Crowdfunding: The Big Picture with John Bondaruk

Date: September 19th, 2013

C. Austin Fitts: Okay, welcome to *The Solari Report* discussion on crowdfunding. This is Catherine Austin Fitts and I'm delighted you could join us for this interview. It's an important one. I'm joined by a member of the Solari team who you've not yet met. John Bondaruk, who is a private investor and one of the people I turn to when I'm trying to figure out something new and important. John and I are known to conspire about what in the world is really going on. So John, welcome to *The Solari Report.*

John Bondaruk: Hi, Catherine.

C. Austin Fitts: Okay, crowdfunding – we have a blog post for *The Solari Report*, and then we've also put up an article on the different pathways for financing a start-up or a small company. Crowdfunding is expected to be a sixth pathway. We counted five pathways currently existing. If you're interested, I encourage you to look at that special *Solari Report.*

Crowdfunding for equity and securities is expected to be the sixth when the Securities and Exchange Committee promulgate regulations expected this fall.

Let me read a definition of crowdfunding to you from the Wikipedia, which I think is a very good one. "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 in support of 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."

We started to talk about crowdfunding in *The Solari Report* several years ago when a series of different websites, the most famous of which is Kickstarter, started to facilitate donations for projects of many kinds; particularly their focus was artists. And literally in three years' time, crowdfunding has exploded. The example I always like to use, John, is the fact that three years ago when Kickstarter got going, the National Endowment of the Arts gave $167 million in donations to artists. Three years later, they gave $147 million. Their appropriations have been cut. And Kickstarter facilitated $260 million, coming from 2.2 million people.

So, by the Internet and technology 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 the donation kind of crowdfunding got a lot of interest in this.

Another thing that encouraged a lot of interest was Kiva and other websites that facilitated non-interest bearing loans – so I've been, at this point, in about 10 or 20 syndicates of people loaning money to entrepreneurs all around the world; tiny, tiny amounts of money.

I had a client in 2008, during the fiscal crisis, and she was trying to buy a Swiss bond. The interest rates had turned negative, so I touched base within the next day, and I said, "What did you do?" And she said, "I just went to Kiva and made a lot of loans, because at least I know from those people I'll get it back."

Yesterday I was on Yahoo Finance, and they had a poll on what's better for society. I put it up in a commentary this week on the blog, but I wanted to read it. The question was, what's better for society? You have three choices – if the wealthy give money to charities, if the wealthy pay more taxes, or if the wealthy give money to help create businesses. And 10 percent said, "If the wealthy give money to charities." 28 percent said, "If the wealthy pay more taxes." And 62 percent say, "If the wealthy give money to help create businesses." So, start-ups are significantly ahead against the government and charities as a way to circulate wealth.

I want to talk in this first hour about crowdfunding at the macro level. What is crowdfunding? Why is it happening now? What is it going to do in the broader economy, both in North America and globally? I want to divide this discussion in two sections. One is fundamental economic trends, and then, why is the political leadership pushing this, because there is very much a top-down agenda here. So, we have tremendous fundamental economic forces pushing for crowdfunding and at the same time we have a political agenda. Then the two are meeting to create this hybrid that will go forward when the SEC finally lets it out of the SEC trap.

After covering the sort of macro view, then John and I are also going to record a little discussion on what does this mean to the individual entrepreneur, and what does this mean to the individual investor? I think it's very important if you are a potential investor or you're a potential entrepreneur or just a member of a network or community where this is going to be happening. It's extremely important that you see the game, because we're talking about surfing an enormous wave, and if you can't see the wave, instead of surfing it, you could get drowned.

John Bondaruk: I think that's fair.

C. Austin Fitts: So, we're going to talk from the macro perspective about fundamental economic trends and why I think there's an enormous pent up market demand for something like crowdfunding. Then we'll talk about the top-down agenda.

I've listed out nine or 10 reasons why I think there's a very powerful fundamental economic trend. So do you want to say anything before I jump in?

John Bondaruk: No, go right ahead.

1. Wall Street Deals in a Size

C. Austin Fitts: So, the first thing is right now, think of capital as a plumbing system, as a hydraulic system that organizes and sends waters into a series of pipes and pools. Right now, if you look at capital that's collected up in communities throughout North America and in the United States, that capital goes to Wall Street. Then it comes back around and comes out to companies around the country.

So it's very centralized. If you look at the amounts of money that have to be aggregated to go through that pipe, it's very large. So you'll talk to certain institutional investors, but they don't want to look at a deal less than $50 million. They have too much money to allocate. So by centralizing the financial system, you are aggregating money into pools that are relatively large.

Now, it's interesting, when they passed the Jobs Act of 2012, which is what authorized crowdfunding to be used for equity securities in the United States, once the regulations are promulgated, one of the authors on a crowdfunding book went into one of the most common databases of all the businesses in the United States and said, "How many companies of the total" – I think 25, 26 million companies in the United States – "how many are eligible to use this small business exemption that applies to small businesses with $1 million of revenues or less?" Well, it was 90 percent.

So we're talking about 90 percent of the businesses are generally too small to go through Wall Street. Maybe it's a little bit less because 1 billion's a lot – say 80 percent. But you're talking about most of the businesses in this country are not eligible to tap into the Wall Street pools.

As a result, they are completely dependent on bank credit. One of the things we've seen in cycle after cycle is we go through a slowdown in the economy. The bank credit stops, and those small businesses are starved, which makes it possible for the big businesses to move in and take over the market share. That's what we saw, for example, at the end of the last housing bubble. The bank and the credit markets crashed, but the stock market went up, and the big companies had a field day buying. That's when you saw the big franchises really move in and take over local market shares.

So, Wall Street deals in a certain size, 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 could potentially create income, that's an enormous amount of revenue and income flow. That income flow wants access to equity capital, and ultimately to liquid equity capital.

One of things I was working on in the '90s was doing venture funds and stock exchanges for communities. There's no reason not to have that, particularly now that the transactions fees dropping dramatically, with all these new Internet payment systems.

So, Wall Street deals in a certain size. What's happening is the technology is bringing the transaction costs and the communication possibilities, they're making it very robust and very inexpensive, and there's no way to hold back that dam. The plumbing system is trying to hold back that huge demand, 90 percent of the economy, back in these pools, not letting it through the pipes, and it's about to explode through the whole pool. So, Wall Street deals in a certain size, and the demand to go lower, into the micro world, is just too big.

2. Alienation from Traditional Systems

Okay, let me talk about a second thing, and that is alienation. We've had a period in the financial system, including the 2008 bailouts and what I call the financial coup d'état, which has completely alienated an enormous number of people within the system. You'll see people say, "Look, I'm not investing in a brokerage system. I'm not putting my money in a brokerage account because they're all liars."

Now, I believe that's a little extreme because I don't think they're all liars. But the reality is the corruption has been so bad, and the facts of the matter are we've had a financial coup d'état, which was engineered using fraud, and fraud was a matter of state policy at the highest levels of government and Wall Street, and everybody knows this.

So, what you're seeing is a kind of psychological and spiritual walk-away, saying, "You know, I would rather invest in my family. I would rather invest in people I know. I would rather invest in myself. I've had it with those folks." Nowhere is that more powerful, in my experience, than the millennials, the younger generation. The younger generation values their time, and they know that the system is harvesting them. They can see it. They can feel it. They may not understand the details of it, but the millennials have just a complete lack of trust.

I think that makes it even more powerful that you have this demand for vehicles to exchange financial support. That's why I think the donations took off, because the people said, "Look, rather than put my money in the brokerage account, I'd just rather give it to artists." I do it all the time. I'd rather just give it to that artist and see that documentary on banjos made.

In the Solari model, our model basically says that an investment has two returns. It has a return to the investor, and it has a return to the network. The combination is a positive total return. Traditionally, when I went to Wharton Business School, what they taught me was all investments had to have a positive return to investor, or your intention was to achieve a positive return to investor.

What I found, however, is that it is very important as an investor to try and understand the return to the network of any investment and to use that knowledge strategically to find opportunities and reduce risk. What I've found over many years is if everybody understands that you're someone who always tries to create a positive – only play within a space of positive return to the network – you have a lot of tremendous brand and advantages in your life and in the marketplace. We add a rule that I wasn't taught at Wharton Business School, which is "Do no harm."

My philosophy says, "Always try and optimize return to investors, subject to one rule – never intentionally do something that has a negative return to the network", because that's going to create problems and risks down the road.

Now, it's very interesting – following that system is how I've always found the great primary trends that have worked for me as an investor, number one. Number two, it's always helped me avoid things like Enron. I kept looking at Enron and saying, "I don't understand how it adds value. The only thing I can tell about Enron is it's having a negative impact on the network here, here, here. I can't figure out where its business creates any fundamental economic value."

It was very interesting – when Goldman-Sachs was indicted by the Department of Justice, or they brought the suit over their fraudulent mortgage deals, even Bill Clinton, during an interview, said, "The big problem with that deal was not that it was fraudulent. The big problem with that deal is it served no fundamental economic purpose." So, it had gotten bad enough that you had Bill Clinton pointing this out about Goldman-Sachs, when 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 for anybody. They intuitively understand that they want to be part of something that makes the pie bigger.

Now, that's how market economy's supposed to work if you don't have huge amounts of government money and intervention and all these silly games. But deep down inside, they know that for something to be sustainable, it has to contribute to a bigger pie. They want nothing to do with systems that don't get that. You'll talk to them about Wall Street, and they'll say, "Those guys just don't get it. They just don't get it."

That's a very big change in framework, and I think it's having a very profound impact on the economy in a quiet way. Any questions before I leave alienation?

John Bondaruk: That's perfect.

C. Austin Fitts: John's being very quiet tonight.

3. Desire to Align Financial Ecosystems with Living Ecosystems

Okay, aligned financial ecosystem with a living system. Part of wanting to have things have a positive total return is many people understand what's happening in our environmental ecosystem. They look at what's happening in the skies, they look at what's happening to the trees and the landscape, they look at what's happening to the animals and it's very disturbing. The environmental pollution has grown tremendously. They don't necessarily understand that one of the reasons this is happening is that their financial ecosystem is out of alignment with their living systems. But they have a very powerful hunger to get them into alignment and understanding why you can't get into alignment, because intuitively they know that if you could get them into alignment, then everybody can make money from making places healthy. Which you can, you can literally generate enormous amounts of equity capital gains from increasing the health of a place. I always get very furious when people say to me, "Oh, because of what's happening environmentally, we have to reduce consumption. That will destroy the stock market and be very bad. Financially we need to improve consumption." That's hooey. If you finance places on an equity basis, then you can generate enormous capital gains in the equity markets, both private equity and public equity, by reducing consumption.

So imagine the more you reduce consumption and the more you save the environment, the more the Dow Jones goes up. So that's very, very possible. One of the hungers in the body politic or the body investment is 'let's start organizing our investments by place so that we can optimize the living systems.' That wants to happen.

Now with the Internet and information technology, information technology lets you see that. It lets you deal with the complexity and break it down and work by crowds with it. There's a tremendous ability now to see through the government rigging behind the scenes and see through that and move towards, okay, how do we optimize places? I notice Nashville just came out with the ETF for Nashville.

John Bondaruk: The city of Nashville?

C. Austin Fitts: Yes. That's what I've always wanted to do. I've always wanted to go long Zurich and short New York – trading places. Ready for the next one?

John Bondaruk: Go.

4. New Technology is Decentralizing

C. Austin Fitts: New technology is decentralizing. It's always amazing for me to watch digital technology being used to centralize because if you look at how technology should work, if anything it should decentralize. It should make it possible for a little company to aggregate with the other little companies to create powerful back offices to compete and do business with people in Shanghai. So it should be very decentralizing.

The reason it hasn't been is we've literally seen two things. We've literally seen enormous financial intervention on behalf of the large entity, the theory being if the big, American companies can aggregate all the market here, then they can out-compete the big guys on the other side of the world. So that's part of it.

The other is we've literally seen covert force used to ensure that the flow moved into the big companies. So I'm always talking about you have a group of people who have the ability to kill with impunity. So you have certain players who have central bank and government money and are free to act above the law. That's what's caused the centralization.

Technology should be very decentralizing. And of course what we have in terms of fundamental demand is thousands of entrepreneurs seeing that opportunity and wanting to exorcise it. So it's an entrepreneur who takes the new fabrication technology and says, "We can manufacture in our community. We don't need to ship manufactured goods from China."

It's funny because I live in a community – and many people do in America – when Wal-Mart has wiped out the small businesses. Well, now the little entrepreneurs are going to be able to get 3D printers and fabrication technology and completely out-compete Wal-Mart who's bringing in goods from China, because they can just print it off their 3D printer. Who needs to go down to Wal-Mart for a plastic toy? Just go next door and print one off.

John Bondaruk: That's pretty optimistic.

C. Austin Fitts: The economics are going to be there. So there's a very powerful desire in the fundamental economy to have that decentralization happen.

5. The Amazing Hamilton Securities Secret

My next point is related to that. To give you a sense of how powerful it is, when I left the Bush administration and started Hamilton Securities Group in Washington, I discovered the Internet, and I discovered relational databases. I thought this was incredibly powerful, because you would be able to increase the learning metabolism within a place that you could do all of the kind of things I think we'll be able to do with crowdfunding.

So I had my best, smartest banker – who had a Ph.D. from MIT; was really brilliant – and I asked him to go off and simulate. We had databases of many of the real estate transactions in places and real estate valuations. We were serving as the lead financial adviser to the Federal Housing Administration so we had access to just a treasure trove of data. We were building a software tool called Community Wizard that collected up and aggregated and looked at all the economic data by place.

We were able to do remarkable simulations of how much the small business income was and the small real estate and the small farms and what it would look like if you could finance with equity and liquid equity, what would happen. Henry came back after the first simulation, and he showed the capitalization of publicly traded stocks in the United States increasing by a multiple of 600 percent – six times – in a 10-year period, a relatively short period.

The numbers were so enormous I just didn't believe him. I just said, "Henry, you've made a mistake here. Go back. Do it again." And he kept coming back. And finally, he said, "Look, you've got to look at this. I'm right."

So I looked at the numbers. Of course this was before I understood anything about new technology other than the Internet and relational databases, but I had no idea of the new fabrication technologies or what you could do with nanotechnology or biotech or any of this stuff. I looked at it, and I said, "There's no reason for poverty." I realized.

That was the day I started to laugh about all of this. I never get upset or concerned that we have an economic problem, because I truly understand we have a political problem. There's no financial or economic problem. There's so much wealth.

John Bondaruk: There actually is an answer?

C. Austin Fitts: Absolutely there's an answer. We do live in an abundant world. Now, maybe the guys leading the whole thing know that there's an asteroid headed this way that I don't know about, but to my knowledge, I know of no reason why we can't live a civilized existence on this planet.

John Bondaruk: Without poverty?

C. Austin Fitts: Without poverty. Now, we have to bring the population into alignment with the planet. I don't know what that means in terms of what our capacity is. We have to manage in a civilized fashion. We have to have a much less primitive civilization than we have now. There's no reason for poverty on planet Earth.

What is extraordinary, when you look at what happens to a simulation of the economy fully optimized, what you realize is the black budget has been draining trillions and trillions and trillions of dollars. This whole planetary economy has been harvested and harvested and harvested. When you realize the extent of the drain, that's when you realize it's remarkable how wealthy we are, let alone what could happen if that drain wasn't disappearing to wherever it's disappearing to. There's no doubt about it, there's a harvest going on, and it's very, very draining.

Whatever it is, it's not a problem of fundamental economics. It's a political problem. If the drain stops, it may be a problem for the guys getting it.

John Bondaruk: Just that that's a huge insight. I think it's an insight, that it's remarkable that it's escaped people's consciousness, that they're not aware of that.

C. Austin Fitts: Well, it's so hard to fathom. It took me many decades of tracking and mapping money. It was only when I mapped money by place and by function and looked at it relationally and then started to do these kinds of simulations that I realized. Of course, for me the big question was, "How could all this be going on and me not know?" It was the question I had to ask when I dealt with the litigation with the U.S. government. How could this kind of fraud be going on in the mortgage operation with me as the assistant secretary and me not know? I had to sit down, John, and work out the nuts and bolts. It took years of understanding how it could all be going on under my nose and me not see it. Once you figure that out…

Now, you and I have talked many times about the fact that I will, to this day – I have very sophisticated people tell me that they can't fathom that the mortgage fraud is anywhere near as bad as I've been saying. Now, this is after $27 trillion disappeared into the banks through the bailouts and the various Fed interventions, and God knows how much they've shredded with the QE. My estimate is the financial coup d'état literally got away with

$40 trillion. We're talking about fraud at that scale. Yet despite everything that we've watched and seen, there are still people who can't fathom those numbers.

John Bondaruk: Well, you're not going to hear about it on the news.

C. Austin Fitts: No. Who do you think is financing them?

6. Let's Create Income

Okay, so let me talk about the next fundamental economic trend, and that is people need income. We've gone through a period, particularly since 2000, where incomes have been generally falling, unemployment's been rising, and people need income. The way they're going to get that income is by creating a product or service. There are no employers to hire them. In fact, we just saw a recent report – it's up on the blog – that government has been downsizing. So government's laying off. Government for a long time sort of picked up the slack.

Traditionally, for many decades now, if you look at analyses by the Kaufman Foundation, which is a foundation in Kansas City that focuses on entrepreneurship, the two greatest sources of employment growth in this country has been the military and small business. In my experience, the reason many people create small businesses is just to ensure that people have jobs.

During the Great Depression there's a wonderful example of Father Divine, who created thousands of jobs. In fact people like Father Divine were doing such a good job of creating entrepreneurial enterprises and jobs, it's one of the reasons they created the WPA. There was a real power shift going on.

I've known many restaurants where people started the restaurant not because they wanted to start a restaurant – they're just looking for a way to create jobs for people.

John Bondaruk: They had nothing else to do, maybe.

C. Austin Fitts: Right. I think it was in Cambridge, one of the most popular restaurants just evolved out of somebody saying, "Well, we've got all these Armenians. They need to work. What are we going to do?"

That trend is going to increase because we're seeing robotics and other forms of automation introduced. There was recently an article – we had it up on the blog about six months ago – a firm in Silicon Valley announced they thought they could save the fast food industry $16 or $18 billion a year from automating with robotics. They had a robot that would cook and package a hamburger. Well, what is that, $20 billion of low-income jobs of people just laid off.

So we're going through an enormous turnover and transition. A study up on the blog this week says that 50 percent of the jobs in America are going to be canceled or replaced or influenced by robotics.

So what we're talking about is literally the third industrial revolution where you're going to have enormous transition in the workforce. Of course globalization continues to happen. I just saw a very interesting article up on the blog about outsourcing construction to the Philippines. You send your designs, and they send the parts back, and you literally put up the building from the fabricated pieces. You save so much on labor; it makes economic sense to do it. That means many of us are going to be put in a position where we have to reinvent, recreate ourselves. The new technology gives us the opportunity to do it. Again, I just see a time coming where it's going to be cheaper to make the toy on your 3D printer than to go down and buy it at Wal-Mart.

7. Some People Prefer the Entrepreneurial Lifestyle

So creating income is an important one. Another very important one is lifestyle. Increasingly, the corporate environment is, for many people, not an environment where they want to work. You and I do not work in a corporate environment. We like control. We like to control our schedule.

John Bondaruk: In many cases, no, it's not even a matter of choice with downsizing.

C. Austin Fitts: Yes, but I've rarely seen a person, whether they wanted to leave or didn't leave, end up doing something entrepreneurial, who didn't look healthier and happier. It's like coming out of a trance. I think a lot of people prefer an entrepreneurial lifestyle.

8. Shifting from the Bond Bull

Okay, next reason – and this is something Chuck Gibson did a wonderful *Solari Report* on, and that is we've been able to have an economy that had enormous government subsidy involved in it. It didn't operate as a market economy. It operated as sort of a friendly Soviet economy, if you will. We've had enormous government intervention in the credit markets and the mortgage markets, government subsidy. I live in a county where at least 50 percent of the households are directly or indirectly dependent on the federal government – big government subsidy. That has all been made possible by a bull market in bonds. Interest rates have come down, down, down, down, down for many years. That has attracted an enormous amount of money into the bond market. It is very hard to imagine how interest rates could continue to go lower, or we could continue to command the level of capital globally that we've sucked into the bond market.

We have this giant sucking sound moving into the bond market. Interest rates come down, down, down. Bond prices go up, up, up. Finally it has reached a saturation point, where we have the person who runs the largest bond fund in the world declaring that the long-term bull market is dead, if you can imagine that. Imagine being the employee of trying to run a bond fund, and your boss, Bill Gross, stands up and says that. If the head of the largest bond fund is declaring the end of bonds, you know the game has reached its relative conclusion.

Now, what does that mean? That means we're not going to be able to prop everything up with cheap government money. We're going to have to go back to financing things with equity. That's a very, very different model. When I finance someone with debt, as long as I get my money back, I don't care if they live or die. Debt throws people's incentives out of alignment with each other. When I was a government official, or when I was lead financial advisor to FHA, so many people would say – well, I'll give you a perfect example.

I was having dinner with Dick Ravitch, who later became the lieutenant governor of New York, at the Jockey Club in Washington, and he said, "Look, as long as I get government subsidies, what do I care if people have education or jobs?"

John Bondaruk: He's honest.

C. Austin Fitts: Right. If I'm financing something with debt, then I don't care about the return to the network. I don't care that society has a total positive return, because I'm making money. It's good for me. It works for me. You have all these people sitting on their deck chairs on the *Titanic* saying, "What do I care? I have a government guarantee." Well, if the ship sinks, you've got a problem.

So you've created with the debt system a system where everybody doesn't care about the whole. They don't care if the government works as long as they get their check. You've created an incentive system where nobody cares to make the whole work. As a society, the fundamental economics are we want to get back to a society where people have an incentive to cooperate and work together, and that's in equity.

I'm always telling people, "If we had a lot of equity in Iran, we wouldn't be bombing it." Or, "We wouldn't want to bomb it." Equity is a way to create incentives and align between many different kinds of people. Of course, with crowdfunding, the big one is creating alignment between all sorts of different people in what I call your human ecology. Your customers become shareholders. Your vendors could become shareholders. All sorts of people that you're doing business with, you can add them to your shareholding in a way that creates a far more dynamic and intelligent thing.

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, because at some point, rebuilding a financial system with that kind of incentive system is critical, not just to start up businesses or to rebuild the economy but if we're going to try and align our living systems with financial systems or create anything that's authentic.

All these different things we've been talking about, they hunger for an equity model.

9. Greater Financial Literacy

Okay, finally – and this is one of my favorite ones – Andrew Vachss, one of my favorite mystery novel writers, once said the Internet is the ultimate op. I agree with him. I think the Internet is the ultimate op, the creator of the one-way mirror, Glenn Greenwald's one-way mirror.

One of the beauties of the Internet is it's done extraordinary things for financial literacy. You see all sorts of non-financial people finally making sense of the mumbo-jumbo and saying, "Wait a minute, how could the SEC let Madoff happen?"

I'll never forget – I was on the board of First American, which was the Clark Clifford bank in Washington. When I went on the board, Harry Albright, who was the trustee, had the Washington Law Firm bring out, literally, tens of thousands of pages of legal documents. The Brinks truck came up to my house in

McLean and brought case after case of documents.

I sat there for three days all weekend just reading the whole thing. When it was over, I realized, "Oh, this was authorized from the highest levels. The White House, the Department of Justice treasury, they all wanted this to happen. They all protected it."

So the Internet is giving everybody that a-ha moment. They're saying – and I keep writing this on the blog – "Wait a minute, you're telling me that I can pick up the phone and within an hour have cocaine or methamphetamine delivered to my door? I can go down to the grocery store and buy $1 million of lottery tickets and wipe out my family's savings buying them? That's no problem, but I can't invest in my neighbor's grocery store because that would be a violation of SEC rules designed to protect me? I don't think so, because they had no problem with Madoff. So what's this about?"

People are beginning to figure out that there's all sorts of rigging going on within the financial system that has nothing to do with what the law says. At this point, I think it becomes nearly impossible for the systems to say, "No, you can't do this." They've got to find a channel to let the water…

John Bondaruk: To let some of the pressure off.

C. Austin Fitts: To let some of the pressure off. Now, one last item, which I think is very important, is that we've seen, particularly since 2000, the number of start-ups and new businesses in this country – the start-up creation is dropping dramatically – dramatically. What's interesting is if you look at a chart of the rate of new business start-ups happening here versus China, it's pretty scary. We are really being left behind.

John Bondaruk: What do you attribute that to?

C. Austin Fitts: I attribute it to a combination of things. One is I attribute it to completely loading the next generation down with student loans. We have set it up so that when people come out of college or graduate school, they have to work for a big corporation or go into the Army. They're basically in a surf situation. I think that's one. We've sent a huge number of young kids to war instead of putting them in a situation where they could start businesses.

Another thing is we have shut off capital to Main Street – equity capital. Rather than putting together a community venture fund that funds an apprentice program that will let young entrepreneurs circle around the different businesses, finance them buying out their parents' business – one of the big issues on Main Street is having an heir apparent to take over the businesses. A lot of equity value is just being lost because there's no heir to take over the business. So no apprentice program, etcetera. I think that's been one of the things.

Finally, the rules and regulations and the dirty tricks have become so oppressive. You look at Solari, at how much money and time we just spend on regulatory compliance – coming out of my background I was a regulator. And so I really care about trying to do a good job at that. If you look at how much time and money we as a small business spend on that, I can't fathom – we have extraordinary background to understand it and deal with it. We have access to all sorts of wonderful lawyers and CPAs and other experts. I don't see how anybody sits down and figures it out themselves.

John Bondaruk: So what that means, then, is up to this point, the powers that be have not really been on the side of people starting small businesses. And that's about to shift?

C. Austin Fitts: Well, I think a great deal has been done to discourage small business start-up in the last 20 years, and I can't fathom that it's anything other than intentional. So clearly the young talent has been very much tracked so that those kids cycle through things that create equity for the large companies – whether they go into the Army or they become an employee or they do a not-for-profit thing that generates value for that group.

They've very much tracked people into supporting the large organizations. With rare exceptions – Silicon Valley being one of them – they have pretty much discouraged start-ups, yes.

John Bondaruk: So why is it about to change?

Top Down Political Agenda

C. Austin Fitts: Well, let's talk about the top-down agenda, because I do think if you watch what happened with the passage of the Jobs Act – how it went into effect, who supported it, and what we've seen roll out about it – I think there's tremendous top-down pressure to do this. Now, I also think you have some pretty legitimate people within the enforcement bureaucracy who are really scared about this. The SEC has really dragged their feet. I think their reasons for dragging their feet are probably pretty legitimate. They're scared of what can happen when this thing goes in terms of fraud.

John Bondaruk: I see.

C. Austin Fitts: So let's go through, because just like there's enormous reason for this fundamental economic hunger to do crowdfunding, we also have a political agenda that wants to orient – I go back to the pools and the piping system. You have this enormous natural wave that wants to live and grow and optimize and burst forth. It's full of desire. It's full of lovely ambition. It's a huge hunger. What does Brian call it? Life is longing for itself. It's life. What we're also watching is a desire coming from the political leadership to direct that water in a way that serves a variety of their purposes.

John Bondaruk: Basically to use it.

C. Austin Fitts: Yes. They're looking to surf the wave. But I'm looking for our subscribers to see the dynamics and also surf the wave. So I just want you to know, there's a big guy with a big surf – Mr. Global's bringing his surfboard down to the beach, so I want you to watch out and not get run over by his surfboard.

1. Prototype New Technology

Okay, the first thing is we are watching one of the most unprecedented, if not the most unprecedented, un-suppression of technology, and technology being allowed out of the lab, or is coming out of the lab. So we're watching a fundamental shift in access to knowledge and technology, which is explosive, beautiful, terrifying. We've had several *Solari Reports*. One is called "View from Silicon Valley" that Chuck and I did on some of the technology that you're really seeing shift the equity markets. That's part of the reason for this big, strong growth in the North American markets.

Also, the second week in October, we're doing a *Solari Report* on 3D printing, and that's going to be the first of several *Solari Reports* we do on the different technology. It's quite extraordinary. It's happening in the area of fabrication technology. It's happening in composite materials. It's happening in robotics. It's happening in biotech.

In all these areas, they include integrating digital technology into the basic infrastructure. One of my nicknames for it is the Digital Heartland. The Digital Heartland – imagine driverless cars on the digitized highways, and the cars talk to the highways, and they're all in the cloud. You don't need to know how to get to the place. You just need to tell the car where you want to go, and then you can be busy playing with your kids or doing whatever, and you don't lose that time anymore. The car just takes you there because you have digital highways and digital, driverless cars. That's the digitization of the

Heartland. That's the integration of the technology into the infrastructure.

John Bondaruk: That's just one example among very many.

C. Austin Fitts: Thousands and thousands. Now, here's the reality. The reality is when you roll out new technology. Let me give you an example. One of the big gold rushes in the patent world is patents on graphene. Graphene is a form of composite material that is expected to be significantly lighter than steel but much stronger, so that you can make a much lighter car, which is much more safe than what you've got now. It uses much less fossil fuel.

When you have this explosion of technology that can reinvent the manufacturing base and put the manufacturing base in America back into competition with Asia and the global emerging markets, we can get back in the game in terms of manufacturing. We can digitize the Heartland, make the infrastructure much more efficient. When you have this kind of technology and you want to go fast, it is much better to have thousands of new companies try stuff, because you have a much more organic, creative, dynamic use. You bring much more imagination and inventiveness to the process, and you have a much higher intelligence.

John Bondaruk: Plus there's competition.

C. Austin Fitts: Yes, it's a very positive competition. If you're the leadership and you just want to try stuff and see what happens, bingo-bingo. You want millions of start-ups. Now, here's why the NSA scandal has been so important. What the NSA scandal reminds us is that if you put $1 million to finance a start-up that's going to prototype your new fabrication technology and its application in a certain area of manufacturing, you don't have to wait for them to file patents because you can just listen to everything they're doing and steal it. We're talking about a leadership that's going to finance a whole bunch of efforts but will be in a position behind the one-way mirror to steal everything.

John Bondaruk: That's actually been one of the big points about the NSA scandal that I think a lot of other people have missed, is that it gives certain powers and opportunity to know things about business dealings. It's not just about everyday privacy and phone conversations. It's inside information.

C. Austin Fitts: Right. So imagine they're not listening – the company files a patent; the patent's worth $10 million. They come in to buy the company. By listening to the company discussing this with their investment banker and their lawyer, they can figure out how to save money on the negotiations. In fact, if you watch the movie *Antitrust* or the movie *Startup*, which are two of the start-up movies we've recommended on *The Solari Report*, you'll see examples where a company was specifically attacked in a way that dramatically reduced its price so that they could pick it up cheap. They sort of see all the games.

It's very important if you are an entrepreneur, starting up a company doing these kinds of things, that you think a lot about security in a world where security is a very different game.

Another movie that's excellent in addition to *Antitrust* and *Startup* is one we've recommended in *The Solari Report* called *The Listening*. It's all about invasive technology getting in and stealing your secrets. One of the top-down's agenda is this is a much more economic way for the leadership in the large companies to prototype the new technologies that they need. That's number one.

2. Make New Technology Socially Acceptable to the Younger Generation

Number two – I think that doing it this way makes sure that that technology is socially acceptable to the young people, because the young people are leading its invention and development, and that's very important to get it adopted more widely.

If you come to me and say, "Oh, isn't it wonderful? You can have a driverless car and go down the highway and the driverless car will take you." And I said, "Great. I remember when I was litigating with the Department of Justice, and I was driving outside the FBI Headquarters and a team tried to run me off the road. Now, imagine if they could have hacked into the computer and just taken over my car. Well, I don't think that's such a good idea. No thank you."

They think the older people are going to be difficult about adapting new technology, whereas the younger people are going to say, "Oh, way cool. Then I don't have to drive. I can talk to my kids. Isn't that wonderful?" You want to make sure that the kids help you lead the adaptation of this new technology.

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

The third thing – and I hate to mention dark things, but I need to mention some dark things. You've just moved – and I go back to the commentary I just put up on the blog about the governance shell game. So we had an economy with $100 trillion of liabilities and $100 trillion of assets. We stole $40 trillion of assets and moved it into this new breakaway civilization. Now the old economy has $100 trillion of liabilities and only $60 trillion of assets. And they're sitting there starting to fight over who's going to get the assets for their liabilities. Who's going to get 100 cents on the dollar? Who's going to get 50 cents on the dollar? Who's just going to get rolled? That's a conversation that's going on, and it's scarier and scarier. Then you've got this new money sitting over here.

Well, how do you deal with that politically? You take a portion of the money you've stolen, and you go into the legacy economy and you turn to the top 1-10 percent of the young kids, and you say, "Oh, I'll finance your business."

Now, let's look at that at a household level. You just stole $250,000 from their parents, which means they were going to inherit that money. Now they're not going to inherit it because you just stole it. You're coming back in and using it to buy their attention and loyalty.

John Bondaruk: When you say, "You stole $250,000," give an example – debasement of the currency, other ways?

C. Austin Fitts: I pumped and dumped the telecoms and the Internet stocks. That lost $40,000 on their portfolio. Then I ran the debasement on the U.S. currency. That lost them another $40,000 of equivalent purchasing power, if not more. Then I did the 2008 slam down, and I pumped and dumped the housing market, and that caused three foreclosures next to their home, which lowered their housing price. Meantime, I used their bank deposits to finance a company moving jobs abroad in a way that cost the guy his job, and so he had to get a job at a lower income. When you add them all up, he's out $250,000 – not to mention he had money in an ETF that was serviced by AIG, and it got wiped out when AIG went down. Or he had Fannie Mae stock.

So this family's lost $250,000. Meantime, that $250,000 is in your pocket, and you're using it to finance his kid starting a company where you have a big, sizable equity position, and his kid comes home every week for dinner, telling you that the American Dream really works and you've got to suck it up.

I'm a great believer that there are no secrets at the end of the day at a spiritual level. Everybody knows something's terribly wrong, but they can't quite put their – it's the ultimate beat down. What you'll see in the black neighborhoods when I was a kid is you bring the drugs in and then you announce on TV that the reason this is all happening is because the people who live there are scum. You blame the victim. Then the brightest and best kid gets a scholarship to an Ivy League university, and the guys who are running the drugs come in and do a photo op where the kid and the parents have to thank him and kiss his ring. Do you know what I mean?

It's the beat down. You have to thank the guy who destroyed you for his help in saving you from this terrible thing, which was really your fault. As a political matter, it has always worked as a tactic. It's been very, 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 day 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 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."

John Bondaruk: Unfortunately it's happening now on a much larger scale.

C. Austin Fitts: 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 literally 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.

4. Increase Value of Real Estate

Okay, so what's the next top-down agenda? We've had a housing bubble. We've pumped and dumped the housing market. It's fair to say that a tremendous amount of real estate has consolidated in for private ownership. We've seen big hedge funds and institutions running around and buying up enormous amounts of residential housing, single-family homes, and multi-family homes. We have an enormous consolidation of ownership of real estate at cheap. Now, once you buy it all up, what do you want to have happen?

John Bondaruk: You want the value to go up.

C. Austin Fitts: You want the value to go up. Now, if suddenly you allow lots of small business financing and lots of small business growth, what's going to happen?

John Bondaruk: Exactly right.

C. Austin Fitts: We just saw today a New York developer is announcing he's going to use the Jobs Act to raise $31 million to do a development in New York.

John Bondaruk: So it's beginning to look like the beginning of a new boom.

C. Austin Fitts: Twitter just filed their first filing under the Jobs Act of 2012.

John Bondaruk: There you go.

C. Austin Fitts: So remember – up to $1 billion of revenue. That's not a tiny, Main Street company. Crowdfunding can be used to do a lot to not only create a strong economy that needs the real estate and is going to raise real estate but to finance real estate. It's going to be interesting to watch, because you're going to literally see a situation where the banks wouldn't do a workout with a homeowner at $200,000, but they're flipping the property into an institutional investor at $150,000, where it's going through a HUD foreclosure then ends up on an inside deal at $125,000. Then those institutions are going to come back and finance into you, saying, "Oh, this is something you should buy in your IRA. It's going to help America." It's another one of the examples of the beat down.

5. Money Laundering

Okay, so we want the value of the real estate going up. Another thing is laundering money. Now, 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 be, but it's supposedly all designed to prevent money laundering. I think once this thing gets going…

John Bondaruk: It's going to be money laundering central.

C. Austin Fitts: I think there's going to be tremendous money laundering into this, because the ability to create straw men and falsify papers is going to be very easy.

John Bondaruk: Well, particularly if you're law-enforcement.

C. Austin Fitts: Right. Now, let's go back. You're the leadership. You want all of this technology prototype. You have the ability through the information systems to steal a lot of the ideas and money anyway through the back door. But you also have the ability to turn it into a financial fraud.

Let's say I have $100 million. I finance 100 companies, $1 million each. I do most of it through straw men, through the Internet. Those 100 companies – let's say you're going to have a very high failure rate – 10 of them turn out to be legitimate. Those 10 are probably worth $10 million each, so they're worth $100 million.

But I cook them up, I pump them up, and I dump them into the pension funds and take them to retail for way above market – $100 million each. I get my $1 billion out. I've made $900 million. Then they crater – that's exactly what I believe happened with the tech bubble.

I was sitting in 1996 Esther Dyson's conference in Arizona, and all the venture capitalists were throwing money at these companies that wanted financing. The companies wanted $500,000, and the venture companies said, "You have to take $10 million." And they said, "We don't need $10 million." They said, "You have to take $10 million." They would give them $10 million.

I couldn't figure out what in the world was going on, because these were companies, John, which had no product or service they could ever sell. They could never sell a product or service to a real customer. I thought, "It doesn't make any sense. Why are they doing this?" I didn't realize that it was just going to be a financial fraud. They were looking to create a trading sardine, if you know the old Wall Street story about the sardines.

John Bondaruk: The last guy.

C. Austin Fitts: Right. So they primed these things up. They knocked them up to these huge values. They stuffed them in the pension funds in the retail market. Then it crashed, but they made a fortune riding the wave. So that's the question. Yes, they want to prototype all the technology and get the technology adapted, but they want to do it in a way where they can many times multiply their money.

John Bondaruk: Well, I'm sure there are listeners here that were burned with some tech investments in the last bubble. Hearing this, you're going to start to say, "Okay, I'm not going to get burned twice." Can you talk a little bit about what to watch out for?

C. Austin Fitts: Right. When we get to the section on investors, we'll definitely go through all of that. I think what's important is, again, you've got a huge wave of money. When a huge wave of money goes by, it means you can get things done. There's going to be capital to get things done with, and there are going to be legitimate companies started that do great things. You want to make sure, as this great wave goes by, that you channel it into something that's lasting. Lots of other people may be doing things that aren't lasting. Don't get caught up in that. You ride the wave to create something lasting that has truly a positive return to both the investors and the network.

John Bondaruk: Or another way of putting it, there has to be real value there.

C. Austin Fitts: Right. You have to say, "I'm not here to play bubble. I'm here to do something really powerful and useful and important. I'm going to use this capital, or I'm going to use my capital to support those kinds of things, because a lot of stuff is going to go through this window. Some of it's going to be good, and some of it's going to be bad.

One of my favorite scriptures says something to the effect of "What the enemy intended for my ill, God meant it for my good." Think of it as corporate judo. This window is going to be open for a variety of reasons. We can drive our agenda through the window too.

You've got to stick with fundamental. Don't get caught up in the bubble. Look at real value. I think there is going to be this tech bubble fraud aspect.

6. Engineering a New "Tech Bubble" Fraud

A final thing is I keep coming back on *The Solari Report* to a very important issue, and that is that by engineering this explosion in domestic gas and oil reserves and bringing the price of gas down, we have now significantly reduced the major component, the largest cost within a manufacturing operation. Jim Norman, when he interviewed on *The Solari Report* doing *The Oil Card* said that energy is 40 percent of the cost of manufacturing. Now, he means not just the direct cost, but when you translate back into the different parts and everything – total cost.

That's a very big component. By lowering the price of energy here in this country and improving domestic reserves, it puts manufacturing back in a position to start to be very competitive globally. Now, you add this kind of technology, and now you're really talking about making us competitive worldwide in manufacturing and a revival of manufacturing – not in a way that creates new jobs, because this is going to be very high-tech stuff.

John Bondaruk: With robotics.

C. Austin Fitts: Yes. Something that enables us to do far more manufacturing, either here within a company, or as I said, kids can make their own toys on their 3D printer, manufacturing with a home. I think it's one of the reasons you're seeing the real development of what's called open-source hardware. We had Marcin Jakubowski on *The Solari Report* several months ago. He's a leader in the open source hardware. I think that's why open source hardware is becoming fashionable now, because it's time to digitize the Heartland and the infrastructure and manufacturing. So get ready for tractors to get very, very fashionable.

7. Accelerate the Private Space Program

Now, it makes our infrastructure and our manufacturing much more competitive. I think one of the reasons that's desired is that there is more and more manufacturing that we are doing for national security or for very sensitive projects that we don't want to do in China, we don't want to do abroad. The political sensitivities are getting too tricky. The leadership has an unbelievably ambitious manufacturing agenda among other things because of the gearing up to do tremendous amounts in space. If you look through all the popular magazines like *Popular Science*, *Popular Mechanics*, *Wired* magazine, anything focused on technology and innovation, *MIT Technology Review*, you just have enormous numbers of articles on space.

John Bondaruk: All at once.

C. Austin Fitts: Well, you have enormous numbers of very successful entrepreneurs saying, "Let's go do mining in space. Let's build space elevators." You have 200,000 people signing up for a one-way trip to Mars.

John Bondaruk: The timing's very interesting.

C. Austin Fitts: Right. If you're going to build out the kind of infrastructure you need to build lots of spaceships or lots of space elevators or a platform that sits in space and captures solar energy – a power plant in space, the Japanese are working on that – all of these things require enormous manufacturing productivity to do and do economically.

Part of it is by encouraging lots of small companies and entrepreneurs to take on these kinds of technologies and see what they can do with them; graphine makes it possible to economically build an elevator to the moon. So if you want to build that kind of stuff, you want to build it in North America. The Anglo-American Alliance is going to want to build it in the Anglo-American countries. It's going to be Canada, U.K., Australia, U.S.

They're bringing a lot of that back into the Heartland, because they're not comfortable depending on someone in Asia to do it. It's going to be a much more politically sensitive thing. They want to accelerate that program and go fast. Crowdfunding is a way to seed a lot of activities, and it's also a way to make those activities seem fashionable. If you want to attract lots of the younger generations into coming back into engineering school and getting interested in aerospace and hardware, this is how you're going to do it.

John Bondaruk: Well, part of that fashionable aspect, too, is going to be success and money. You're going to be hearing stories about people getting rich.

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

C. Austin Fitts: Right. I also think they want to engineer a crash up in the stock market. There's several ways we can go. We've issued trillions of dollars in bonds. We've sucked the money out of the legacy systems. One way is we can just grind through that and have a very ugly slow burn down in the legacy systems as this new economy grows and develops, high-tech economy.

However, if we get what's called a crash up, all the money that we've been printing, printing, printing starts to move out of bonds and it moves 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 and borrowed and borrowed and borrowed and borrowed on the value of your house and your house is underwater, well, you can write down the debt and have a bankruptcy, or you can have a boom in the housing market, and the price of the house goes back up, up, up, up, up. Generally, you start to be able to carry the debt.

Now, that's grossly oversimplified, but I would say that every effort is going to be made to engineer a crash up in the equity markets. Part of that is going to be trying to encourage investors globally to convert from a world of being an investor in bonds and fixed income to being one in equity. Generally the U.S. as a population is used to owning stocks in much greater amounts than people in Asia or Europe, let alone Latin America and Africa. Part of this is making equity fashionable globally. Nothing does that better than the kids.

One of the things anybody who's ever worked in housing in this country knows is you can't have a housing bubble without first getting the first-time homebuyers all getting financing, buying homes, and that kicks everybody to sell their home to the first-time homebuyer, and then they go buy a bigger home. Everybody cascades upward in the bubble.

Same thing with equity. I think you've had a real fall in start-ups. You've got to dramatically increase the start-ups and capital to small business. They'll breed up. They'll start to go public. You'll start to create more new companies in the stock – it's frightening, the number of companies in the stock market has really dramatically declined. So you've got to refresh that.

9. Create Basis for Next Financial Harvest

Having a crash up in the equity markets, particularly globally, requires that start-up rate to kick up. If you look at reports from around the globe, one of the things that first clued me into the fact that this is going to be really, really big is seeing all the different countries that are doing this or planning on doing this or passing laws to do this. Crowdfunding is something that's going to happen globally. It's going to roll out at the same time.

John Bondaruk: Well, that would indicate that there is some powerful forces behind it.

C. Austin Fitts: Yes. Now, here's what's interesting – and I 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, the 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 out of the exchanges and onto this new platform.

Now, what that means is that the money in society 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.

John Bondaruk: Well, you just talked about the new channel, and it's going to move to talk a little bit about the old channel.

C. Austin Fitts: Well, the old channel, you have things going through the banks, the New York Stock Exchange, the exchanges, and the traditional clearing systems. Now you're talking about them going through the Internet, through Google, through Facebook, and literally through a different set of cables, different payment systems. What that does is both in terms of intelligence and then financial flows, it's a whole different set of players who are seeing the information and getting the fee flow.

John Bondaruk: So there's got to be some nervousness on the part of the old team.

C. Austin Fitts: Well, I think the old team 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 that has tremendous support from some very powerful people.

What you're watching is before we start to switch the financial flows in a significant way onto this new platform, everybody who's not in command on 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."

John Bondaruk: Potentially there's a lot more control.

C. Austin Fitts: Much. Huge. This is a harvesting machine. This is an economic warfare-harvesting machine. The NSA revelations and scandal is these factions competing and fighting about who's going to control that turf, because if it had just proceeded 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.

John Bondaruk: Yes, on an individual level. People.

C. Austin Fitts: Yes. So as I said, you're able to learn everything they're doing, and you can file the patent before they do. The theft of intellectual capital that rolls out through that whole – 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, that network took a huge whack at them. So they're whacking back is what I believe.

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

Now, say, 10 or 20 years ago, the Anglo-American alliance, basically city of London and New York, controlled about 70 percent of the capital flowing through the financial markets. After 2008, I think that's dropped down to about 50 percent or less. This network was clearly positioned to get them back up to 70 percent is what I believe – absolutely shore up their position as master of the global financial flows. One way to look at it is it's the American grab. The Jobs Act was going to contribute to get America back to its 70 percent.

Google and Facebook were all in this. It's pretty, potentially 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 roles 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 group of the 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. Whenever you get these big capital flows, it's always multivariate.

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 it's very much about engineering the incentive systems and the sort of conditions. And that's easy to do because we have enormous pent up demand. 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 their community. It's extraordinary the pent up demand for this.

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

John Bondaruk: Well, if you look at what happened with the Internet bubble, the tech bubble, it was very, very sexy. When you look at the amount of money that was made, at least initially, it was difficult for anyone to see it for what it was.

C. Austin Fitts: Right. What was amazing was Silicon Valley before the tech bubble was such an alive and wonderful place, and 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. It was going to be wonderful. They were going to take this technology and really help people and make people's lives better. You literally – 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's happened.

So, it's going to be quite a wave. The interesting thing is there are – if an effort is made to engineer a crash up in the stock market, I have to say, I agree with that. In other words, we cannot build a society where people are incentivized to collaborate without shifting to an equity model. I've said for many years that the reason I thought when the financial coup d'état was finished that the people leading it would want to move to sound currency and equity is 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.

John Bondaruk: It's mind-boggling.

C. Austin Fitts: Well, 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 kind of laughing at me, because what they're going to say is, "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 and then offer them a treat to come in. That's the only way it's going to work. So we're reengineering things to – 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.

Anyway, so John, fundamental economics, political agenda, meet together in this explosive dynamic thing, which is going to happen. Of course, anything can happen. We don't know. This is what I see. Let's see how it unfolds. Anything could happen. So let's finish this part of the interview, and we'll turn and talk about entrepreneurs and investors and what it means to you. Before I close, anything else on macro?

John Bondaruk: I just want to say, it's quite a picture that you're painting. It's quite a view.

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

John Bondaruk: 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.

C. Austin Fitts: I think there's going to be extraordinary opportunities. If you're an investor and this wave of technology comes out, it's going to come out in 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 to the publicly traded stocks.

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. So it's not like you can put your head in the sand and say, "I don't want to think about it."

John Bondaruk: One way or the other, it's going to happen.

C. 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. Now, in the crowdfunding area, I think, though, my number one fear about *The Solari Report* subscribers is I think they're going to get inundated.

John Bondaruk: With requests.

C. Austin Fitts: With requests, and with marketing. We don't know 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 something called portals. So a portal will vet deals, and a portal will let deals not come through the portal unless they've been due diligenced and they're up to snuff.

John Bondaruk: Which from the investor perspective is a very good thing.

C. Austin Fitts: I think it's a very good thing. It's a group of people who are expert, who will help raise your standards, who will help you understand the process. You'll pay them a fee, but it will save you money in the long run. So a portal is a very good thing.

But once this thing gets going, who knows how crazy it could get, how many portals could get. So my concern is that anyone who's got a little bit of capital is just 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.

It's very 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.

John Bondaruk: Well, a couple of ways to mitigate risk would be to invest with people that you know who are in places that you know.

C. Austin Fitts: Right. One of the great 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, 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 it.

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 a very important thing.

John Bondaruk: You're helping to build your world.

C. Austin Fitts: You're helping to build your world. You're helping to build the world you need to survive. 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.

John Bondaruk: So it's a tool.

C. Austin Fitts: It's a tool to 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, and we had debt in equity. So the shares 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 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. And that's a customer flow.