The Solari Report

MAY 9, 2013

Precious Metals Market Report

with Franklin Sanders & Stewart Thomson

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May 9, 2013

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C. AUSTIN FITTS: Well, I'm in San Francisco and you're in Tennessee, which is why I didn't get a great dinner tonight. Anyway, so I want to just remind you that the last precious metals market report, you and I were talking about how remarkable it was that Goldman had predicted that we were going to get a big drop and had invited all their clients to sell or to short and then the next day, nothing happened, and of course that was Thursday before the Friday and Monday where we had the big drop.

FRANKLIN SANDERS: Right. Exactly.

C. AUSTIN FITTS: So anyway, bring us up to date. What's happened since we last talked?

FRANKLIN SANDERS: Well, on the 12th and the 15th was the biggest two day drop in the gold market since 1980 and it's hard to say it wasn't a setup job. They threw 400 tons of gold onto the market and the futures market all of a sudden and of course that would break the price, break it, take it down, and they hit it when it was weak. That is, at a support level that it held a long time, so there were bound to be a lot of stop orders right under that support level, which means that as soon as you break that level –

C. AUSTIN FITTS: That averaged 1530 or 1520?

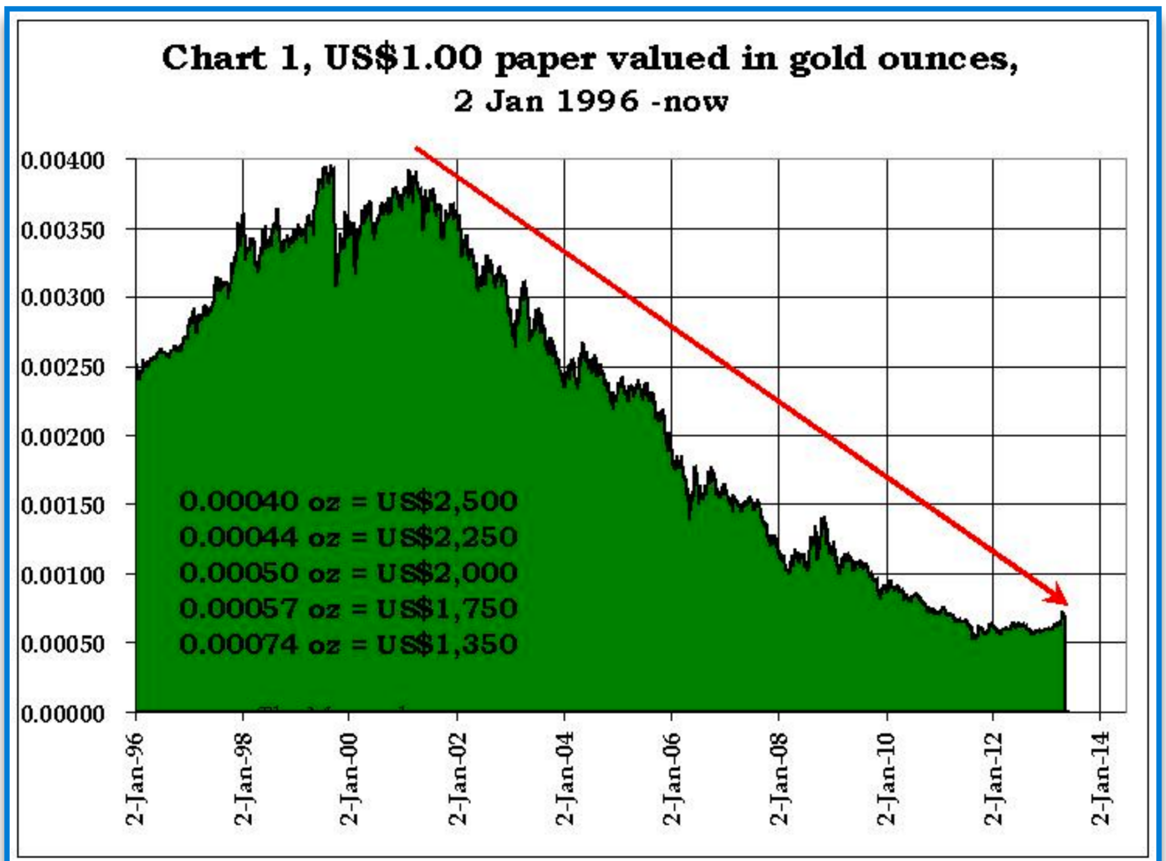
FRANKLIN SANDERS: Yes, 1530. Well, probably 1530.

C. AUSTIN FITTS: Right.

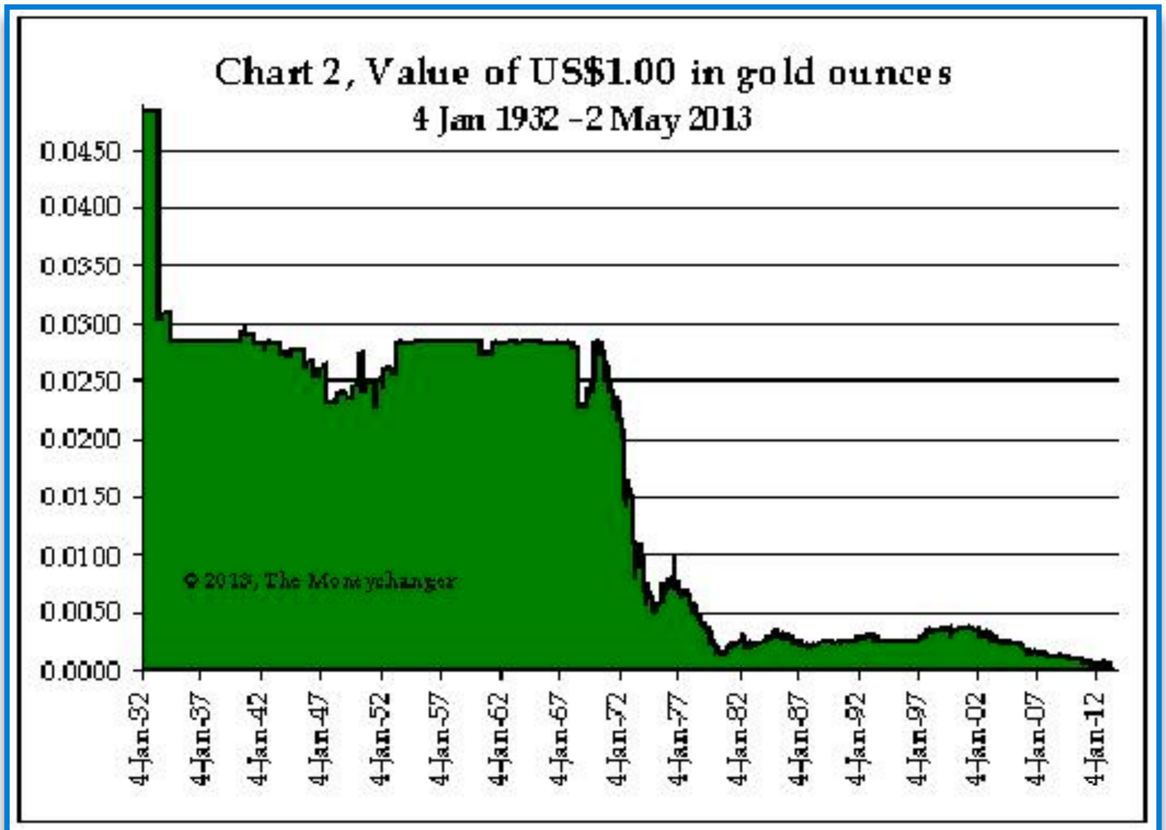
FRANKLIN SANDERS: Even 1539 and once you hit it, it just breaks, and it just feeds on itself, and of course they were already getting margin calls from the drop on Friday, so Monday was just a disaster. It wasn't clear at the time what it was, whether it was just the first leg of a break or whether that was the exhaustion, selling the spike that marks it a low. I think now it's gotten plain to me anyway that it was the spike that marked the low. I don't think we're going to see any lower price. We probably will see a move back towards the low that tests it, but that probably will stop at 1400 or 1375, so you know, it's hard.

It's harrowing. It's horrible. It's painful when those things happen, but they happen and you just have to go back and check all your premises and say, "Well, is this still a bull market or not? Did that mark the break of it or what?" That's what I've done. I don't know if the charts are on the website.

C. AUSTIN FITTS: No, we have the charts up on the blog and we also them in Instant Teleseminar and I can run through them if you'd like.



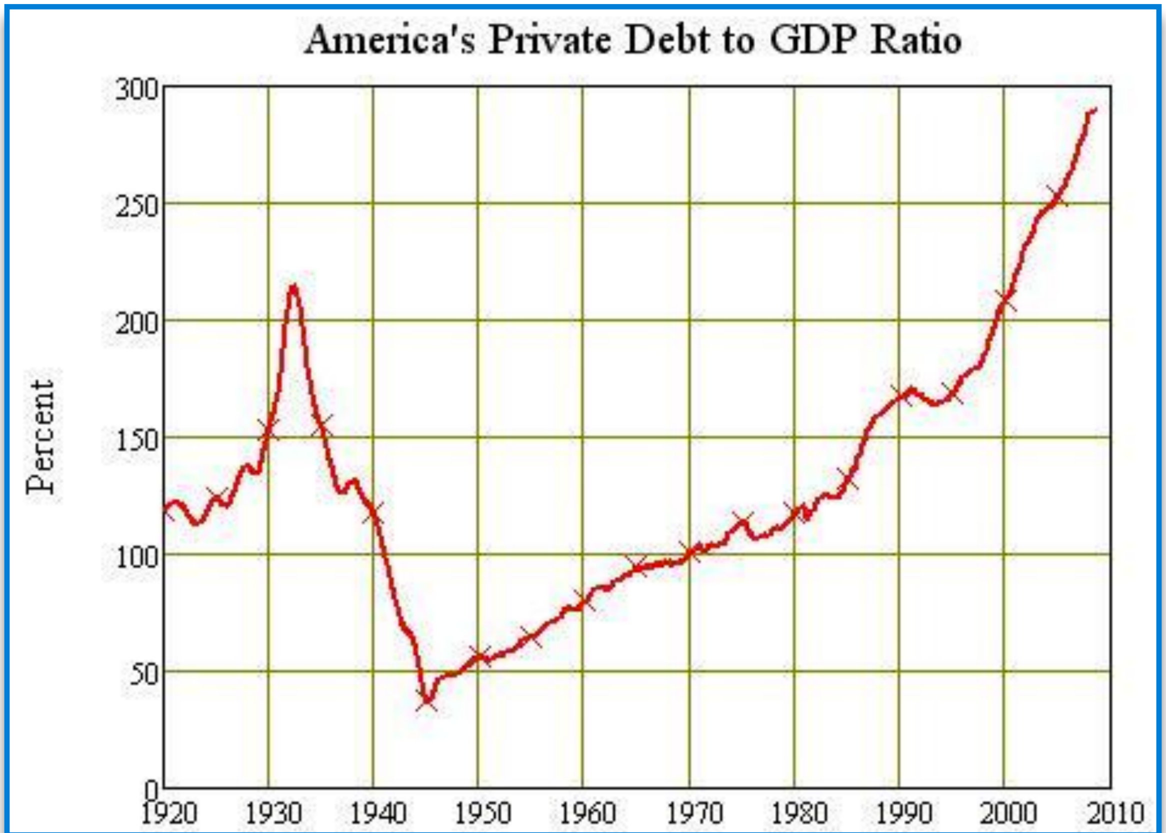
FRANKLIN SANDERS: Well, here's the most important chart in the gold market, and that's the one I've got labeled chart number one, U.S. $1.00 paper made in gold ounces. That runs from January of 1996 until today and if you see that whole long slide there, the only thing we're talking about is that little bitty piece right there on the end. That's the whole big thing we're talking about. I think that helps to put into perspective what we've got. Even more than that, the second chart, which shows the value



of a dollar in gold ounces from July of '32 to May of 2013, there's just not a question which way that's going.

If you realize this chart, the first chart that I showed you, is just the last, what – well, it's the last ten years. What's that, 17 years of this chart here? So it's just the tail end of that chart. There's no question about what's going on. You don't know. It becomes very, very obvious, but more than just asking what the technical outlook for gold is, I think you have to ask, what are the things that drive gold?

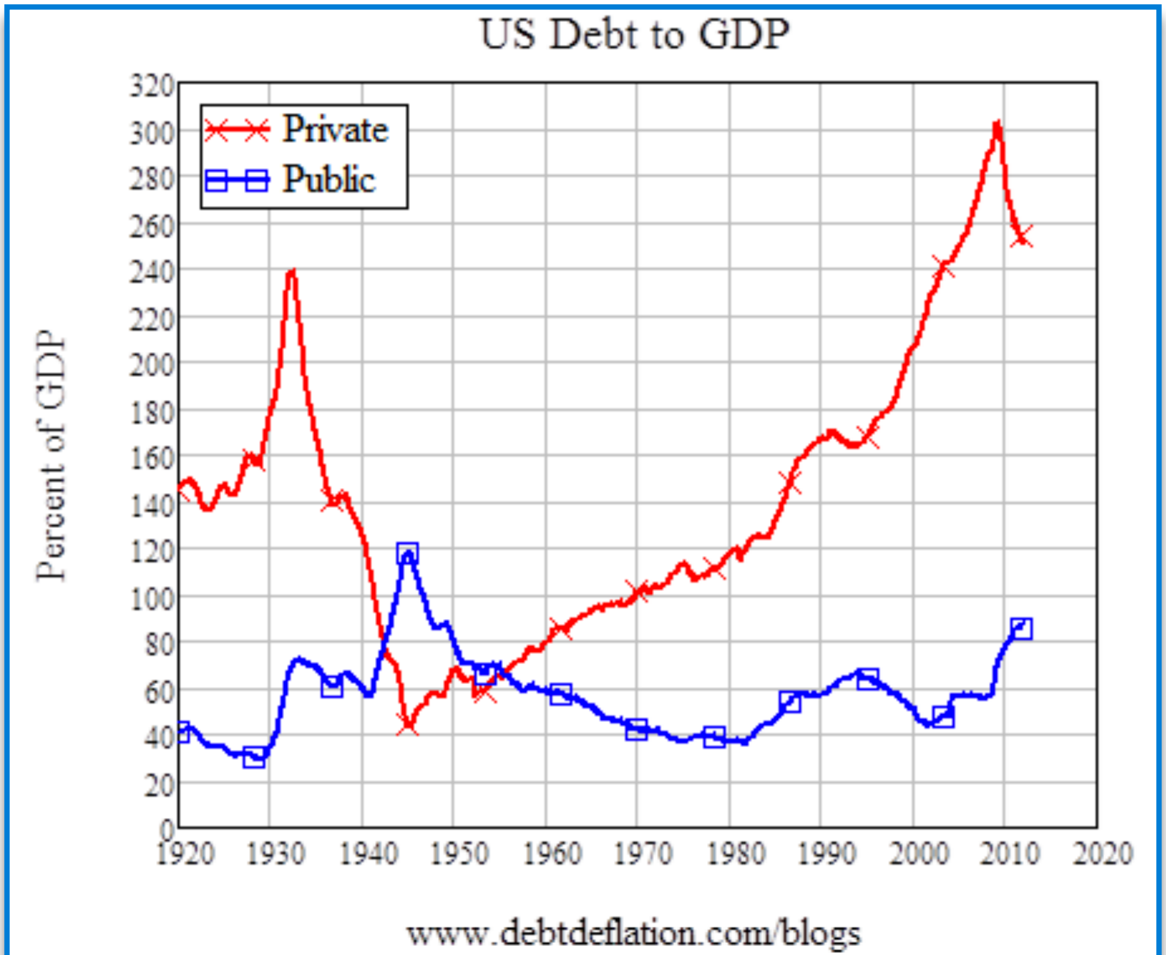
What drives gold of course is monetary demand and monetary demand arises from inflation and the inflation arises from a system that's designed to inflate a system that has to inflate to survive and the reason is because it's all in debt. It's all financed by debt. They've replaced production with debt, so this third chart here, America's private debt to GDP ratio, goes back a long ways. It goes back to 1920 and you can see in 1945 that



the debt to GDP ratio was about 45 to 1. So what this says is if your income is $100,000.00 a year, that's your GDP.

This compares how much debt you've got to how much you owe, so if your income was $100,000.00 a year, right now in America, most people owe about $300,000.00 who have that income. That's what America as a whole owns or owes, so that's not going away any time soon. In addition to the private debt, we've just actually come off some since 2009, when that chart number three comes from. An updated and later chart is this chart number four that shows U.S. debt to GDP, and you can still see it's around 2.5 times GDP. U.S. government debt is approach about 90 percent GDP and people read these numbers, come up with different numbers.

Some say that U.S. debt to GDP is over – government debt to GDP is over 100 percent. But the point is, is that you've got a system that is loaded with debt. It's a system that has been living on debt, living



beyond its means for years and years and years and you can't just throw the brakes on that. There's no way. I mean I think Bernanke is going to have a hard time or whoever succeeds him.

They've created this monster. They've added $3 trillion dollars to the money supply. Now, how do you take it out? I don't think they can. I think you have more confidence than I do in their ability to do that, but they can't take it out any easy way and finally, there's another problem, and that is that we've got this gigantic tapeworm in the American economy and that is the financial industry.

This chart number five shows GDP as a share of U.S. financial – the GDP share of U.S. financial industry. If you go back to 1860, it was

about 1.8 percent. In other words, all of the economic activity, all of the income of the United States, only about 1.8 percent came from the financial industry. Well, last year it was nearly 9 percent, so the problem here is that so much of this activity is merely parasitical. It's the leveraged buyouts and derivative type.

C. Austin Fitts: Well, and we've seen the most recent reports from a whole series of the big bang showing only a few or no trading days in the entire first quarter when they had a loss. How can that be?

Franklin Sanders: Well, there's a good question. They function because that activity is parasitical. It doesn't produce anything. They function as a drag on the economy. They drag the economy down and there's shares.

I don't have a chart to show it, but the corporate – the financial industry share of corporate profits last year was about 30 percent. In other words, one out of every three dollars that corporations paid in the United States went to financial industry and corporations. That's crazy. That's just nuts.

C. Austin Fitts: Right.

Franklin Sanders: So for all those reasons, they've got to keep inflating.

It's in the interest of the people who control the government, which is the financial elite, to continue to inflate, and they aren't going to stop. Just to put it in a real crisp, country way, they aren't going to stop because there's no reason for them to stop. Having said that, would you like to look at a few gold charts?

C. Austin Fitts: Yes, please.

Franklin Sanders: Okay. I went and got a monthly gold chart for 13 years and it's a very interesting chart because what it shows is that the drop that we saw on the 12th and 15th of April barely brought the gold market – barely corrected the gold market back to the uptrend line, so what that says is that that is a healthy market. That market is not in trouble. When we pick a monthly chart as opposed to a daily chart, what it means is that we're filtering out a lot of data.

We're filtering out the noise. It's just like tuning out the static on your radio so that we get an idea of what the genuine trend is and there it is, right there. The uptrend is perfectly intact. I've got the same kind of chart, a monthly chart for silver, and you can see it's pretty much the same picture. It just comes back to trend line and in fact, in 2008, it was worse in terms of the drop or it looks worse in terms of the drop through the trend line.

It was a lot worse than this one that we've just experienced, so when you look at those monthly charts, which again give you a longer term, less staticy vision or view of the market, I don't see any problems. There's no question. The bull market's still going on. Then that brings us up to today, and today things are not quite so clear. It's very easy to see from the top of the mountain what the lay of the land is.

It's not so easy when you're hacking your way through the jungle and if we come down to the jungle, which would be the daily chart for gold, you could see that gold has very credibly recovered from that bottom, but every time it gets up to about 1485, there are all these people that are waiting to sell more gold. It was in a little uptrend, but it's kind of broken down out of that uptrend, so I expect to see one more test of that

low before we have a bottom, and that can take place any time between now and the first part of July. Probably June at the latest, but it's possible that it could take place this month too. May and June are often seasonally months that gold and silver take to make a bottom hit, so we might see it any time, but the problem is there was a lot of damage done in that fall.

A lot of damage. People talk about technical damage. What do they mean? Well, morale has been damaged. There are a lot of people who were shaken out and this happens periodically that you have these shakeouts in the market so that all of those people who are what we call weak hands, that is, they're not really very sure whether they're going to stay in for the long term or not. They have to be shaken out, so that's happened, but now it will take a while for new buyers to come in to become brave enough to come in.

C. AUSTIN FITTS: Well, that's also the divergence between commodities and commodities in the equities markets has made it particularly painful, because for a long time they said would print and both would go up together and this time that didn't happen. Over the last nine months, they've diverged tremendously.

FRANKLIN SANDERS: Well, and you have big drops in other commodities across the board on the 12th and the 15th, so there's been trouble in all commodities. Yes, and the bigger question to me is, is the market telling us something else? Is the market pointing to some bigger crisis that's coming? I don't know what that would be, but there are loads of financial crises in the closets of the world that are waiting to fall out and clatter onto the floor, so that certainly is a possibility.

C. AUSTIN FITTS: Before we bring Stewart in, can I just ask you, Franklin, the reports I've been getting have been that the physical market – one of the things that's happening with lower prices is you're getting tremendously broad based retail buying globally, so we have a lot more individual investors coming in and buying gold and silver.

FRANKLIN SANDERS: Well, that's true in the retail world, but I'm not sure how much it's true in the big world because the big world is where they sell 400 ounce bars of gold. The retail world is fairly thin. That's the world that I move in and it's fairly thin and the supply pipeline is never very full and it doesn't take much to empty it out. The supply pipeline in retail items for silver is way empty. I mean it just emptied out immediately and it has been empty for a while.

For gold, not as much, but some things, it's been more that certain things have disappeared, like small gold coins. They just vanished and this has been going on since last November, really, and in silver, the 90 percent coin has carried a premium in the last week or two of $5.00 an ounce over the spot price, so all those prices went up because they have to be not the 90 percent, but other things, like 100 ounce bars or 1 ounce rims. All that stuff has to be manufactured and as I said, it's a

pretty thin pipeline and when you get a supply shock, when you get a price shock like the one we saw, you've got all these bargain hunters that come in and they say, "Oh, I want to buy some more because I remember when I bought some down here before and it really did well."

And so that's what you've got happening, but I don't know about the big world of 400 ounce bars. However, I will say this. If something like 475 million ounces – excuse me, 475 tons could flow out of GLD in just a few days, why can't the U.S. government repay the German gold, the 300 tons they owe Germany, in less than 7 years, which is how long they've said it will take to replace it. So, that just sounds like to me that there's not as much gold around as people think there is and it's really hard to get a handle on that because the paper market really is the tail that wags the dog of the gold world.

And that was where the gold price was crashed, was in the paper market. It wasn't all of a sudden somebody said, "Hey, let's take these 400 ounce gold bars down to the corner and sell them." That didn't happen. It was somebody selling a paper contract.

C. AUSTIN FITTS: We have a ton of questions, but what I thought I'd do is I would bring Stewart in now and then let's handle the questions after we have a chance to involve Stewart in the conversation, okay?

FRANKLIN SANDERS: Sure.

C. AUSTIN FITTS: Okay. My two favorite ways of covering the precious metals market is read Franklin Sanders' *Moneychanger,* which if you haven't recommended it, I strongly recommend it, and another is I'm a subscriber to *Graceland Updates*, which Stewart Thomson writes. Stewart is a former broker who is a master at describing the sort of term trading tactics and he looks at the world very much from the world of the economic warfare, which is one of the reasons that I love his – people are known to laugh until they cry, as Stewart talks about the different tactics of the chimps and the banksters in the precious metals market, but Stewart is the proprietor of Graceland Investment Management and then publishes the *Graceland Updates* and he hails from Toronto, so Stewart, are you with us?

STEWART THOMSON: Yes, I'm here, Catherine. Great to be here.

C. AUSTIN FITTS: Okay. Well, you've been hearing our discussion, so what I would love for you to do is share with Franklin and me your view of the last month and your perspective of what's ahead.

STEWART THOMSON: Well, I guess different analysts have different views and things and I sort of approached the market from – well, I guess sort of like a value buyer, but also like a predator, and I look at markets in certain levels, so for example, I look at the Dow, or at least I did look at the Dow in 1,000 point increments. So when the Dow was trading in 2007 at 14,000 or in that area and then it began to fall down, you mentioned the weak hands and the strong hands, I think everybody thinks you're strong hands until you're sort of taken to the wood shed and it happens to everybody in their lives and in the market and I kind of call that your personal surprise zone. You've got your analysis laid out and then the price comes down and just blows your analysis away.

That is really where I do most of my buying, is ironically where I'm most wrong about the market, but there are these big support areas in there and I've already set aside capital to buy. For example, in 2008, although that wasn't so fun because I thought the financial system was going to shut down, so basically at the lows of 2008, I focused on Dow stocks and mainly GE and Alcoa, but at the same time, every couple of days, I was going in the bank and pulling money out of the bank because I really thought that Alcoa might survive but General Electric was loaded with derivatives and I think right at the lows we were basically 24 hours from the whole system shutting down. Now, it didn't shut down and then everything turned around and started going up again, but that's how I approached the market.

Most markets get into that kind of situation and we just saw that with the gold crash. And so I kind of approached the market from, the gold market at least, from the point of view that the banks are not shorting gold, but long gold and within that, they're playing these different games and I believe the physical market does determine the overall price of the metal. I think the banks run that market and they run the paper market. They want gold higher. I mean just like the rest of us as investors.

You see all this debt and the only way out of the debt is to devalue the paper money. It's essentially unpayable, but unfortunately it's not like, say, a market like in 1980, which is more of a demand related market, a speculative market in the metals, and that's why silver did so well then and is struggling now. This is more like the 1930's and so within the smaller picture, we have what I believe is the banks have algo programs just like the funds do, except the banks have better algo programs that actually scope chart patterns onto the short term charts. I think today was an example, where you saw this gold. Gold is doing very well. GDX, Merck, the largest gold company.

It's both at stage breakouts that were real for the volume there. If you look at a five minute chart of the volume price, there was, which I believe the banks' scope right on there basically with buy and sell orders. They're actually sculpting the chart pattern onto the chart and as head-and-shoulders off pattern began to appear. Right as price was up at the right shoulder, what did we know that the fed president, the Philly Fed, Charles Plosser, who I nicknamed Charles Plopper, gold plopper, comes out and says, "Oh, wait. QEX? I don't know how we're going to get out of this. Oh, no."

In other words, sell all your gold. So right away then the banks could come in and say to the funds, "Look, look. The guy's out there saying QE's a big problem. You've gotta sell. You've gotta sell. You've gotta go short."

Well, the banks are already short. My charts showed about 40,000 COMEX contracts changing hands in about five minutes a couple of hours before he came out and talked. Then that all disappeared off the chart, meaning my charts were wrong, but I've seen this before, where there's trades, even $ 50.00 below the price, but they never get printed onto the chart and I think they took that volume away. And so as soon as he talked, the right shoulder was gone and all the technicians are now shorting the gold, which enables the banks to cover off and where we are now is sort of that whole head-and-shoulders pattern may be ahead of a bigger one which would allow them to sort of target down it at 1440.

What ends up happening is when these reports come out or these people talk, you end up having the banks for the ones that make all the money and whether gold is in a rising market or in a falling market, within that, the short term trend, the banks seem to just vacuum this up. So for most investors, it's pretty hard to be – they just don't have the time to be staring into the chart and even if you can stare, most really good technicians will, at best, break even in the market. So, my advice is to stay focused on the much bigger picture. You need a lot of patience. Just to go over this gold crash, ironically there's these big areas where you want to buy.

For example, in gold, I've talked about being a buyer as gold came down in 1557, in that area, 1557, 1432, 1266. Those are three key numbers to be buyers at if the price goes there. Now, we don't know that it's going there. In the case of gold, it just meandered around and meandered around and then within – he basically waited from August, September of 2011, for almost two years, a year and a half, and you had two days to get in there and buy at 1432. Now, it went down below that, so I buy it when I built this thing called a pyramid generated, which basically generates a pyramid formation of buys.

Your buys are getting bigger in that particular area, but those are – most investors are acting on their analysis. Well, the gold looks good and they're printing all this money. Well, maybe they can print $ 100 trillion in U.S. dollars before you create hyperinflation. It is the reserve currency of the world, so I think it's important for the average investor to focus on these bigger areas where the banks themselves will come in and buy and yet don't try to buy it all right there. You need a lot of patience.

"It is the reserve currency of the world, so I think it's important for the average investor to focus on these bigger areas where the banks themselves will come in and buy and yet don't try to buy it all right there."

C. Austin Fitts: Yes, you need a lot of patience.

Stewart Thomson: Yes. You only have a brief period of time to get in there, ironically, after all that patience. If you missed that two day period, well, gold's already bounced back up, so that's –

C. Austin Fitts: I want to tie in with what Franklin was saying. Franklin was talking about the extent to which the financial system has become parasitical in terms of the amount of activity. We have a financial sector, which has far more capacity and it's taking a much bigger part of profits total than is really needed for an economy and I said something about the fact that in the first quarter reports, we have lots of the big banks reporting that essentially every trading day was a profitable day. I used to have a partner in Wall Street who would say, "Why am I so lucky," and the reality is we've got an entire financial sector that is not making markets so much as engaging in predatory activities that harms everybody else.

And one of the reasons that I so enjoy *Graceland Updates* is you're really focusing on those tactics. You're really writing a lot about the games the banksters play and how the investor can avoid getting trapped in those games and I think that's what you're saying now. You've gotta stick – as what Franklin says. We've gotta stick with a primary trend and keep a long view.

STEWART THOMSON: Yes, exactly, because when you're dealing with the bank, the real bank traders at the highest level, not just the fund managers in the bank or the analysts, but the traders that are moving the real money for the banks, moving money for governments, they can get money if they're low on liquidity. They can go to the fed for funds. The average investor doesn't have a printing press. I'm a pretty good technical analyst and have read Edwards and Magee many times and parts of it hundreds of times, but the skill level of their teams of analysts is phenomenal, but they don't stop there.

No matter how good they are, they'll still cheat, lie, steal, do anything to win, and when you're up against the people that have the power to use news conferences, economic reports, and literally sculpt a bearish or bullish pattern on the chart for their own benefit, you really have to kind of simplify your approach to the market of you'll just be washed away if you sort of just follow. I think right now the banks are just pumping out the bearish targets for gold, so you have to be aware that it could go down there and if it does, you really have to be able to first endure your holdings, if you're committed to the view that gold is going much higher, which I am, and second, hopefully be able to buy something. You don't have to buy zillions of ounces and that's really where people get caught.

You sort of get into a viewpoint that the market just sort of – you've gotta imagine your worst case scenario and then prepare to buy there, because at some point, the market is going to go into that scenario and that's where everyone else is washed away. If you're able to get something on the table there when it returns, I call that the out of the hole move. Some Dow stocks were up hundreds and hundreds of percent in just six months out of the 2008 lows, and now the mainstream's talking about the market, the market, the market.

Well, even if the Dow were to go to 20,000 from here, which is a 5,000 point move, it's 30 odd percent. You never come close to the kind of returns that the banks made out of the hole there in just a very short period of time. What they made in six months – I mean the Dow would have to go to literally 70,000 from here for the average investor to see those kind of returns. Now, it may well go to 70,000, but it's not going to go there in six months.

C. Austin Fitts: Right.

Stewart Thomson: Again – go ahead.

C. Austin Fitts: The question for both of you, if you're an investor and you don't have your core gold position or you have it that you want to buy more – see, we're coming into the summer now, which is traditionally a soft time. Do you buy now or do you wait and see if we take another step down before you buy? What do you do?

Stewart Thomson: Well, I'd use the term first. I have sort of a rough rule of three strikes and you're out, but just it's very important to buy when you're most afraid, so that's that out of the hole, see? We came down to 1320. You didn't really know exactly where – the buy zone I had was 1432 down to 1309. Well, it bottomed at 1320.

You've got to look in the mirror and how you feel as it's going down there. You may plan to buy in advance and then when the news is just pummeling in, we're going to 500, it's all over, and this is what's being – I talked about this. When we're up at higher prices – when price is moving up and people say, "Well, I'll buy the correction," what they don't realize is the banks are able to change the news dramatically so that no longer are you surrounded with bullish news, and not just mildly correction news. You're surrounded with 'the cycle is all over.' You're finished if you buy.

C. Austin Fitts: Yes, the terror news.

Stewart Thomson: So I think you've gotta sort of face that you're in a fight and you want to get that gold at that price the first time because most people are most afraid, so you're most likely to be in there with the least amount of people and the strongest hand, meaning that you're there with the banks buying and you saw the balance from 1320 up to 1480ish, which was a nice bounce. It doesn't mean you have to sell there or you're not going to get all your buys down in the bottom, obviously. You've got something in an adjacent area and then what happens, then the analysis starts. You've had the first bounce, so if we go back down there again, now people are analyzing why it's – if the bottom will hold and this and that. Well, each time you go down and test there, the whole thing is weakening, so you want to apply the most capital on the first touching of these terrifying support zones.

C. Austin Fitts: Franklin, would you be a buyer here or would you wait?

Franklin Sanders: I really wouldn't be planning to buy here because after what we've seen, I think it's just too difficult in a market after as much damage has been done to it. It goes back and retests that low. It doesn't mean they go back down to that low, but it moves in that direction. I want to see how it behaves down there because I don't think it's going to go any lower than it already has been, but I want to see how it behaves when it's down there.

Stewart Thomson: Right. See, I think there's a role for cheerleading, especially for gold investors, people that sort of just believe in us against the government, if you will. I'm a Canadian, but whether you fall back on the ancient Greeks or the Romans or the American Constitution, if you're a believer that part of the duty of the citizen is to keep government small and gold has a role to play in that. I think wherever you are in the gold market, you want to cheer for your team. When there's a bullish scenario on a chart or a bullish analysis in there, you want to really hear that that team wins.

You want to stay in that kind of mindset, that rather than caving in, that I'm a loser and I'm headed down and maybe I'm not in the right. Once you get into that mindset, it's tough to get out of it and then you start – your decision making process starts to get weak. I think it's definitely a tough time for gold investors. They've been shocked, but you want to look at the positive side of things. We're surrounded with hundreds of millions of Asians basically – what I've called it is thumbing their nose to the government. That's why they're buying gold.

C. Austin Fitts: Right.

Stewart Thomson: Where was the Chinese government supporting gold on the big gold sale? The people in the street where out there buying and so we've got a lot of friends in the gold community all around the world, in India, China, Japan, storming in to support gold.

C. Austin Fitts: Oh, I would say we have hundreds of millions, if not billions, of friends around the world.

"There's nothing for us to really defend about gold. It's more that they want to take the people onto the defensive."

Stewart Thomson: Yes. Yes, but the way the media paints it, we're this little isolated gold community of weirdoes and I just personally like to see the gold community on the aggressive and it seems that a lot of times with the mainstream people, it's gold people – I don't think you should really defend ourselves against. I think we should be the ones sort of controlling the argument, if you will. There's nothing for us to really defend about gold. It's more that they want to take the people onto the defensive. Why do you embrace paper?

C. Austin Fitts: That's a very good idea because there's so many stories. There's so many great retail stories that talks about the role that gold plays and I don't know if you've ever heard anybody tell the story of how they got out of Nazi Germany because they hid the coins in the backyard, but you hear those stories and you realize, "Oh, my god. Having a store of value that not in any," you know. I can put it in my pocket and just walk away and it's recognized anywhere in the world. There's so many stories.

Stewart Thomson: There's nothing like that anywhere else. Silver's like it, but I mean can you put a 1,000 ounce bar in your pocket? It's 70, 80 pounds of pure weight.

C. Austin Fitts: Although, if you wanted to buy a gallon of milk with gold, it would be tough.

STEWART THOMSON: Yes.

C. AUSTIN FITTS: Listen. We've got many, many questions, so let me just start on the questions.

STEWART THOMSON: Okay. Sure.

C. AUSTIN FITTS: We're thinking of moving from California to Florida. How do we safely move our coins? Do we need to sell? Franklin, that one's for you and they're in California, in Southern California.

FRANKLIN SANDERS: The easiest thing to do is ship them by registered mail with postal insurance. They'll hold them at the post office for three weeks and so you've got plenty of time to pick them up.

C. AUSTIN FITTS: Yes. You're going to have to break them down into packages of $25,000.00 or less, right?

FRANKLIN SANDERS: Right, packages valued at $25,000.00 or less, but that's far preferable to me to let the Yankee government take the risk of getting them there than me putting them in my car and taking the risk of it and on top of that –

C. AUSTIN FITTS: Yes, I've driven that route. There's a lot that can go wrong. "Will you please comment on the information that says Bernanke has stated he will no longer serve after the end of his present term and the expected appointee is qualified? What a mess to clean up after Bernanke leaves."

I would not want that job. Would you? Okay, Stewart. Would you agree to take Bernanke's job?

STEWART THOMSON: Well, I'd like to consider myself an honest person, but there's so much to steal from the taxpayers that I might be a little tempted, so I might take it based on that, but I will say hip hip hooray if he's going because what that man has done – I think he's a lot meaner person or he's under some kind of blackmail. One of my richest clients in New York believes that his family was threatened by the banks. Who really knows? If he hadn't pumped all that money into the banks at the lows, but I think what he's done is you mentioned with a small business person.

There's $85 billion a month that he's printing up. None of it is going towards electric cars, solar power infrastructure. None of it, not one cent is going to anything other than over the counter mortgage derivatives. Not mortgages, derivatives, and government pay bonds, and I think –

C. Austin Fitts: Yes, but except, Stewart, if he's buying $85 billion from the banks, the question is then turning around and putting that in the equity markets.

Stewart Thomson: Well, I think they're definitely juicing the Dow a little bit, but I don't think you need that much to juice it. The rest is he's sending it back to the banks. Sure, they're putting some in the equity markets. I think they're just loaning it back to the fed and collecting interest on it and if you can get a quarter of a point off $40 billion a month. Why not?

But I think anybody that replaces him could probably – I think would be better for gold, at least. I think I'd call her Janet Corroda after the Japanese head of their central bank, but I think Janet Yellen will engage more in – I think she's even more in favor of inflation, much more than he is, and I think that what gold investors have always wanted to see is coming, if she takes his place. There's no guarantee that happens. She is the frontrunner though, so I think just a little more patience is needed. I think what's happened with the crisis, is it's turned out to be much, much bigger than I think anybody really envisioned, and what that means is it takes longer for gold, which ultimately really ends the crisis, to come into the money system and end the crisis. It's just that much further away.

C. Austin Fitts: Okay, another question: "Is it possible that the CME could fail if the demand for gold and silver delivery increases even slightly, that is, they will not be able to deliver the physical metal?" Franklin, this one is clearly for you.

FRANKLIN SANDERS: I don't think so. I think they'll do what they always do when they get in a crack, and that is, they'll cheat. They'll lie. They'll cheat.

They'll steal, and what I mean by that is they'll go to cash settlement. They'll just make the announcement. Well, you don't get the gold. You'll only get the cash value of the gold and they'll settle with cash.

C. AUSTIN FITTS: They'll break the rule.

FRANKLIN SANDERS: Yes, they'll just break the rule. That's what they've always done.

C. AUSTIN FITTS: Okay. Next question. Upon April 12th, 400 tons were dropped on the market. There was a buyer for each seller. Do we have any feel for how much buying represented covering short positions versus how much buying represented taxpayer gold effectively since the Asian bargain prices? If lean banks are getting wealthy dropping tonnage, would any one of the helm care about U.S. gold reserves going to Asia?

FRANKLIN SANDERS: Go ahead, Stewart. Be my guest.

STEWART THOMSON: Yes. I was just kind of sitting in silence here. I figured it was my turn. My take on what actually happened there on that and why gold crashed like that with hundreds of millions of physical buyers, it started even before the crash. They were already buying in March. March was huge and I think what the banks did was they encouraged some European governments to dump gold and they dumped it on the COMEX and the banks were the buyers of that gold, but they bid it for it at much lower prices and so if you're offering, well, we'll sell the gold for you, so we'll dump off 1,000 contracts at a time.

Well, then they put a bid in for 500 contracts, so the price is just freefalling. They end up buying it all and then most of the gold sold in

Asia has to come through the bullion banks, so they doled it out. There's a shortage of gold in Asia and yet the price is tanking and they could do it again. They could bring more government gold from Europe. I don't know whether they would pay off some of the government people there or just say, "Look, you don't get any bailout money unless you get rid of some of your gold reserves."

The market could be hit again. Even though there's this huge demand on the street, it can't absorb as Franklin mentioned. You hit the market with 400 tons, the retail crowd can't – and they can't even buy it anyway. The gold isn't there for them, and then the dealers freak out because they bought this inventory.

They've got a turnover period, so if they've paid – even if they got a good price, say, 1550, and suddenly now it's 1400, they don't want to sell that to customers. They're going to eat a loss, so there are going to be buyers there, but they're not going to be sellers, so everybody basically lost except for the banks. What a big surprise.

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C. Austin Fitts: Okay, one political question, which I'm going to send to Franklin: "You've spoken to the Tea Party movement before. Sorry, but I forget your comments.

Recently, there was an article about how the top ten Tea Party members in 2010 all seemed to have disappeared or left the government. Bachmann, Paul, Palin. Care to comment?"

Franklin Sanders: Oh, well, I think the Tea Party was co-opted early on and certainly by now has been largely co- opted by the Republican establishment and so they've managed to pull its fangs, but I don't know about the fact that those people have disappeared. I mean in the case of most of them, I would say, "Great," but I don't –

Stewart Thomson: I'll tell you a funny story. Go ahead.

FRANKLIN SANDERS: Well, it's just the Tea Party people that I've talked to just don't – most of them just – I mean all due respect, just don't know sic 'em from come here. They understand that some of it is wrong. They understand that changes need to be made, but they don't think them through any better than people from – what is it, the Occupy Wall Street bunch. So, I just – they have found sentiment but bad judgment I guess is what I'm trying to say.

C. AUSTIN FITTS: Well, it's funny. I had attended a couple of Tea Party meetings in Jackson, and I encourage you to come and speak at one of them. It was a wonderful group of people with great ideas and doing great things locally who I liked very much and they had one guy who was lobbying the state legislature and who I though was terrific. And one day I started to get this unbelievably Washington controlled, pro-centralization email on that list, and I called him.

I said, "What in the world is going on?" He said, "Oh, well, we've centralized all the email into the Republican Party in Washington," and I said, "What? Who gave you permission? I never gave you permission to do that."

The next thing you know, I started getting thousands of Romney emails and sure enough, the whole thing had just been – it was like a vacuum cleaner. It centralized it all into Washington. It was pretty scary.

STEWART THOMSON: Yes.

C. AUSTIN FITTS: Anyway, yes.

FRANKLIN SANDERS: Well, I just made a broad statement about Tea Party people, and I'll go back and just crawfish as fast as I can. There are a lot of those people. Those folks in Jackson were mostly very, very sharp and they put those together.

C. AUSTIN FITTS: Yes.

FRANKLIN SANDERS: But there are a lot of them that are not that way. They just know something's wrong, but they don't know why it's wrong, and they don't know – they don't have any idea how to climb out of it and how to back out of it, so for that reason, they were very easy for the Republican establishment to co-opt.

C. Austin Fitts: Okay. Well, there's one last question and I can't tell you I really understand it, but I'll throw it out and maybe you guys will. "U.S. inflated from 1980 to now, yet gold went down 21 years and only started to move in 2001. Wouldn't you agree that gold is government hedged and it can be so in a deflation/stagflation like now or inflation?"

Stewart Thomson: Well, I'll simply say that gold can go up when interest rates are falling or when interest rates are rising and in the current situation, where you've got the quantitative easing, that until people began to believe that it's under control. It's sterilized or ending. Gold was rising in the environment of the falling race, but when you get a currency event, which I believe is coming, but it's still because the U.S. dollar is the reserve currency of the world, it takes a lot. It's like you finish off Muhammad Ali in the ring.

If you're just a little featherweight fighter, it takes a lot of debt, a lot of government and mismanagement to finish off the U.S. dollar, and I don't believe it's going to be finished off, but I think it's going to go down. So even though we've got a situation where there's a loss of confidence in the currency, any currency, and so what happens then is the central bank or the government begins raising interest rates to try to attract investors in there and you had a brief situation in 1979 where that happened. They were raising interest rates and supposedly to stop inflation, if you hit a situation where they were raising interest rates to bring people – to bring back confidence in the currency, well, it can reverse.

So institutional investors start saying, "Yes, they're raising rates, but the situation's out of control, so I want gold. I want gold." That's when you can get a parabolic move in the gold price, so you can get a steady raise in the gold price in the situation of this quantitative easing, but I think what's coming down the road is a currency event where there's a loss of –

not a complete loss of confidence, but I think it'll get to a point that gold will end up resting. In the meantime, you'll get kind of a parabolic move in gold.

C. Austin Fitts: We had one other question, which I'll take. "Are paper and gold stocks in ETS dependable investments since you have gold coin and bullion?" To me, gold coin and bullion that is outside of the brokerage system is clearly superior in terms of providing that insurance which gives you real diversification. There are many reasons why for liquidity and other things you might want to hold something to the brokerage system, but I always see the bullion and coin as your core position outside of the brokerage.

In the brokerage system is wide variation in quality of gold and paper stocks and we could have an entire Solari Report on that, but I would refer you to an article I wrote called *GLD and SLV: Disclosure in the Precious Metals Puzzle Palace* . I wrote it in 2010 and it's a good review of the big ETF and why I am not very enthusiastic about them except as possible trading vehicles. Okay, well, gentlemen, we're way over time. Anything you would like to add in closing? Stewart, if you could just, in closing, give your web address and tell us how we can stay in touch with your work, that would be great.

Stewart Thomson: Sure. You can email me at stewart@gracelandupdates.com, and I'm currently setting up a new website on a new server, which will be up on Saturday, which is www.gracelandupdates.com. I definitely appreciate being here. Enjoyed that first part. I've listened from the beginning, so that was really great. I've never heard the entire report before. That was a gift. Thanks, counselor.

C. Austin Fitts: Franklin, anything you want to add before we close?

Franklin Sanders: Well, it's springtime. If I were y'all, I would just enjoy myself. I'd spend less time worrying about this and more time planting a garden or doing something that's really important.

C. Austin Fitts: See, when I first started to invest in precious metals, whenever the gold price would do this, I would go down and talk to my cousin's cows, who would tell me to get grounded and chill out. Okay, well, Franklin, I really appreciate it and I know you've got farming to do as well, so have a wonderful evening and thank you for everything.

Franklin Sanders: Oh, thank you. I love it.

C. Austin Fitts: Okay, ladies and gentlemen.

Stewart Thomson: Thanks again, Franklin, and thanks, Catherine.

Franklin Sanders: Yes, sir.

Stewart Thomson: I think I spoke to you one time before. I remember your voice, for sure.

Franklin Sanders: All right.

C. Austin Fitts: Okay, gentlemen.