Relations, which I know is related to this.

Then I realized, "Oh, they're cycling back a small amount of the money

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they made." Basically, if you look at what they were doing to destroy Hamilton, that was making them a whole bunch of money, and they were taking a tiny bit of their profits, and they were cycling it back to find a vehicle to manage me.

I said, "You know, I don't do that. I don't become financially dependent on the people who steal my money. I don't get bought with my own money."

Unfortunately it's happening now on a much larger scale. It's happening on a huge scale. That's why I always used to worry about the Occupy kids, when they were saying "The 1 percent," because they didn't realize it but what they were being encouraged to promote was something that would be used to reduce the net worth of their parents. They were promoting policies that were going to cause them to lose their inheritance. It was pretty scary.

That's why I tell everybody, there is nothing more important than to understand what the world looks like from the vantage point of understanding family wealth. Family wealth is what creates healthy communities. We have to be in the business of building family wealth. That's one of the great opportunities on crowdfunding. It's a great opportunity to build family wealth.

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4. Increase Value of Real Estate

We had a housing bubble: we pumped and dumped the housing market. It's fair to say that a tremendous amount of real estate has been consolidated into private ownership. We've seen big hedge funds and institutions running around buying up enormous amounts of residential housing; both single-family homes and multi-family homes. We've had an enormous consolidation of real estate ownership at cheap prices. So, now that you've bought it all up, what's the plan? If you're supporting lots of small business financing and lots of small business growth, what do you think will happen?

Real estate values are going to go up.

A New York developer just announced that they're going to use the JOBS Act to raise $31 million to do a development in New York City. Twitter just filed their first filing under the Jobs Act of 2012.

Remember: the Jobs Act allows for up to $1 billion in revenue. That won't be limited to tiny, main street companies. Crowdfunding can be used for many purposes. Obviously, one of those purposes will be to create a strong economy requiring real estate, and this will raise valuations. But, crowdfunding can also be used to *finance* real estate.

It will be very interesting to watch this unfold. You are going to see situations where a bank that refused to do workouts with homeowners at $200,000 then flipped the property to an institutional investor at $150,000. Then the property went through a HUD foreclosure and ended up being an inside deal at $125,000. Finally, the same institution is going to try to finance it back to you saying, "This is something you should buy in your IRA. It's going to help America."

This is just another example of the *beat down.*

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5. Money Laundering

Under the JOBS Act, there have been all sorts of efforts set up to authenticate investors. We don't know what the final regulations are going to look like, but they are supposedly being re-worked to prevent money laundering. Despite these efforts, once this movement gets rolling I believe there will be tremendous money laundering and fraud. That's because the ability to create straw men and to falsify papers will be easy.

Let's say you're the leadership. You want to prototype all kinds of new technology and you have the ability to steal ideas and money via the information systems. You also have the ability to turn it into a financial fraud.

Here's an example. Let's say I have $100 million and that I finance 100 companies with $1 million each. I do most of this investment via straw men on the Internet. We'll assume that there's a high failure rate among those 100 companies and that 10 of them turn out to be legitimate. The 10 successful companies will probably be worth $10 million each. So, my original investment is worth $100 million.

But I can cook these companies up. I can pump up the values then sell them to the pension funds for retail prices that are way above market: let's say $100 million each. Now I can get a billion out and I make $900 million. At some point, of course, the companies will crater. This is what I believe happened in the last tech bubble.

In 1996, I attended Esther Dyson's technology conference in Arizona and the venture capitalists were throwing money at start-ups. The start-ups were asking for $500,000, and the venture capitalists said, "You have to take $10 million." And the start-ups said, "But, we don't need $10 million." And the venture capitalists replied, "You *have* to take $10 million." Then they would give them $10 million.

I couldn't figure out what in the world was going on because these were companies with no product or service they could ever sell. They could never sell a product or service to a real customer. It didn't make any sense.

"Why are they doing this?" I thought. What I didn't realize at the time was that it going to be a financial fraud. They were creating a *trading* sardine, if you know the old Wall Street story.

So, they pumped these companies up. They brought them up to huge valuations and stuffed them into the pension funds and the retail market. Then everything crashed. But that was after some people had already made a huge fortune riding the wave.

Obviously, they want to prototype new technology and get that technology adapted. But, if we learned anything from the tech bubble, it will happen in such a way that someone make many times their original investment.

What is most important is that we are likely to witness a huge wave of money. And when that huge wave of money goes by, all kinds of things can get done. There will be fraud, but there will also be legitimate companies that do great things. You'll want to make sure, as this great wave goes by, that you channel it into something that is *lasting*. Lots of people may be doing things that aren't lasting. Don't get caught up in that. Ride the wave so that you can create something lasting which has a truly positive return to the investor and to the network.

The *Bible* says "What the enemy intended for my ill, God meant for my good." Think of this as "corporate judo." A window is going to open for a variety of reasons and we can drive a positive, lasting agenda through that window. You've got to stick with the fundamentals. Don't get caught up in the bubble: look at real value. Because, unfortunately, I believe there will be a tech-bubble fraud aspect to all of this.

Don't get caught up in the bubble: look at real value.

6. Engineering a New "Tech Bubble" Fraud

Jim Norman, who wrote *The Oil Card,* says that energy is 40 percent of the cost of US manufacturing. Not the direct cost, but the total cost. By engineering an explosion in the production of domestic natural gas and bringing the price down, we have significantly reduced the largest cost within a manufacturing operation. That is a very big component.

By lowering the price of energy in the U.S. and improving domestic reserves, we've put manufacturing back in a position to be very competitive globally. When you add new technology to this picture, now you're really talking about making America competitive in worldwide manufacturing. It's a revival of manufacturing, but not in a way that creates new jobs. This is going to be very high-tech stuff—that means robotics.

We are going to see tools that will enable us to accomplish far more in manufacturing. Both within the companies and at home where families can manufacture household items on 3D printers. I believe this is one of the reasons we're seeing the development of what is called *open-source hardware.* This movement is becoming fashionable because it's about to "digitize" infrastructure and manufacturing in the Heartland. So, get ready for all kinds of new products to become very fashionable.

7. Accelerate the Private Space Program

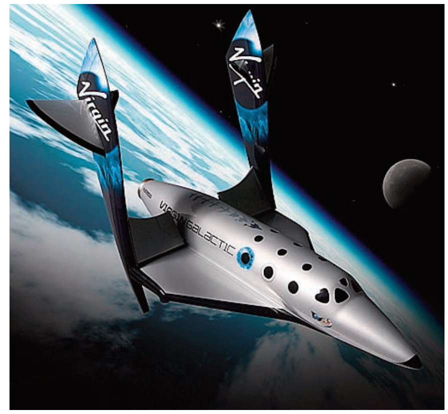
One of the reasons we're seeing manufacturing move back to the U.S. is because more and more products are being created for national security or for very sensitive projects. The leadership does not want this to happen in China. They don't want it to happen abroad because the political sensitivities are too tricky.

The leadership has an ambitious manufacturing agenda. I believe this is because they are gearing up to do big things in outer space. If you look at magazines that focus on technology and innovation—*Popular Science, Popular Mechanics, Wired, MIT Technology Review*—you'll find an enormous number of articles on space. Lately, very successful entrepreneurs have said, "Let's do mining in space." 200,000 people recently signed up for a highly publicized one-way trip to Mars. The fact that much of this is happening at the same time is certainly interesting. It doesn't appear to be a coincidence.

If you're going to build out the kind of infrastructure required to create space stations or platforms that sit in space to capture solar energy (the Japanese are currently working on such a project) these things will require an enormous manufacturing capability. This can only happen by encouraging lots of small companies and entrepreneurs to experiment with new technologies and to see what they can come up with.

If you want to build that kind of stuff, you'll want to build it in North America. The Anglo-American Alliance will want it where they have control and security. That means it will be in Canada, the U.K., Australia and the U.S. And this is why things are moving back into the Heartland: they're not comfortable with countries in Asia doing it. This is a politically sensitive activity.

There is a desire to accelerate this program and to do so quickly. And, crowdfunding is a way to seed some of these activities. It's also a way to make them seem fashionable. If you want to attract the younger generation into engineering schools and get them interested in aerospace and hardware, this is how you're going to do it.



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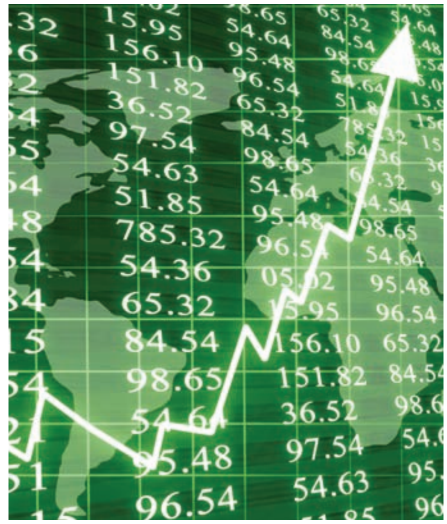
8. Engineer Crash Up in the Stock Market to Continue the Slow Burn

In addition to everything we've covered so far, I believe they want to engineer a *crash-up* in the stock market. There are several ways that can go. We've issued trillions of dollars in bonds and that money has been sucked out of the legacy systems. One possibility would be to "grind" through and have a very ugly *slow burn* in the legacy systems as the new high-tech economy grows and develops.

However, if we get what's called a crash-up, all the money we've been printing will start to move into the stock market. It will raise the value of equity, which will help to carry the debt that's been outstanding.

Think of it this way: if you have a house and you've borrowed and borrowed on the value of your home and it's underwater, you can write down the debt and declare bankruptcy. Or, you could engineer a boom in the housing market and the value of your home will go up. In time, you'll be able to carry the debt.

Now, this example is grossly oversimplified. But, I believe that every effort is being made to engineer a *crash-up* in the equity markets. They'll try to encourage global investors to convert from investing in bonds and fixed income vehicles to investing in equities. Generally, people in the U.S. are more comfortable owning stocks than people in Asia or Europe, let alone Latin America and Africa. So, part of this will be about making equities fashionable *globally*. And, no one adopts a new trend faster than than the kids.



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Anyone who has worked in the U.S. housing market knows that you can't have a housing bubble without 1) making sure first-time homebuyers get financing, 2) that they buy homes, and 3) that existing homeowners sell their homes to the first-time homebuyers and then buy a bigger home. Everybody cascades upward in a bubble.

The same thing will happen with equities. We've experienced a significant drop-off in the number of start-ups, so the amount of capital available to small businesses will have to increase dramatically. Then, those companies will begin to go public and you'll see new listings in the stock market. We've seen the number of publicly traded companies decline dramatically. But, that is about to change.

9. Create Basis for Next Financial Harvest

Having a crash up in the equity markets, particularly globally, requires that the start-up rates and then the IPO rates increase significantly. If you look at reports from around the globe, one of the things that first clued me into the fact that this trend will be important is seeing all the different countries that are implementing crowdfunding or planning on doing so or passing laws to do so. Crowdfunding is something that is rolling out globally. It's going to roll out at the same time. That is an indication that you have powerful forces behind this globally.

Let's come back to the NSA scandal. You have now created a platform through all the big digital and telecommunications companies, like Google, Apple, Microsoft, Facebook, and the other social media. You've now created a platform, a digital platform that is global. It is worldwide. You have people all over Africa on Facebook and Google.

Now you're going to start to move the financial flows onto those platforms. Crowdfunding, Bitcoin—whether it's currency or equity, you're going to be moving financial flows out of the exchanges and onto this new platform.

Now, what that means is that the money is going to go from one channel, and it's going to start to move into another channel. That is an enormous power shift in who controls access to intelligence in the economy and who is channeling the economic flows.

Let's look at the old channel—the banks, the stock exchanges, and the traditional clearing systems. Now you're talking about them going through the Internet, through Google, through Facebook, through a different set of cables, different payment systems. What that does in terms of intelligence and then financial flows is to move the information and fee flow to a different set of players.

One of my questions is whether the parties whose market share is being reduced had a great deal to do with the Edward Snowden and revelations. One of the commentaries I wrote on the blog was who's protecting Glenn Greenwald? Why does Glenn Greenwald get to run around and be safe doing this when numerous reporters have been assassinated for far less? This is clearly an effort at transparency that has tremendous support from some very powerful people.

Before we start to switch the financial flows in a significant way onto this new platform, everybody who's not in command of the new platform is saying, "Wait a minute." They're warning the leadership of the G20, "Your financial system is about to be controlled through Facebook and Google. Do you really want that? Do you really want the people who control that listening to all your phone calls? PS, they're spying on you. You have no privacy, which means you have no intellectual capital. They can suck up 100 percent of your intellectual capital every day, all day long."

This is a harvesting machine. This is an economic warfare-harvesting machine. The NSA revelations and scandal represent these factions competing and fighting about who's going to control that turf. If it had just proceeded

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to roll out without that, you're talking about a very small handful of players controlling all the intelligence on all the financial transactions on the planet and having an inside window onto enormous economic intelligence in an unprecedented way. It's pretty scary.

A centralized intelligence operation will be able to learn everything you are doing. They can file the patent before you do. The theft of intellectual capital that rolls out through this system—it's the greatest intellectual piracy machinery ever created. It's quite extraordinary.

Of course, the question is who. I think one of the powerful players behind Snowden who's taking a huge whack is the Vatican, because as we saw earlier this year and covered in depth on the blog and *Solari Report*, that network took a huge whack at the Vatican and their financial networks. So it makes sense that they're whacking back at the telecommunications and intelligence networks that are engineering this.

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10. Return Anglo American Financial Market Share to Pre-2008 Levels

A few decades ago, the Anglo-American alliance, basically the city of London and New York, controlled about 70 percent of the capital flowing through the financial markets. By 2008, that market share had dropped down to about 50 percent or less. The Anglo-American network was clearly positioned to get them back up to 70 percent is what I believe—absolutely shoring up their position as master of the global financial flows. One way to look at it is it's the American grab. Social media combined with crowdfunding and the Jobs Act was going to contribute to get America back to its leadership with 70 percent or more of the financial flows.

Google and Facebook were key players in this. It's pretty frightening. We have a great interview with Katherine Albrecht about how to protect yourself from Google. Another interesting question about this is 'what is the role of the defense contractors,' because NSA is really not so much a government agency but a contracting operation for allocating contracts to Lockheed Martin and a group of the most powerful defense contractors. It's very interesting as the NSA revelations get worse and worse and worse, Lockheed's stock is just levitating into the stratosphere.

Usually in situations like this you'll see the political appointees lose power and the contractors increase their power, so that's not surprising. So those are the reasons that we see a political agenda. I think there is an enormous political agenda here. It's multivariate goals. Whenever you get these big capital flows, it's always multivariate in terms of goals and players.

Of course the top guys never say, "I want to go to Rome. How can I get to Rome?" What they say is, "How can I make money getting to Rome? How can I make money getting everybody to want to take me to Rome?" So the creation and management of policy is first and foremost about engineering the incentive systems and the economic conditions. In this case, that's easy to do because we have enormous pent up demand for equity to flow to new and small enterprises. I remember reading a survey almost 20 years ago of the number of people who wanted to invest their 401(k) or their IRA into a vehicle that expressed investment in their local community. It's extraordinary the pent up demand for liquid place based equity.

"I don't want your wallet, I want venture capital."

One of the things crowdfunding will do is it will allow us to organize investment into a particular network or into a particular place. So community will be an aspect of the crowdfunding phenomenon. They're going to let loose this pent up demand. If you look at what I think their goals are, what they're up to is very clever. There's no doubt about it; they are definitely optimizing the flow from their point of view.

If you look at what happened with the Internet bubble from 1998-2000, the tech bubble was initially very sexy. When you look at the amount of money that was made, at least initially, it was difficult for investors to see it for what was really happening.

Silicon Valley before the tech bubble was such an alive and wonderful place. You had hundreds of entrepreneurs, all who were thrilled about how they were going to save the world. They were going to make the world a better place. They were going to take this technology and really help people and make people's lives better. I'll never forget coming back to Silicon Valley many years after it was all over, and everybody and everything was working for defense contractors. The boys had pumped and dumped this place, rolled it, and they were now in control. They had exerted authority, and everybody was now obedient.

The beauty of it was, yes, they invested a whole bunch of money, but if you look at where they got out at the top, they made a fortune on the fraud and used the fraud to subjugate an entire world of people. To this day, I've never met anybody in Silicon Valley who understands what happened to them.

So, it's going to be quite a wave. If an effort is made to engineer a crash up in the stock market, I have to say, I agree with that the outcome of moving to an equity model. We cannot build a society where people are incentivized to collaborate without shifting to an equity model. I've said for many years that when the financial coup d'état was finished that the people leading it would want to move to sound currency and equity because once you've stolen everything, then you want to go back to sound currency so you can keep what you stole. And you want an equity model because you want everyone to cooperate, and you're willing to invest back in them a piece of what you stole from them. It's simply a way to convert it to an equity model.

I call it the planetary debt for equity swap, and I'm in full support. I have to tell you, I can hear their voices now. They're laughing at me. They are saying, "Look, the only way that you can get the general population to shift into an equity model is to pull the rug out from under them and then offer them a financial treat to come on in. That's the only way it's going to work. So we're reengineering things—this is the way it works, and this is how you get the herd to go through the gate. You're just being naïve, Catherine, as you've always been." I can just hear their voices now.

So fundmental economics and the political agenda meet together in this explosive financial dynamic. Of course, anything can happen. We don't know. This is what I see. Let's see how it unfolds. So let's finish this part of the discussion, and turn to talk about entrepreneurs and investors and what it means to you.

What Does Crowdfunding Mean To You? – A Conversation with a Private Investor

Catherine Austin Fitts: What does crowdfunding mean for entrepreneurs for investors and for all of us? We've been at the big picture level, discussing the general economic trends and also the political agenda. That's important because whether you're an entrepreneur or an investor or someone simply watching this phenomenon, it's important to me that you be able to see the general dynamic and flows, the general economics and politics because this is going to be like a wave. I want to make sure you surf it as opposed to get caught by the wave and drowned in the wave. So it's important you see the game.

Okay, so you're a private investor. How does it strike you, sitting here with your portfolio? What are you thinking?

Private Investor: Well, a couple of things. First of all, don't fall for the hype. Be careful, because I remember the Internet stocks, and there was an awful lot of hype there, and a lot of people bought it. But secondly, it does seem that there will be some profit opportunities, probably in the infrastructure companies, the companies that build this out.

Catherine Austin Fitts: I think there will be extraordinary opportunities. If you're an investor and this wave of technology comes out, it's going to be applied across all sectors. It's going to come out in the publicly traded companies. It's going to come out in start-ups. It's going to come out in small businesses that then go public. So you're going to see it run the gamut of the traditional private equity all the way up through the publicly traded stocks—small cap, medium cap and large cap.

You can say, "Well, I'm not interested in new technology." The reality is some of those new technology companies are going to pull the rug out from under the companies you own or work for or who have a significant impact on your local economy. So it's not like you can put your head in the sand and say, "I don't want to think about it."

Private Investor: One way or the other, it's going to happen.

Catherine Austin Fitts: It's coming. The wave is coming. One of my favorite preachers is T. D. Jakes. He says, "Get ready, get ready, get ready." So get ready. My number one concern about *Solari Report* subscribers is they're going to get inundated by investment proposals.

We don't know yet what the SEC regulations are going to look like, but one of the things we know is there is a real effort to get deals to go through websites called portals. A portal will vet deals, and a portal will not let deals come through the portal unless they've been due diligenced and they're up to snuff.

Private Investor: Which from the investor perspective is a good thing.

Catherine Austin Fitts: I think it's a very good thing. It's a group of people who are expert, who will help maintain standards, who will help entrepreneurs and small business people understand the process. You'll pay them a fee, but it will save you money in the long run. So a good portal will be a good thing.

However, once this thing gets going, who knows how crazy it could get, how many portals could get going. My concern is that anyone who's got a little bit of capital is going to get inundated by proposals. Of course many of these proposals are going to be very heartfelt. They're going to be from your friends' kids or your kids or your kids' friends. Everybody's going to have a way to touch you emotionally.

It's important to understand when it comes to small business investment, my rule is be prepared to lose 100 percent. This is a philanthropic donation which you hope works out. Just like the poll I read from Yahoo Finance, you'd rather make it as an investment because it encourages them to think in terms of ways of creating an ongoing enterprise, a healthy enterprise. But it's unbelievably high-risk, no matter how wonderful it sounds.

Private Investor: Well, a couple of ways to mitigate risk would be to invest

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with people that you know who are in places that you know.

Right. One of the opportunities in crowdfunding—some of my favorite sites are ones that encourage you not just to make a donation but in essence to buy a pre-order. So we see Slow Money promoting a website called Credibles.org, where you finance a company not with equity but with pre-orders. So you put in $1,000, you get $1,000 credit from that food company. One thing we're all struggling with is how do we find a way of getting fresh food, which is healthy and grown locally? The reality, John, is if we're going to have farms and grocery stores and food processors who provide us with a fresh, local, safe food supply, we're going to have to finance them. We're going to have to bank a local fresh food system.

Crowdfunding is a wonderful vehicle for us to finance things which we need and want. You're not financing it to get a financial return. You're financing it so that you have strategic access to goods and services.

You're helping to build your world.

Catherine Austin Fitts: You're helping to build your world. You're helping to build the world you need to survive and thrive. You can't survive unless you've got farmers and grocers and cooks and food processors who can provide you with food that you can trust.

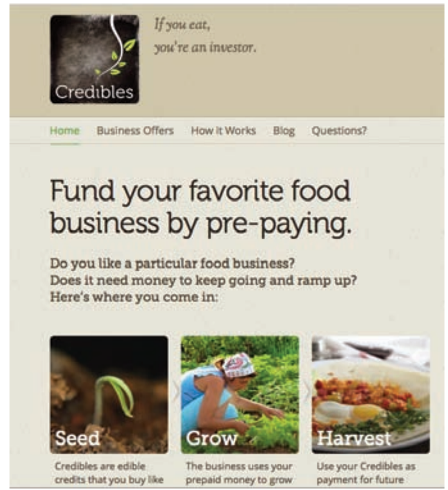
Private Investor: So it's a tool.

Catherine Austin Fitts: It's a tool to help build your world. We just did a term sheet that I'll put up on the blog for this *Solari Report* where we designed a legal structure for a company that was starting a food shop. We had debt and equity. The equity shares used to raise capital were non-voting shares. The voting terms and conditions on shares is a very important issue when it comes to raising capital in these kinds of ways.

But it was equity, so it was non-voting shares, and then also loans that were convertible at the option of the company into store credits. So you sell $5,000 of loans to someone. They buy $5,000 of loans, but when the shops open, you have the right, instead of struggling to pay that debt, to convert it into $5,000 of store credits.

Private Investor: And that's a customer flow.

Catherine Austin Fitts: So let's explore what this means to entrepreneurs. Let me describe some of the resources we've created for you to help you approach this topic. At the blog for this *Solari Report*, you'll find a wealth of links and recommended readings, which we think will help. I've asked attorney Carolyn Betts, who's very knowledgeable about U.S. securities laws as they apply to all kinds of business, but including start-up and small business, to prepare a Special Solari Report called "Legal Pathways for Entrepreneurs



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to Raise Capital Using Securities: Does Crowdfunding Ease the Way?"

Issuance of securities in the United States is subject to registration with the Securities and Exchange Commission (SEC.) Within that process there are exempted pathways—ways of raising capital where it is not necessary to do a full-blown registration statement with the SEC.

I asked Carolyn to prepare an article that outlines and provides links to help you understand what those five pathways are. Crowdfunding is going to create a sixth pathway. We need to see what the regulations say when they're promulgated. What's important to you, as an entrepreneur, is that if you're going to issue securities you need to find the pathway, which is best for you.

Before you automatically assume that crowdfunding is going to be the best pathway, I encourage you to take a look at this Special Solari Report and make sure you understand the different pathways. As you'll see when you read it, you will discover that this is a complex topic. If anything, I'm hoping that our Report makes it easier for your attorney. Certainly one of the pathways is the state pathway. It's extremely important that you see an attorney who is knowledgeable about and licensed to practice in the state in which you have jurisdiction.

We also put up links to some of the other *Solari Reports* that will be very helpful to an entrepreneur in this situation. One is an interview with Peter Ireland, author of *The Smart Startup Guide: Creative Financing for Savvy Entrepreneurs Who Need to Launch Their Startups Now Without Venture or Angel Capital.* It helps entrepreneurs understand how to start and build a company with a minimal amount of capital. I'm always saying to people, "What you need to start a company is profit, not capital." Ireland's very inventive at helping entrepreneurs figure out how they can do things.

One of the popular techniques with crowdfunding is selling pre-orders. So we've now seen lots of authors on Amazon selling pre-orders and raising money through pre-orders. If you look at donation crowdfunding, you see many gifts given. They're essentially giving you one or several of something that they're making.

As I mentioned previously, I just finished doing a term sheet for an entrepreneur who's starting a food shop. We structured it with both loans and equity. We structured the equity as non-voting shares as it is important to bring in capital in a way that you can't lose control of the company as a result of disagreements with your shareholders. The loans were convertible into food credits. We've put that term sheet up as part of the resources to this *Solari Report.* I think it's a good example of combining this idea of raising capital with essentially selling pre-orders.

What's important to you, as an entrepreneur, is that if you're going to issue securities you need to find the pathway, which is best for you.

We also have an audio seminar, which I did many years ago with Franklin Sanders called *Building Real Wealth,* which is a wonderful discussion of how you create and grow a business. It's useful to anybody contemplating starting their own business or running their own business.

We have another *Solari Report* called "Family Wealth" with Jay Hughes. It's a discussion of how families can build wealth together. A lot of the crowdfunding process is going to draw on family resources.

Last but not least, we have a *Solari Report* on how to set up a legal and capital structure for your company. It walks you through the issues, whether you're going by crowdfunding or any of the other five pathways, what are the issues that come up in designing the legal and capital structure for your company, and how do you think through what that looks like?

The first thing that I want to stress to any entrepreneur who's contemplating doing a crowdfunding is that this is not only a legal pathway to raise capital, but it's a way of building the human ecology for your company. So I want to focus on the word "crowd." We're talking about creating a field where your customers, your vendors, the other people involved in your network or in your life, in addition to the roles they play, they also become an owner. They also become a shareholder.

There is tremendous power in this where it works, because you're talking about creating an alignment between, for example, your customers and your capital structure. So let me give you an example. If I go down to a big-box store and I spend $10,000 a year on products and services, and the store makes a profit of, say, $2,000, and their stock is traded at a multiple of 10 times earnings, that means their stock goes up $20,000 a year. Now, how much of that do I get? None.

But if I'm in either a pool of small businesses or an investor in a small business, the more money I spend at that store, the more the value of my stock goes up. So in essence—it's what we call "skin in the game"—I get a piece of the action.

I have re-jiggered my alignment between my customer and me because now my customer isn't just trying to get the best deal on this purchase. They want me to make money. They want me to succeed. Now we have created the conditions for a very powerful communications incentive between my customers and me. So imagine a world where all your customers, because they're shareholders, are running around the world and seeing opportunities and bringing them to you. At times, this can feel very critical to have that much feedback.

But they have a vested interest in making sure your business is growing and thriving and working. What we're talking about doing is creating a crowd intelligence, which is deeply invested in your success.

Now, that can be good when they're calling you on Saturday night and saying, "Hey, did you know your competitor is doing this?" That can also be overwhelming. But it's a much more intense way of going about building and operating a business, and it's a much richer way. It can be incredibly useful, because one of the greatest mistakes entrepreneurs make is we don't see the things we don't see. We don't know what we don't know. We need market intelligence and feedback to teach us that. The faster we get that feedback, the less capital we need to finance operations that are not serving their customers and avoiding risks as well as they might if they were smarter.

There's a tremendous value to this kind of intense community way of doing things. I also believe that if you look at the fundamental economics of what's driving this, there are going to be tremendous advantages of aggregating in various ways, both by place and by community. So within a community, you're going to have ways of aggregating and going through what are called portals. A portal is a website which is specifically created to help entrepreneurs crowdfund. It's registered with the appropriate regulators and is expert in dealing with all the legal issues. A portal may focus on a community or it may focus on a network or it may focus on a particular kind of size of opportunity. We already have, I think, about 400 to 500 portals existing. Once the regulations pass, it's going to increase dramatically.

So you're going to have portals that specify in various kinds of aggregations or groupings, and that's going to be the basis of support and help and expertise for different kinds of entrepreneurs. So until the regulations are available, we don't have a lot of knowledge. This could go in many different ways.

I was talking to an entrepreneur last week who was a little bit blasé about the legal and financial particulars. I said to them, "Look, if you were building a building, you wouldn't say, 'Oh, you know, safety codes and standards for electricity and plumbing are stupid. I don't need to be bothered to pay any attention to them.' I would say, 'No, you need to pay enormous attention. Those standards reflect best practices of years of learning of what causes fires and what can burn a building down.'" Because legal and financial designs are intellectual concepts they can be somewhat invisible—you can't walk up and kick them like a tire—new entreprenuers tend to not take them seriously. Particularly in the early days of crowdfunding, because there's so much concern about the changes, my concern is that entrepreneurs don't take the time to sit down and design that legal and capital structure with care and then make sure it fits within all the laws and regulations of whatever jurisdictions they're operating under.

If I could say anything to a young entreprenuer, I would say, "Take the time to get that design right, and take the time to find an attorney and make sure you are operating within the law." I would also say, "Take the time to find the right portal." So this is all about whom you know: the right portal, the right attorney, and most importantly, the right crowd.

Okay. Let's return to your and my point of view—investors. My expectation is over the next year to three years, the crowdfunding volume is going to grow. Anybody who's known to be an investor runs the risk of being overwhelmed by proposals.

Now, if everything goes through portals, then that's going to organize the flow. If things move outside the portals, particularly the encouragement to come into the portal, then your pad, your smartphone, your desktop computer, you're going to see investors overwhelmed with proposals. Those proposals are going to come through the Internet. They're going to be attractive. A lot of them are going to pull on your heartstrings.

A couple of things I would say to investors—one is don't be alone in this. Find investors doing private equity organized into angel networks. Angel networks are very powerful because you have people with knowledge about investments who help each other vet and do due diligence. For those of you who have never been in an angel network, you can jump on TV and watch Shark Tank. It gives you an idea of what a more predatory angel network might function like. I encourage people to do Solari Circles. Whatever, you do, you want a disciplined process of reviewing and vetting these kinds of proposals that comes from working with a knowledgable group. That's number one.

Number two, if you haven't listened to The *Solari Report* we did on entrainment and subliminal programming with Adam Trombly, I really encourage you to do so. There's going to be a segment of this world which which will use fraudulent techniques. When you combine something that looks attractive, with cool, neatsy-keen entrepreneurs and technology and it comes with entrainment as part of the marketing pitch, you can get talked into a lot of opportunities to lose money.

So have a disciplined process. Have a group of people who help you stay disciplined. Please understand that entrainment technology exists, and you need to make sure your know that and you protect yourself from it.

I always say to investors who are interested in doing private equity or small business, "You can only afford to invest that of which you're prepared to lose 100 percent." Now, that doesn't mean don't do it. But unless you're talking about mature businesses that have a proven track record not only of performing on their business but performing for investors, your investing in a

For those of you who have never been in an angel network, you can jump on TV and watch Shark Tank.

high risk situation.

There are going to be people in your family who are starting a business. This gets back to building family wealth. I encourage you again to listen to The *Solari Report* with Jay Hughes. We've seen over many generations that families that pool their capital and help each other start and build businesses are the basis of not only building wealth, but also building community wealth.

There is a tremendous opportunity for families to organize capital and help each other make their dreams come true. Over long periods of time, that's what builds the economic muscle of a company, and that's what builds great enterprises. There's a real opportunity here to build family wealth. You do that for strategic reasons. It's not just about making the fastest return on investment, because you're trying to build a successful family and a family with successful economic muscle.

The second is strategic issues in your community. I am always saying to everyone who will listen, "If we want to have a fresh food supply that we know is safe, we're going to have to finance it." There is no way that we can look to the corporate system for fresh food and be confident that it's safe. The system is completely broken. If you look at the pressures on a corporate executive at this point, it is literally impossible for them to protect us from GMO food.

Now, if we want that capacity, we're going to have to finance it. We see growing and processing and distributing fresh food is one of those businesses that really can't be done 2,000 miles away. You really can't outsource that to Vietnam. It's got to be done nearby. So to me, there's some fundamental economics behind backing those businesses.

Another is the general businesses in your economic area. I can't tell you how many people I know who have prepared to live through hard economic times. They've gotten off the grid and they have a one-year food supply and they have all sorts of resources outside the banking system in case anything goes wrong. After doing all this fantastic preparation, what they realize is, "I have thousands of neighbors who haven't done that preparation. What's going to happen? If we really come into hard economic times, what do we do?" That's when they realize, we all have a vested interest in our community being successful economically and the other families being successful economically.

One of the things we're going to see is a lot more coming together in circles or little groups, entrepreneurs together, saying, "Okay, how can we start to facilitate investment to rebuild the economic health of this place?" I have everyone across the country say, "Well, we have no money." That's a little bit of a myth, because if you look at the money in any community—I live in a very poor community—if you look at the money going for illegal narcotics (that are for something other than legitimate pain management competing with the pharmaceuticals) and you look at what we're spending on the lottery, that is literally enough money to rebuild the whole county economy. So if we just shifted over our unnecessary drug purchases and we stop playing the Lotto, we would have enough money to rebuild the entire economy, because micro venture does not take a lot of equity.

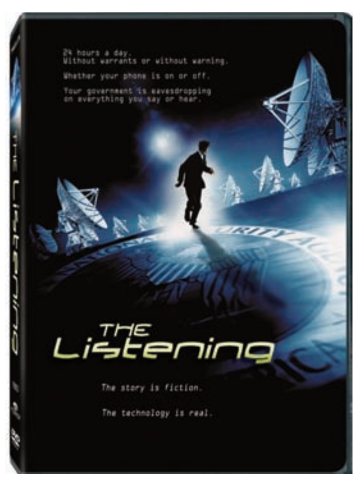
Of course, it also means we have to cut our TV time and use that time to build skills. But given the opportunities in the marketplace, I think, with this new technology, it's there to be done, and we do have the capital. It means we're going to have to shift time and money out of non-productive activities and shift them back into productive activities.

Let's say a few words the dark side of life—one of my biggest concerns about crowdfunding is we're going to encourage thousands of businesses to start up, to grow, to grow bigger, to take on new technology, to prototype a lot of new technology. We're going to do it on a platform where the NSA is listening.

Imagine you're a small entrepreneur. You've got this new technology. You've figured something out. You're ready to start filing your patents. Of course, everybody is listening. You show up at the patent office, and somebody else has stolen it and gotten there first. Or you've built your business to a very successful level and you're ready to sell out to a big company that is represented by a big investment bank. They're listening on the phone, and so they know what price you're going to take and they figure out how to jaw you down. One of the movies we've recommended on The *Solari Reports* is called *Startup.com*. It's the story of entrepreneurs who got hit by a covert op. Their sequity value dropped, and they got picked up for a song.

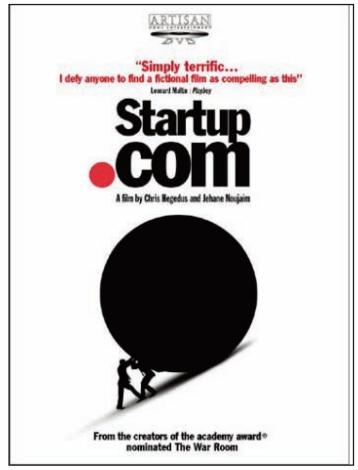
I once had someone whose brother became a consultant to do mergers and acquisitions in New York. They worked with the big investment banks to help them pick up small companies. Their job was to get hired by the small company, get the inside information, and give it to the investment banks so they could pick them up cheap. We live in a world of dirty tricks that are significantly more dangerous, because we now have a telecommunications infrastructure that is deeply compromised. We have to appreciate that there is no privacy unless we take extraordinary efforts to create it.

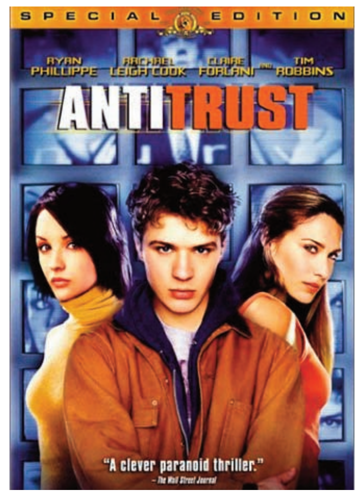
So let me just run through—the three movies I would suggest you watch which have been on "Let's Go to the Movies" on The *Solari Report* . The first is is *The Listening*, that gives you a sense of how invasive this technology is. A second one is *Antitrust*—another great example where you're talking about very economically powerful technology. Then finally *Startup.com*.



So I would encourage you to think about, “Okay, how am I going to do this in an operation where I don’t have privacy? I’m dealing with predatory parties who are very invasive. I don’t have the kind of privacy I would like. How do I make sure that my intellectual capital is protected and not harvested?” That’s one of my chief concerns, as you know, about this process.

Now, some businesses, they don’t care. I had one great entrepreneur say to me, “Look, there’s no way they can track more than 20,000 situations. It would take enormous manpower.” Wrong. They have computers. They have artificial intelligence. They’ve been working on this stuff for decades. So the ability for them to draw out, through computers and artificial intelligence, the most juicy piece of your conversation and use that, whether to trade you and your inventions and your patents or to use that information to trade a variety of things. I can’t tell you how many people I’ve seen who get laid off, get home, and within 24 hours, they’ve got offers from the big banks for 30 percent interest rate credit cards. Or they talk on the telephone, “I have a headache. I have a headache.” The next thing you know, within 24 hours, they’re getting emails offering all sorts of remedies for headaches.





So this system is very economic in terms of its ability to harvest at a micro level and batch the intelligence and use it to trade the markets at a macro level. So just be warned and be careful.

Be careful about the hype, and be careful about the techniques on the other side. That’s why I spent so much time talking about the bigger picture, because we want you to see some of the agendas here. I think of crowdfunding as a window that’s going to open. It’s going to let a lot of water that’s been building up behind the regulatory dam flow through, and that’s a good thing. It’s going to help us shift towards an equity model. We’re going to begin to shift out of the debt model and much more into equity model. I see that as very positive.

So the window’s opening, and will let in all sorts of people with a variety of agendas. What I would say is for a lot of investors and entrepreneurs, we can use this for our agenda as well.

Private Investor: There will be positives and there will be negatives. Obviously you’re focusing on the positives, but some of the negatives would be it’s going to be hyped, and some people are going to fall for the hype.

Catherine Austin Fitts: Right. There’s no doubt about it. So if this looks like the tech bubble, you just have to get out your surfboard and you have to know it is a buuble. So hopefully entrepreneurs raise their capital before the bubble bursts and the investors sell their stock before the bubbles burst and all of us understand that if a bubble happens, it will indeed burst.

Entrepreneurs and investors, there's a lot more to say, but we really need to wait and see what the regulations say. They're expected this year. We have a very talented attorney, very experienced in venture capital and private equity, who's agreed that they're going to come on The *Solari Report* for a second *Solari Report* on crowdfunding once the regulations come out. So stay tuned for that *Solari Report*, as soon as the SEC promulgates its regulations.

In the meantime, we can all get prepared. We can all get knowledgeable about this, particularly if it's something that we're going to use as an entrepreneur or invest in as an investor.

If you're a subscriber and you're thinking, "Well, I'm not going to use crowdfunding to raise money, and I'm not planning on investing in private equity, so I'm not interested in these things." Is crowdfunding something that they ought to care about? Is crowdfunding something they ought to know about anyway?

Private Investor: Well, because of the way that you're talking about it, it's going to be a part of life, it looks like.

Catherine Austin Fitts: Right. This is going to have an effect on many things, whether on particular kind of industries, on particular kind of networks, I think it's going to affect communities. It's like a flow of water that percolates up and starts…

Private Investor: What concerns me, and I know we covered this in the first Report, is that it bears many similarities to the Internet bubble, and a lot of people were burned by that.

Catherine Austin Fitts: Right. Historically, when we've seen an explosion of information technology, we've seen a bubble up in the stock market. That's what the '20s was. Then we had the Internet bubble in the 1990's. Now we've got a similar burst of technology and equity flowing into it.

One of the things I want to stress to anyone as to the general impact is I think this is going to accelerate the exploration and adoption of new technology. So whether it's building out the Digital Heartland, whether it's integrating this kind of technology into our homes, our highways, our everyday life, whether it's reinvigorating manufacturing in the United States, whether it's a company that's doing it or your 10-year-old making his own toys on his new 3D printer, whatever aspect of it it is, it's going to accelerate change, possibily in dramatic ways.

We've had a lot of change, and I think some people are overwhelmed by the change. This is going to accelerate it. If you're expecting things to come back to normal, get ready for the opposite to happen.

The other thing is we have a whole world of people in the legacy systems expecting collapse. Well, get ready for a boom. There is a part of the economy that is going to be absolutely booming. If I could encourage you, get some deck chairs out of the Titanic and get over into the boom and start doing something, because there are scenarios here where it isn't going to collapse. It's going to boom. So this thing could go many different ways. As one dear friend of mine says, "We're willing." We're willing for this to work out.

Private Investor: Catherine, thanks a lot.

Catherine Austin Fitts: Thank you.

Investors, entrepreneurs, and all of us interested in where the world is going, get ready, get ready, get ready. Crowdfunding is coming. Have a great day.

—Catherine Austin Fitts

Get ready, get ready, get ready. Crowdfunding is coming.

Catherine Austin Fitts
Publisher of the *Solari Report*
Solari, Inc.
P.O. Box 157, Hickory Valley, TN 38042
Phone: 1(906) 643-6263
1(866) 311-2543 Toll Free
E-mail: communicate@solari.com
Web: http://solari.com