

BUILDING WEALTH IN CHANGING TIMES



The Solari Report

OCTOBER 3, 2013

3rd Quarter Wrap Up
with Catherine Austin Fitts

A close-up photograph of several hands of different skin tones clasped together in a supportive grip.



3rd Quarter Wrap Up

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INTRODUCTION

Good evening. Welcome to The Solari Report. Today is October 3, 2013. I'm Catherine Austin Fitts and I'm delighted you could join me this evening. I'm speaking to you today from Tucson, Arizona. I'm at the Casey Summit, 2013. I'll be speaking here on Saturday and Sunday. For those subscribers who are going to be here I look forward to seeing you and meeting you in person.

Next week I'm going to be in Boulder, Colorado for the Global Breakthrough Energy Movement conference. They've changed their venue. We're going to have lunch for subscribers in Boulder and then on the 29th of October we're going to have a subscriber lunch in San Francisco as well. I'll be speaking to the appraisal society in San Francisco that day, October 29th.

Tonight is the third quarter wrap-up, no interviews, and no guests. This is the time when I talk to you about the deeper trends. One of my favorite moments is when you're in the shopping mall, you walk up to the map, and there's a big, red dot that says, "You're here." Once a quarter, I like to revisit and look at the deeper trends and say, "Okay, here's where we are." It's very important to me that you see the game and as the stories unfold as they do every quarter that you have a framework and a context to put them in. It really helps to navigate.

THEME: THE PLANETARY DEBT-TO-EQUITY SWAP

Our theme tonight is the planetary debt-to-equity swap. We are moving into an unprecedented change from government to private enterprise and from financing with debt towards equity. This is a very long-lived trend. It's not going to be simple or short, but there's a significant movement underway. As Tina Turner says, "We can do this nice or rough."

A debt-to-equity swap that's rough is a pretty ugly looking thing. Let's hope we can do it in a way that is nicer, perhaps, through the equity markets rising, but we'll talk about that when we get to the financial markets section.

In one sense there's a world that's fading away and a world that's emerging. To



a certain extent the world that's fading away has been financed with government debt and that government debt has created a significant amount of wealth including much which has been stolen. Now that money is being transferred to reinvest in a world in which private equity reigns supreme, and that's part of what we're watching.

I have a slide that I'm using at the Casey Conference. It's titled "Before and After the Financial Coup d'état," and I'm going to use some numbers that I've picked out of the air just to help you put the framework in context. So, we can debate the numbers all day long and, in fact, trying to get the real numbers is impossible, but I do think the framework is very sound and helpful to understanding the events that are rolling out as we speak.

On one side of the chart I have, which is before the Financial Coup d'Etat, we're in a system, which I now call the legacy system, which has \$100 trillion of assets and \$100 trillion of liabilities. After the Financial Coup d'Etat it still has the \$100 trillion of liabilities but only \$60 trillion of assets, and \$40 trillion of assets has been shifted over and moved into the breakaway civilization. Who knows how much they had already stolen in assets before then, but they're up \$40 trillion. So, we still have \$100 trillion of assets and \$100 trillion of liabilities, it's just that the \$40 trillion has been moved separate from where the liabilities are and that's part of the big question. What is the \$40 trillion going to be reinvested in?

THE LEGACY SYSTEM'S DOWNSHIFT

Our first section is The Legacy System's Downshift. To a certain extent, the legacy system downshifting is about how \$60 trillion of assets is a portion to cover the \$100 trillion in liabilities because it's clear the politicians are not going to turn to the pension fund retirees or the social security beneficiaries or the healthcare beneficiaries and say, "Oh, we stole \$40 trillion – or someone stole \$40 trillion and we're just going to abrogate your liabilities."

Instead, what we get is a long, slow, steady complex grind of not telling the

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truth while you proceed to debase the \$100 trillion of liabilities. That's part of what quantitative easing is about. It's the kind of debasement that will string out those liabilities. So, you're debasing \$100 trillion of liabilities down so that \$60 trillion of assets can cover it, and that takes thousands of different tactics. Part of your challenge is you still have the breakaway civilization trying to steal or drain off as much of the \$60 trillion of assets at the same time. So, in one hand it's a simple phenomenon and on the other hand it's quite complex.

At a deeper level, the financial coup d'etat was, in part, anticipating the changes that have happened in globalization and new technology. Many of the biggest changes in new technology have yet to come. They're rolling out as we speak and so this is really a combination of those three stories, the financial coup and globalization and new technology.

What it all means for you and me is the change is accelerating. We saw many stories in the third quarter that were really about that grind in the legacy systems as they fade. The biggest one, of course, today, is the budget shutdown. For years I've been telling you the red button story. The House Republicans have essentially hit the red button instead of kicking the can, and the backlash shows how popular kick the can is when everybody realizes, oh, I might not get my check or my mortgage closing may be held up.

Get ready for the long haul because this budget shutdown is only the very beginning. It turns out, revenues were much better than expected in 2013; and 2014, '15, and '16 are going to be much tougher and require facing a whole slew of issues about social security, Medicare, and pension funds. That's going to be much more potentially revolutionary so don't think that this is going to be quick or temporary. We're in for a lot of grinding of the gears as this \$60 trillion to \$100 trillion has to get reconciled and everybody is fighting for their piece.

Obamacare created a framework to try and ultimately cut and control Medicare and health care spending, which if you look at any reasonable projection is really beyond anything we can afford. But they tried to create that framework in a way that could cut benefits without cutting corporate profits. Ultimately it wasn't the kind of re-engineering of the health system that we need and what it does bring is tremendous, more centralized controls. So, I see Obamacare as a



wreck on a wreck so it's not surprising we see these kinds of political tensions.

All over the country you see enormous numbers of people just trying to understand what the system could mean to them. It's one of the reasons the administration has delayed the implementation for businesses for a year, but the confusion on the individual part is almost as bad.

Another story, we're seeing all sorts of efforts to try and clamp down on liabilities, another one in food stamp reforms. The municipal issues with pension funds and bankruptcies are part of that, including the Detroit bankruptcy, although Detroit has been significantly hit by an outflow of population.

There was a story this quarter I wanted to point out where one group of legislators were proposing that it be mandated by law that children had to care for aging parents. It's another example of one of thousands of changes of rules that could be made to try and simply shift the liability from the public wheel to private families.

Be prepared to see significant effort to try and off-shift those liabilities, debase the liabilities, or simply abrogate liabilities. It's one of the reasons that we continually encourage any subscriber who can to try and create alternative sources of income to anything related directly or indirectly to government.

The Federal Reserve largesse that you're seeing during the last year has to do with both cleaning up the fraudulent paper from the financial coup d'état but also about buying treasuries to net finance the government and keeping interest rates low to keep that legacy system debt operating. Essentially, that's because debasement is more popular than taxation. So, generally as a political matter what the leadership has found is it's easier to print more money than it is to require people to send money in as taxation.

Ultimately it has a very similar financial effect to taxation but it's really the sort of the invisible way to do it. We're watching many stories along these lines. Amazing, two weeks ago there was an article saying that the executives responsible for the mortgage crisis are back. Well, they never went away. These were people who engineered the coup. They did a very good job at it.



That's why they were, instead of being put in jail, promoted and paid huge bonuses.

Upon watching the fact that it's the very same people who engineered the pump and dump of the mortgage market have been nothing but promoted and paid well, you can really start to see the system as it really is intended.

It was during the third quarter that Larry Summers was finally killed as a potential candidate to replace Ben Bernanke at the Federal Reserve. Making Summers the Federal Reserve chief after he was so instrumental in engineering the housing bubble and all the sort of shenanigans that we've seen including the de-regulation of derivatives was really just a little bit too much rubbing it in everyone's faces.

There's great confusion in the general population about the leadership's behavior. It's one of the reasons I wrote the fiscal cliff article in the beginning of the year, and if you're interested in the deeper story on the difficulties of balancing the budget I encourage you to read it.

One of the reasons I took the time to write it was, I said, "Okay, over the next three years we're going to get asked this question hundreds, if not thousands, of times so it behooves me to sit down and write the full thing out so that people can really see it. Once you read it, you'll understand why."

If you're a member of Congress it's extremely challenging for you to do the responsible thing because you've generally got many constituents who are irresponsible including some who are quite dangerous and above the law and the general population is still not prepared to hit the red button. So, again, the House Republicans are hitting the red button and that's an inconvenience that I think the general population is not yet prepared for.

Capital controls - as the legacy systems fight to get as many assets as possible we're watching a real serious effort underway that's been building for quite some time but we really saw it crescendo in the second and third quarter this year to get ready to go after the tax havens. Over \$30 billion sitting in the tax havens, much of it not paying taxes or available as capital and I think we're really seeing G7 target the tax havens. We're going to see that rolling out for



quite some time. Cypress was a prototype, if anything, of targeting of a tax haven.

We saw just in the last few days Panama have a bank holiday. At the same time the Department of Justice is negotiating tax enforcement with Panama. I suspect that that's a real effort to go at a tax haven that's very close to America. It was interesting - when I was litigating with the federal government I can't tell you how many people tried to get me to move myself and my assets to Panama. I kept laughing and saying, "if you think these guys can get me here wait until you see what they can do to me in Panama." So it'll be interesting to see what comes up. That's only the first of very many squeezes to come now that the Department of Justice has achieved a real lockdown on the Swiss financial institutions.

As part of this sort of legacy system fading we're also seeing the attack on the pension funds, particularly the state and local pension funds. As I said the efforts to steal the \$60 trillion are not over. Matt Taibbi has a great piece on pension funds, which is up on the blog this week.

There are two risks to all of us, and one is that we get left behind because we don't sort of see things as we are. By left behind, one of the groups is what I call the collapse cult. Whenever somebody says, "Oh, the economy may collapse," well, no, if the economy is collapsing it's because it's being collapsed.

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We're going to talk about environmental issues later and that's a different topic but if you look at what's happening to the legacy systems they're not collapsing. They're being collapsed. This is a fundamental re-engineering of the governance system. It's the result of a financial coup d'état. I would hate to see us mistake a re-engineering for an economic collapse because one is a political problem or issue or dynamic and the other is economic. What we're watching is not economic. It's political.

But we're also seeing people and enterprises left-behind. One of the British papers that was up on the blog last week had a good article about zombie companies, how many companies were literally waking up and finding that as a



result of the financial coup, as a result of changes in technology, they're literally waking up and finding that they're irrelevant and there's a potential danger of another large round of unemployment.

I'm seeing that in companies big and small who literally are left flat-footed as the Internet and all sorts of changes in technology, are fundamentally changing their business. One of the issues in the financial markets of course is how are corporate earnings going to fare?

Well, some companies are going to jump the curve and some aren't, and of course we're seeing a tremendous rise of new companies. I talked last week about Alibaba, the largest Internet Chinese company, coming to market with a potential valuation of \$70 billion. That was a company that was created in the '90s. Now it's one of the largest companies in the world. So we're in a period of creative destruction and there's no doubt about it that either our household or our company can be left flat-footed if we don't pay attention and keep up.

Another risk in all of this, and one I'm most concerned about for our subscribers, is your time. There's nothing more precious than our time and there are a couple of things you can do to absolutely save time. One is to avoid watching the media, the corporate media, because there's a great deal of misleading coverage of this and it's all designed to make people angry and to feel like a victim in a way that does not get you where you need to go.

It also really encourages you to believe that you're going to get the one dollar on the dollar instead of 60 cents on the dollar. You believe more and more that the system is legitimate and continue to spend enormous amounts of time trying to get your benefits in a way that distracts you from learning about the new opportunities and shifting into the new opportunities or taking advantage of them.

The more your time and attention gets sucked into the old system in a way that makes you angry and isn't effective at making sure you get your 60 cents to a dollar on the dollar, I think that is of concern to me. Whatever money you can get or protect, do it but move on as quickly as possible without letting entanglements in the legacy system sort of break your heart and waste your time.



So that's it for the legacy systems fade. This is a process that we're going to be managing for many years, as I said, so it's important to be good at it but not to let it eat up your time and your life.

CONTROL BACKFIRES

It's not surprising given the situation that government now finds itself in trying to manage a wide range of liabilities, from the needs of the baby boomer generation to the demands of the creditors that there's more and more effort to invasively control. This is in a number of realms.

We've seen the recent Snowden revelations about the NSA and invasive technology. I would describe this technology as part of the Anglo-American financial machines effort to protect its market share. As the globalization has occurred, the market share of financial flows through New York and London and the Anglo-American financial centers, our market share, has been dropping, dropping, dropping. A lot of this invasive technology is a way to sort of hold the line and win it back. It's what Glenn Greenwald calls the one-way mirror. So, you're really watching the financial machinery use the one-way mirror, not just in the United States but globally, to give it the leg up in economic warfare.

Now, as part of this effort to defend market share I think you've seen a lot of squabbling back and forth between the BRIC nations or the full G20 and G7. One of the things we're watching is the shift of capital back into the developed world as G7 asserts its primacy. We'll be talking in the equity overview later this month with Chuck Gibson about the extent to which the developed world markets have significantly outperformed the emerging markets this year although the emerging markets turned up again in the third quarter a little bit.

Part of this effort to control is the effort by the Anglo-American Alliance to assert the central banking warfare model globally, so we've seen the countries that are not in that system being targeted and moved into that system: Afghanistan, Iraq, Libya, now Syria. We know North Korea has held out. Iran has held out.



So, part of what you're watching is, if we're going to move to a one-world government or a global currency, everybody has to get into the model. You're seeing a real push to get everyone in the model.

You're also seeing a competition to control resources. There was an article last week about China buying up 5 percent of the land in the Ukraine, so part of this is a dance between Russia, China and the United States/Anglo-American Alliance wanting to assert a global model.

Of course, Russia and China are behooved not to let them get it, and you have a little bit of a dance between these powers in the Middle East and in Africa and around the globe. Part of what you're seeing in the headlines is this push to get everybody in the central banking-warfare model and the push, particularly by Putin leading the way with Russia, of everyone not wanting to get into the central banking-warfare model. I think it's appreciated that once you have a very centralized cartel controlling everybody and everything the game is really going to change in terms of governance, policies, and currency. So there is tremendous pushback globally against this effort to get everybody into the central banking-warfare model.

Then you have, with the NSA/Snowden revelations, a pushback against the one-way mirror, the Brazilian president being the most notable for just being outraged at being listened to by the American intelligence agencies. I assure you this is far from just the American intelligence agencies that are part of this.

To a certain extent part of what we're seeing, because Snowden clearly has very high projection from a variety of places, is transparency used by different factions to compete against each other. If you listen to the crowdfunding report that I did last month you'll hear a lot about the extent to which we're watching financial flows move from traditional systems onto the internet in terms of both online systems that impact where money goes, purchases, currency, equity investment and now payment mechanisms.

Crowdfunding is really going to be part of moving a lot of the money into payment mechanisms that roll through either the Internet or in internet-influenced systems. Part of what you're watching in these squabbles is a squabble of who is going to control those financial flows. Without the



Snowden revelations I think the Anglo-American Alliance may easily have been well on its way back to capturing a much greater market share. They've been losing but they had a chance to go back up.

As those revelations come out, what we're seeing is real increased awareness of the extent to which email systems, phone systems, all these different systems are not private and real concern about that. As *Kiplinger* said, it's inspiring the Balkanization of the internet as different governments around the world turn to their private companies and say, "Look, we want cloud companies without depending on U.S. cloud companies." What we're seeing in Congress is a willingness to roll back certain provisions of the Patriot Act now that the cloud company equity valuations and market share are threatened by the realization around the world that you don't necessarily want to be on the U.S. cloud and your cloud companies can't protect you from the NSA.

So, we're watching the spillover into the market place in some very interesting ways and that debate is far from over. The sort of debate about internet freedom and control is going to be with us for some time and is going to be very, very important to the economy because if you have no privacy then you're open to be harvested at all times any time.

Another place where efforts at control have backfired is on gun control. The administration in the United States pushed very hard after the election. As I said, I think the pressure from the people who now control and are investing the \$40 trillion, sort of the winners of the financial coup d'etat, very much want gun control because they want to be unimpeded by the backlash and anger and frustration over the next couple years, particularly as people realize what the loss of that \$40 trillion has done to the promises they've been made in terms of social security, Medicare, and other benefits.

There was real concern and real pressure on the administration to get gun

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control. They failed. Some of the covert operations, which I believe were designed to encourage gun control, have backfired. Certainly we saw out of the Aurora, Colorado shooting many more people buying guns, so if anything the U.S. population is quite dug in on this. We see the administration going to all sorts of regulatory and dirty tricks, so it's a thousand cuts by a thousand knives, if you will, to try and get gun control in many different ways through administrative and regulatory policy.

I think that will absolutely fail. There are too many people who understand the importance of a well-armed population to protect themselves, in fact, from lots of local crimes and problems. So, the administration is absolutely going to lose on this one. It's going to be a very good example of control failing.

Same thing on carbon taxes, just as efforts keep redoubling to push for carbon taxes we now see the Australian – the new prime minister – cancel their carbon tax commission. Again, this issue has gone to trench warfare and that may be related to smart meters. I published a review of a wonderful smart meter documentary – it was up on the blog last week. There's tremendous pressure to push smart meters. It's happening all across the Anglo-American world and you see a lot of pressure in communities to push it back.

One of my concerns is that the smart meters are going to be a control mechanism to help manage the disappointment with an inability to make good on the \$100 trillion of liabilities, and so, as things get cut and as the budget gets cut, if you don't behave you're going to get your energy cut off. This is particularly sort of frustrating at a time when we're seeing technology that could dramatically bring down the cost of energy to have that sort of control mechanism on your home.

What's been interesting in all these different efforts to roll out more and more control, one of the pushbacks we're seeing coming from abroad is more and more effort to sort of point out the hypocrisy of much of what the Americans are promoting globally in terms of justice and human rights. We have Putin doing a very good job of being the spoiler pointing out all the problems with GMOs and prisons and doing a very good job using the Russian press to hit back at the Americans in their brand underbelly if you will.



As we integrate globally and the Internet helps us see the game globally, a lot of the hypocrisies and lies are going to be squeezed out of the system and it's going to be a rough process. There are more and more efforts to control top down everywhere. As they get pushed out everywhere there's more and more pushback. I expect to see that in the next quarter.

THE DIGITAL HEARTLAND REVS UP

Next issue, the digital heartland revs up. Just as the legacy systems are grinding their way through, we see new "Newco," or the breakaway situation, taking the \$40 trillion and moving forward at lightening speeds to invest and reinvest. Everywhere you go in the United States where those industries or worlds are strong, whether it's Silicon Valley or Dallas and Austin in the oil patch, Boston, wherever you go to, the sort of the toolmaker areas, the toolmakers are booming.

Look for it to go beyond just those areas. What we're seeing now is a lot of the technology that has been developed by the toolmakers over the last 20 to 30 years is now headed into the heartland.

What we're seeing is a dramatic increase in the ability to transfer intelligence from bits into atoms or hardware back to bits. We're doing a *Solari Report* on 3D printing next week and I'm very much looking forward to that. We'll go into this phenomenon in much greater detail there.

Part of what's happening is not just technology so, for example, a 3D printer can take a design in a piece of 3D software and convert it into material precisely piece by piece.

The other thing that's happening is the prices of doing this is dropping. So, the price has been dropping on this kind of software for many decades and because the price has been dropping the ease of using the software is improving and so many more people now know how to use it. In many different areas we're reaching a critical mass where technology is making a real, practical day-to-day difference, and as that happens in different areas those areas combine to accelerate all sorts of opportunities. So, we see composite materials being developed that in combination with fabrication technology can make a much



lighter engine or a much lighter plane or a much lighter car that's very well engineered.

So these things, as they integrate, are having leapfrogging kinds of impacts. Again, now we're talking about integrating these kinds of technologies into everyday life so we see lots of discussion of the driverless cars or digital highways or we see lots of discussions of the different things that can now be done in terms of building a home and integrating this kind of technology into a home, so we're really talking about moving into the everyday infrastructures of life.

One of the questions I got in "Ask Catherine" was a question about solar panels and why I was discussing solar panels. Solar panels are now approaching – we haven't gotten there yet – but approaching the kind of efficiency levels that is expected to make solar very competitive with other forms of energy, particularly coal. The poster points out that that's far from the only problem with solar.

I couldn't agree more. With many renewable energies there's a real issue as to, "can we create batteries that can store the energy and even out the supply which would make solar much more efficient and a lot of the renewable energies much more efficient?" Certainly I don't know the answer to that, but I do believe the day will come when solar panels reach a 50 percent or more efficiency and we solve the battery part – there's the battery challenge opportunity and when that happens we're talking about the potential for great leapfrogs.

Ditto with the composite materials. If the day comes that we can make a car with graphene or make a plane with graphene we're talking about dramatically lower fuel costs, dramatically greater, fuel efficiency.

Anyway, we'll talk more about this, starting with the 3D printer, next week, but make no mistake. This kind of technology can be unbelievably deflationary, both for commodities and for financial capital. What you're talking about in the long run if you can dramatically speed up the speed at which you can change bits to atoms and atoms to bits then, in fact, what you're talking about is needing a lot less inventory or people doing a lot more for themselves.



What that does is that squeezes out the amount of financial capital you need within a system. It creates a world where technology stocks, or the stocks of the companies that know how to integrate this, are much more attractive than precious metals. So let's keep an eye on the sort of digital heartland development because I think it can have a dramatic impact on the IPO markets. It's one of the reasons I wanted to do a major overview on crowd funding. Crowdfunding is going to be one of the ways that you provide lots of capital to lots of startups and small businesses that can prototype this technology in very dramatic ways and lead the integration in a way that the large companies won't necessarily be able to do.

SPACE BECKONS

I keep bringing space up on The Solari Report and that's for a number of reasons. The reason that I wanted to bring it up in the wrap-up is that I read about 20 different magazines as a regular course and a fair amount of newspapers and periodicals. I was struck over the last quarter as to how many articles there were on space: *Popular Science*, *Popular Mechanics*, *Wharton Magazine*, *MIT Technology Review*. I just was amazed at the popular press effort to interest people, particularly the younger generations, in space.

Part of my intuition on this is I think one of the reasons, and we talked about this with Dr. Farrell when we did the Breakaway Civilization Part 2 this year, I think one of the reasons we're seeing the efforts with crowd funding and new technology and the sort of letting all that technology out of the laboratory is we're creating the industrial capacity to build a real significant space exploration/space mining process and it will be led in a privatized model.

We saw, over the last two to three years, NASA take great steps to sort of organize how they're doing everything, going forward into a private model. It wouldn't surprise me if that's because now that we're ready to engage in mining and other sort of other potentially very profitable activities in space that the

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folks with the \$40 trillion want to be able to capitalize that and translate that into more stock market strength. Not to say the government won't be continuing to fund a great deal of space exploration. I think they will be. But keep an eye on that because if it's true that a significant effort in space is being planned that's going to translate into enormous strength in this new part of the economy.

WILD CARDS

We have several wild cards and if you want something to fret about I'd start fretting not about the economy but about the wild cards. The big one, of course, is Fukushima. I have tried very many times, and some of the team that does our research has tried many times, to figure out who we could have on The Solari Report to talk about Fukushima. I had James Corbett on. Being in Tokyo, or being in Japan, he runs a website covering Fukushima. One of the challenges of trying to do a Solari Report on Fukushima is there is a very wide range of opinions.

But the one thing I will say is that there is great concern if the team there does not find a way to deal with it successfully it could have profound implications for the Japanese people, the Japanese economy, but also for the entire world, both the oceans and the atmosphere. I think Fukushima is a wild card and something of great concern and we certainly keep our eye on it here on The Solari Report.

Other wild cards to think about are other environmental issues. I think Fukushima would be my number one but we're seeing reports of draught, fires, flooding, quakes, sinkholes, around the world, water contamination, tornadoes, hurricanes, and on and on and on. Some of this is what's been going on for centuries and nothing new. We just now have the Internet. But there is no doubt about it that the world is under profound environmental stress and that's one of the reasons I'm extremely hopeful that we do move to an equity-based model because in an equity-based model we can align the financial systems with the environmental systems and come back into something where the stock market is infinitely better off for healing the environment as opposed to vice versa.



Another wild card I think to keep an eye on is the UFO story. Will the UFO story go mainstream? That's part of understanding who in the world really is governing on planet earth and why is the governance system behind the one-way mirror and why are the people governing, certainly the financial system behaving the way they're behaving. We continue to see the UFO story sneak mainstream and the conversation widen and open up. I for one think that's going to happen and my concern is that what goes mainstream is disinformation as opposed to information.

Finally, unemployment. As we watch this explosion of technology and entrepreneurship around technology there is no doubt about it that you're going to see significant amounts of employment changed or debased or simply deleted as a consequence of things like robotics. How we're going to manage that process is anybody's guess, but I think for any one of our subscribers what is important is to see what's coming and to adjust accordingly. Lifelong learning and lifelong skills are a critical part of that.

So those are the wild cards: Fukushima, environmental issues, the UFO story going mainstream and, of course, unemployment.

FINANCIAL MARKETS

Financial markets, what is the bottom line? Let me talk about what I look forward to in the fourth quarter. I typically have used four scenarios. One was slow burn. One was 2008 repeat. One was collapse and one was transformation. I'm going to add a new scenario going forward and that scenario is called equity rising. That's a scenario where there's a real effort to engineer a rise in the equity markets and rather than mark down all the debt you simply write up all the equity. It's an oversimplified way of saying it.

My scenarios for the fourth quarter is slow burn 70 percent, equity rising 12 ½ percent, 2008 repeat 12 ½ percent. I would have a very small number in 2008 repeat. The only reason I have as much as 12 ½ percent is my concern is if the politics of the budget squabbles really get out of hand you could have some less than savory characters try and take advantage of it and that could result in a 2008 collapse or repeat.



Then collapse I have at 2 ½ percent - I'm not worried about a global economic collapse. I'm worried about Fukushima or another environmental disaster, and, finally, transformation, 2 ½ percent. You never know when enough of us are going to come together, and we have a critical mass of people who say enough already, and then we could start to see some really very positive change.

So my scenarios for the fourth quarter: Slow burn, 70 percent, equity rising, 12 ½ percent, 2008 repeat 12 ½ percent, collapse, 2 ½ percent, transformation, 2 ½ percent. These are the scenarios I use for strategic planning and investment strategy. So when you look at the range that's that wide what you realize is it pays to be diversified and to be prepared for volatility in any place at any time.

Equity markets, my guess is we're going to see a high in the S&P 500. Assuming the budget shutdown ends within a week or two I think that you'll see North American equity markets strong for the rest of the year, so high in the S&P, maybe a 1750, no higher than that. Again, if things spin out of control it can clearly go the other way so it doesn't surprise me that I know many money managers kind of sitting on the fence waiting to see what happens.

The real test, the big test, is going to be the precious metals market. Will the primary trend reassert between November and March? I think it could take a while. My guess is the high this year between now and the end of the year is probably going to be about \$1450, maybe we make it to \$1550 by the end of March but I think it's going to be a slow rise back. Gold has a lot of deflationary trends to fight against so I don't expect to see any glorious highs in precious metals. The high, I think, this year will have proven to be in the first quarter.

Bond markets are a very important thing to watch. How low can interest rates stay? We've seen the interest rates move up including on the long end. If there's any one variable to watch throughout the fourth quarter it's going to be the interest rates both in the intermediate and long end. If the long rates continue to rise and we really see a turn in the bull market – from the bull market in bonds to a sort of that bull being over, it's going to have a very significant impact on housing and municipalities. There's no doubt about it.



Municipalities are really under the gun in this kind of environment.

Interestingly enough I just attended a design sprint at Open Source Ecology in Missouri to build a microhouse. You can go to their website and see the microhouse. What was interesting, my take-away from that process was looking at the complexities and the corruptions in the mortgage market and in home building. I said, “You know, it really is easier to learn how to build your own house.”

If you look at the efforts by Open Source Ecology to document the steps involved in building a house and making the plans available online as well as the plans on how to make a brick press, what you’re seeing is, whether it’s Open Source hardware or Open Source software, the techniques of getting a group of friends together and building a house in a couple of days are developed.

At some point the complexity of the legacy systems is such that it’s a lot easier to learn how to build your own house and build your own house than deal with all their complexities let alone getting into a 30-year mortgage. So, if you feel the urge it’s not a bad time to learn how to build your own house.

The big question, as we watch the markets in the fourth quarter, is again, how will we reconcile the debt to equity? Will we have equity markets rising and the extraordinary monetary bulge created by the central banks? Will that money be channeled into the equity markets and equity markets rising or instead will we go through this long grind where we have to mark down the debt? So how will it work, the debt for equity swap? That’s one of the things I’m going to be watching in the fourth quarter very closely.

Part of the equity rising will be the institution of crowdfunding, and as I’ve said earlier when the SEC promulgates their final regulations on crowd funding, expect us to have a Solari Report covering that.

“...the complexity of the legacy systems is such that it’s a lot easier to learn how to build your own house and build your own house than deal with all their complexities let alone getting into a 30-year mortgage.”



When it comes to many of the enterprises in the United States and globally, we see companies that are having to transition between the legacy systems as “Newco” and it’s always going to be interesting to watch. The companies that can make that transition, a lot of it is going to come down to great management and leadership.

So, I’ve gotten several questions about, well, what does this mean to the companies in my portfolio. You really have to take a look. It’s a very granular thing taking a look at what they do, what their products and services are, and who their management is and whether they’re able to make that transition or not.

In the equity overview at the end of the month we’ll be talking about the emerging markets. That’s going to be a very interesting one because the emerging markets have significantly underperformed the developed markets over the last year. Again, the emerging markets have come up in the last quarter but for the year they’re significantly under performance. Part of that is that we’re seeing slower growth and new technology deflating commodities, and part of the emerging market story is a commodity story.

CONSCIOUSNESS VS. THE TRANCE MACHINE

The next section is consciousness versus the trance machine. At the deepest level of everything we’re watching, on one hand we’re watching the governance system that’s centralizing economic and political power and it’s doing everything it can to sort of control the global mind. At the same time as information technology speeds up and globalization speeds up we’re also seeing more and more people learning about how the global governance systems and economy and financial system work or becoming much more conscious.

We’ve seen in the United States, for example, we’ve had a system where we talked a great game on individual rights and human rights and the reality is we financed that system by running around the world and stealing from everybody else and engaging in both overt and covert warfare. Now with globalization we’re being forced to face that and move to a system where either everybody’s rights are respected or nobody’s rights are respected. That’s part of the discussion we’re having and one that can be a very healthy one. Are we going



to force everybody in the central banking warfare system or maybe would we like to move to a new model and get out of the central banking warfare system?

So, you're watching this evolution of consciousness. At the same time you have what I'm calling the trance machine do everything it can to control that. We had a wonderful interview of Zbigniew Brzezinski this year and then another one in the third quarter saying people are becoming so conscious it makes it very difficult to govern because you can't lie to them about things like Syria.

You see the people leading the trance machine getting frustrated because there's pushback. As we talked about earlier the efforts to control are not working the way planned so you have this real dynamic of the consciousness versus the trance machine and you see it really popping out on this latest budget shutdown.

I want to come back around to the budget shutdown because the corporate media is doing everything they can to encourage people of being in a victim mentality or being angry and they're getting the population sort of entangled in caring about the legacy systems and being upset about the legacy systems and, as I said, embroiling you and your time in a very unproductive conversation.

It reminds me, I was talking earlier today with someone about what happened to me in 1998 when I was dealing with a very significant effort by the federal government, a variety of private parties, to shut me and my business down. I and my company experienced 18 audits investigation, 12 tracks of litigation, very serious physical harassment and surveillance and an ongoing smear campaign.

It was an incredibly immersive process. If you've ever seen the movie *Enemy of the State* you can understand what it was like. At one point I sat down and thought this is getting very, very dangerous and I may not survive this. I literally may not live. Everything I'm doing is not working so I need to go back and I need to study other examples of people who have experienced this and I need to understand what worked and who was successful in this situation and what were the tactics that made them successful or caused them to fail and how can I improve my strategies as a result of learning from what they experienced?



I went back and studied when other people had been targeted in a similar way. What I discovered is the people who didn't make it literally got poisoned by their own anger. They fell into thinking of themselves as a victim. As a result they gave up their power. They got very angry as a result. They didn't think clearly. They alienated the people around them who were trying to help, who certainly didn't need to have anger taken out on them and as a result they lost.

One of the things I realized is, oh, in a situation like this you cannot afford to get caught up in anger and you certainly can't afford to give up your power by becoming a victim.

One of the things I'm seeing as the budget game unravels and the people who were counting on that \$100 trillion of liabilities. That's our social security. That's our Medicare. That's our Medicaid. They are suddenly waking up and feeling as though they've been victimized. It's very important to not fall into that psychological trap.

We're literally watching a divide in the population. If you look at The Solari Report subscribers most of our subscribers are people who have seen the problem coming way ahead of time, who have taken action to prepare to protect themselves, who don't get sucked into the entrainment of the corporate media, any of that, and so for the most part I see Solari Report's subscribers as people who are taking responsibility and taking action and not getting tricked and sucked into the game in that way.

Our biggest challenge and what I'm seeing throughout The Solari Report subscribers who I talk with is our biggest problem is we're trying to navigate a population who is getting caught up in that anger and that victim mentality and the media entrainment game. I developed the coming clean idea to help us evolve that separation including shifting away from the people who can't make the change.

What I've found is you can certainly try and help people understand. You can certainly help them see it but we're all going to have to help those we can but at some point we're going to have to shift away from people who cannot make that change. If there's one area in your life that I think you need to protect yourself from it's not just the legacy systems, but from the folks in your life



who can't let go of the legacy systems or can't navigate the legacy systems in some state of amusement.

HERO

Our hero tonight is Masao Yoshida who was the general manager at the Fukushima plant when the disaster happened and he played a very critical role by disobeying corporate headquarters. He continued to use seawater to cool the reactors at a critical moment and there have been experts subsequent who said by doing so he prevented a much greater disaster. He was diagnosed with cancer late last year and died in July, 2013.

He was only 58 and his leadership is an example of the difference that enormous numbers of people have made in dealing with Fukushima and Japan, and if there's anyone who I would ask that we just lift up and hold up in our prayers it's the many people who've dealt with it including Yoshida and their families. Yoshida left a wife and three sons so, prayers for the people at Fukushima and our thanks to them. They are a reminder that the world is full of great leaders who are doing great things for us and for all humanity.

“They are a reminder that the world is full of great leaders who are doing great things for us and for all humanity.”

ASK CATHERINE

We have several questions in Ask Catherine.

“In my opinion I believe that the purpose of the mainstream media from the perspective of the power to be is to direct our thoughts, feelings, beliefs, opinions and actions to serve their own best interest. What is your opinion on this?”

I think the corporate media is a mish mash. As an investment advisor I watch certain parts of the corporate media because I like to know what the official story is. It's a big planet. It takes a lot of resources to cover it, and they have a lot of resources. I do find that the material omissions are many and the programming is very, very significant so you have to be extremely careful.



So in essence, yes, I agree with you but I think it's a little bit of a more complex story, and I tend to try and avoid as much of the corporate media as I can except those parts that I need to cover the investment world. I do find it very useful to understand what the official story is in being promoted because, again, we have to navigate that story and we have to particularly navigate the legacy systems.

One of the things I've noticed, the corporate media does a great job or does a very significant job of covering the legacy systems and they're very silent on the breakaway civilization and new-co because I think that's where a lot of the financial opportunity is, with some exception. So, yes, the corporate media leaves much to be desired and, yes, I think they represent the agenda of their owners.

A great post that's up on the subscriber common area on Solari on solar energy, and many are asking why I've been talking about solar energy.

I've been talking about solar energy because I think there is a chance that when it reaches the 50 percent efficiency level sometime in the next year or two, we're going to see a real significant increase in the efficiency of using solar but, again, the proper batteries have not been found and until that happens I don't see solar as being efficient.

I do think between the potential for solar reaching that point and what's happening in natural gas I do think that coal is going to continue to diminish as a source of energy and I would love to see nuclear diminished as well.

Several people sent me an analysis on the Syria situation basically proposing that Putin had quietly played the debt card.

I think the story is more complicated than that. I think Putin was playing to get more leverage economically, and notice big investments by the Russians recently in tech companies so I think Putin was negotiating behind the scenes to get more treats for the Russians, if you will. I think Putin is dedicated to preventing Anglo-American Alliance sovereignty over Russia, but I think the story is a little more complicated than that.



The debt is a two-way gun so the Americans have the ability to print more money no matter what and the question really is will the Anglo-American Alliance have to go to war to enforce that system.

A question from the report on crowdfunding: *“What impact will the crash up in the stock market have on legacy corporations?”*

Great question. It depends on the corporation. You’re seeing some traditional companies do a great job of transitioning and other companies who are really going to be left flat-footed. I look at a lot of companies every day and you really have to go through their business, their management, and it’s really a very bottom-up analysis that will show it. But we’re going to see tremendous divergence of the companies that make the transition and those that don’t.

“What will be the effect of the crash upon precious metal prices?”

I continue to think that the powers-that-be are going to want to manage the rise in precious metals, but you bring out enough technology and it can be unbelievably deflating to the value of money, including precious metals, so I think it remains to be seen and that’s why I want to see what happens with the assertion of the primary trend between November and March. I think we’ll know a lot more about this in March.

“Have you changed your opinion on bitcoin?”

Nope. I haven’t. You’ve got to be very careful and of course the last thing I want to see is digital currencies emerged in prototype for the benefit of the new world order.

One more question about Open Source education. We have a poster who is a homeschooling parent. They make an excellent series of comments so I thought I’d just read it quickly.

“As a homeschooling parent I’ve watched the online educational opportunities explode in the past ten years, however, the same questions always have to be asked. Who funds the school? What is their agenda? Sometimes that information is easy to obtain,



sometimes not. Just as Common Core has the goal of being able to not only collect all kinds of information of every sort on every child to be saved forever apparently with no guarantee of privacy, but brainwashing straight from Washington, D.C., they can be changed with the click of a mouse.

Many from communist countries have commented on the incredible similarities between their communist education and the Common Core. Khan Academy, for example, was bought a few years ago by the Bill and Melinda Gates Foundation” – I’m not sure it was bought as opposed to received funding. “It’s a wonderful educational site but it’s important to know the politics of the Gates Foundation and how that may now and in the future impact the education received there.”

To that I say amen, amen, amen. The Gates Foundation is to be avoided at all cost but I do think that Khan Academy does some great stuff. It involves very deep thinking and a lot of homework to figure out what education really is and what it shouldn’t be, not that everyone will agree, of course, but it’s never a waste of time to do that homework.” I could not agree more.

“As a teaser find out why prior to the advent of the public school system at the time of the Revolutionary War Massachusetts had a 97 percent literacy rate, far higher than today, and the best-selling dime novel of the day was *The Deerslayer* by James Fenimore Cooper. Try to re-listen to it then re-listen to a best-seller today. Find out how many books had to be sold to be constituted a best-seller back then compared to the population and how many today compared to the population.

I bet you’d be quite surprised, as I was, to find the massive deficits in your own education in which we were all taught that right now we are living at the pinnacle of achievement of all societies of all times,” Laurie. Great comments, couldn’t agree more. Laurie was referring to a little post we did on the growth of Open Source education and there’s been an explosion in education online. A lot of it’s going to be for entrepreneurs in anticipation of what’s going to happen with crowd funding.



LET'S GO TO THE MOVIES

I had as our movie this week a redo of the *A Team* made in the last couple years, and I wanted you to see it because, and I don't want to give away the whole story, but it describes a group of wonderful, loyal patriots coming to grips with the fact that the system is not legitimate, that the governmental system is not legitimate and they need to create their own legitimacy and own culture outside the system. In other words it's time to leave the system. There's nothing left.

I don't want to tell you too much more because I don't want to give away the story. It's a wonderful example of this issue of the Mandate of Heaven and what happens when a system loses its fundamental legitimacy in the hearts and minds of the people. That's really where real change comes from - in consciousness in the hearts and minds of the people.

What happened to the A Team in the movie is a little bit of a metaphor of what happened to me. I remember once facing down a group of attorneys who said that if I didn't do something, which I considered to be an abrogation of a contract and highly unethical, that they would not represent me, and I told them to go jump in a lake. They said, "Well, if you don't have us, you'll end up going to jail." And I said, "Gentlemen, if I'm going to go to jail then apparently I'm going to go to jail to organize the last entrepreneurs I need to run the country when this government fails because if people like me are going to jail and can be framed like this then it's only a matter of time until this government fails."

In one sense what's unfolding with the budget shutdown - I do think wherever we are 20 years from now there's a great deal that's now happening to destroy the legitimacy of this system in the hearts and minds of the people. You can't watch this extent of the corruption, and still respect and take the courts and the governmental systems seriously. There's been a financial coup d'etat.

So, the Mandate of Heaven to a certain extent has left the system and we're

“It's a wonderful example of this issue of the Mandate of Heaven and what happens when a system loses its fundamental legitimacy in the hearts and minds of the people.”



now left with the question of how is this going to work and what are we going to do next? If you want to think about those issues and have a great laugh and watch a very fun combination of comedy and action movie watch the remake of the *The A Team*. I can't recommend it enough. It all comes down to who needs the system, and you would be surprised.

CLOSING

Okay, that's it for our third quarter wrap up. Coming up next week, I'm very excited, we're going to have a beginner's guide to 3D printing with a wonderful young engineer who I work with to help me with a sort of new innovation technology. John Rappoport has agreed to do his report on the following week and then equity overview with Chuck Gibson on October 24. We'll be talking about the emerging markets and how equities in the emerging markets have been faring.

So, until October 10 with a Beginner's Guide to 3D printing, please remember don't worry about whether or not there is a conspiracy. If you're not in a conspiracy then you need to start one. Ladies and gentlemen, good night and good luck!

DISCLAIMER

Nothing on The Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.