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The Solari Report

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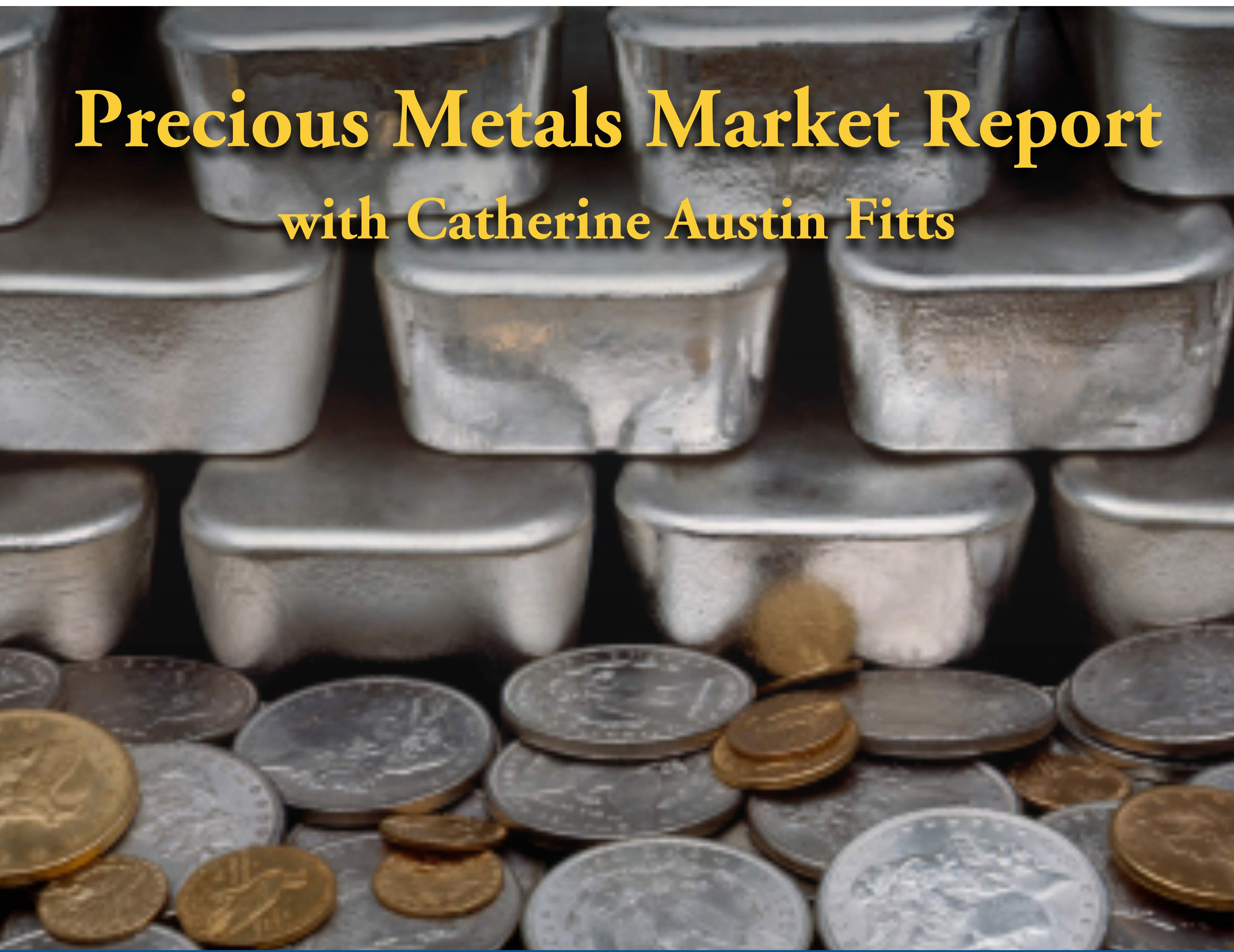
Precious Metals Market Report

with Catherine Austin Fitts



Precious Metals Market Report

January 9, 2014

Good evening. Welcome to The Solari Report. Today is January 9, 2014. I'm Catherine Austin Fitts, and I'm delighted to be speaking with you this evening.

Tonight is the first Precious Metals Market Report of the new year, 2014. It's going to be a very fruitful year. I'm looking forward to this one. I am doing the Precious Metals Market Report alone tonight, and that's because I wanted to begin the year by presenting a framework on how I'm approaching precious metals in 2014. I want to make sure you have a framework for your precious metals holdings in 2014.

Franklin will be back and join us on the next one. We'll be doing Precious Metals Market Report quarterly in 2014. He's also going to be joining us in February to do a discussion of his jailhouse ministry and local economy – something I very much want you to hear about.

I enjoy sparring with Franklin on the points where we disagree, but one of the things I've discovered in recent Solari Reports is that it can be very confusing for the subscribers. Because it was important to me that you start off the year with a clear framework on how to approach precious metals I thought, "Okay, well, maybe we'll just do a fireside chat with me alone."

I strongly recommend for any consideration of precious metals or any assets, any part of the financial markets, that you read the special web presentation we did for the yearend wrap-up. We put it up last week. You can link to it from both your subscriber resource center as well as the blog post on the annual wrap-up. It's critical background for this report and for a lot of the things we're going to be doing this year. I think it's going to put a lot of things in perspective, so I strongly recommend you read that. The web presentation has a lot of graphs and charts, so I would certainly make sure you take a look at that even if you listened to the audio.

Let's start on precious metals with what happened last year, because last year was quite – one person called it carnage. Gold certainly had outperformed the Dow for 12 years straight. Then not only did it not perform well, if you had a dollar in gold at the beginning of the year and bought the S&P 500, when the year was over, you would have had $1.30 as opposed to $0.58 less than if you bought the S&P. So it was a very wide spread in terms of performance. Of course the mining stock's down more than 50 percent. So, needless to say, we started the year at $1,700.00 and went down as low as almost to $1,100.00, and then ended the year a little bit over the $1,200.00 line.

Let's just sort of look at the year chronologically. In January of 2013, Germany asked for their gold back, so we had repatriation. Venezuela had asked for their gold back, and we saw a dip in the price when that happened. So, Germany asked for their gold back in January, and so in the first quarter gold went from $1,700.00 to $1,600.00 in April during the bail-in equivalent on Cyprus. The reports went out that Cyprus was being asked to sell its gold reserves, and that was sort of dampening on the gold price. But then we had what I would call the Goldman bear rate which was the same week as the Boston Marathon bombing and the attempt to pass CISPA.

David Collum, who is an organic chemistry professor at Cornell, writes a great review for the year, and I posted it up on the blog. Let me just read you what he wrote about that week.

"China imported record amounts of gold in March. Soon thereafter, Obama met with bankers, and a few days later Goldman tells the world to 'short gold.' When was the last time a major brokerage declared an all-out short against any asset class? (Hint: Never.) After an odd two-day calm, gold got absolutely crushed. We are not talking skittish investors starting to move in concert but a real stampede. Thousands of futures contracts were sold in one second; billions of dollars' worth of futures contracts in 15 minutes; tens of billions in one day. A single trade of 2 million ounces crashed the CME computers. An unprecedented collapse of the trading platform in the physical gold market place and the shutdown of Kitco's pricing mechanism, brilliantly timed for Sell-off Friday, forced panicky gold bugs looking to hedge for the weekend into the options market, driving the prices even lower. The CME decided that was an excellent opportunity to raise margin requirements by 18.5%, which was guaranteed to force more selling. The Friday glitch-a-thon gave the brokerages ample time to line up their margin calls to ensure selling continued unabated the following Monday. It was pandemonium in the gold markets."

"That, folks, was a textbook bear raid, brought to you by Goldman Sachs and heaven knows what other powerful forces. It left serious 'technical damage', which is a euphemism for merciless beatings with baseball bats."

And it certainly was. Literally within 24 hours, gold broke from $1,530.00 down to $1,395.00. Shortly thereafter, the next week, we had brokers throwing clients out of the brokerage firm if they continued to hold gold. I had one brokerage firm call me and say they wanted all clients who held more than 10 or 20 percent of gold to either leave the firm or sell down to that level. The reason being, they had an audit coming in from the regulators. Because of Dodd-Frank, they didn't want more than 10 to 20 percent. It was considered to be not suitable. Interestingly enough, two months later I got the gold salesman from the same firm calling me and asking me if he could introduce the services of that firm to buy gold.

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We saw restrictions around the world by various governments, regulatory restrictions and exchanges. The big one of course being in India where significant tariffs and taxes were added essentially creating import restrictions that really shut down the Indian market. We had France bail on the sale of gold and silver by mail. Vietnamese authorities forced banks to charge for gold storage, and we had numerous countries around the world causing different sort of actions.

At the same time, physical tonnage left. Just started shooting out of the GLD. Inventory GLD being the big gold ETF. Inventory dropping at Comex and inventory dropping at Brinks. Inventory dropping at J.P. Morgan which was rumored to have eventually been covering their shorts. Hopefully the gold bugs coming into the new year, 2014, with their shorts covered in long.

At one point, the Hong Kong Metals Exchange was liquidated and closed. ABN Amro and Rabobank defaulted, telling their customers that their allocated gold had been rehypothecated and payment would be in cash, if you can imagine that. We even had Texas start to repatriate its gold with Governor Perry declaring, "We don't just want the certificates. We want our gold. And if you're in the state of Texas, you should be able to get your gold."

While this was all happening, we also saw numerous countries starting to build out gold exchanges, start gold exchanges. As the gold started to shift, still big purchases in China and big purchases by the central bank, what we did see was gold beginning to spread around to many more buyers, and certainly globally. If anything, if you're looking very long-term, building a much broader base on the gold and silver inventory and a much wider base globally, it's probably much, much better for the long-term market in gold.

Now, it's interesting. Let's start looking at this year. So, we closed the year with gold bumping along the $1,200.00 line. We opened strongly. Now, what's interesting is Goldman, who at this point is the top dog in running the bear positions in the market, announced that the gold price would be at $1,050.00 by the end of the year.

A little bit of history. Lloyd Blankfein, who is the chairman of Goldman, and his number two, Gary Cohn, came out of the gold desk at Aron's. When Goldman bought Aron's, that merged into the fixed income division, which is where Blankfein and Cohen sort of came up. If you read my old posts about Goldman, I believe that they were instrumental in managing a lot of the strong dollar policy which was bubbling the mortgage market and doing a variety of things in the treasury market, and then also managing the gold price. Blankfein and Cohen are uniquely positioned to know that.

So, we're bouncing along across the $1,200.00 line. It dipped below a couple of times in December, but came back up. It started to open the year strong. We even had Rambus from Rambus Chartology, who is the chartist who I follow a lot when it comes to precious metals, announce he was closing his shorts because it looked like it was strong.

It's particularly noticeable, if you look at how the gold prices bounce along the $1,200.00 support line, it looks like the way it bounced along the $1,530.00 line. Before April 15th of 2013 it smashed down, and it seems to be bouncing along that $1,200.00 line. Given what's going on in the market, a serious bear rate like the kind we had in April could press it down. But there's also tremendous demand. If you look at how much the lower price has created a very strong physical demand, particularly in Asia, if it does break through that $1,200.00 line, I think you're going to hear some more giant sucking sounds into the middleclass.

Stewart Thomson of Graceland Updates makes the case I think very eloquently that the emerging middleclass in Asia globally is very long-term bullish for gold. This is supply and demand. In fact, I always believed that the powers that'd be wanted to manage a rise in gold. It's one of the reasons I felt confident about gold and silver. But they're not going to permit that if it in any way jeopardizes control of the reserve currency system. So we come into a year where, clearly both last year and now, gold is very much at the heart of a battle for control and management of the reserve currency. But we also see the countries in the G20 outside the G7 building out gold exchanges and looking to use gold as a major form of trade and settlement, and that's long-term bullish for gold.

I think we have to go through a period where the shorts need to get covered. Within the financial institutions and the central bank, there are tremendous and very big shorts in the physical area. So part of what we're watching with a much lower gold price is literally a confiscation by other means that helps all of those institutions cover those shorts.

One of the big issues for all of us for 2014 in all markets, including precious metals, is that when you manage markets and you intercede in markets with the extreme ways that have happened as part of the financial coup d'état, the bailouts, you get into a situation where you have a very wide possibility of scenarios. So, for example, if you look at one of the big issues for 2014, it's the extraordinary amount of leverage in the developed worlds in Europe, in Japan, in the United States, and the continued deficit spending. On one hand, that could be bullish for gold, particularly in scenarios where you, for example, do something like erratical debasement. You'll hear the gold bugs talk about a scenario where gold suddenly pops to $5,000. Those are scenarios where erratical debasement is done. So, you get these scenarios that are extreme both in terms of a high gold price or a very low price. If, for example, you resolve the budget issues in this country in a way that are very threatening to creditors and result in deflation, we could see a very low gold price. So, the possibilities of what could happen are extreme, both on the arguing for a much higher gold price, arguing for a much lower gold price.

If you look at probable scenarios, we've experienced decades of a long-term bond bull market in this country. It started to turn in 2013 with interest rates rising. There is a very wide expectation of interest rates continuing to rise this year. Rising interest rates could make life tougher for precious metals, especially if the New York member banks continue to hold a lid on the price. So, I think 2014 could easily be a problematic year for precious metals, but it's important to understand that absolutely anything could happen.

As I encourage you to read the wrap-up, Chuck Gibson and I, in the last week of this month or for the equity overview, are going to revisit the bond market and why the bond market and interest rates is the big dog that's going to wag all the different tails. Equities and precious metals are on the tail. So, it's very important if you're fooling around on the tail to understand what's going on in the had because the bond market's going to be the driver.

Now, what does this all mean to you? I wrote an article in the fourth quarter called "What Percentage of My Assets Should I Hold in Precious Metals?" because I really believe we all needed a framework with which to approach ownership of precious metals. I divide any person or family's position in precious metals between sort of two positions. One is your core position, and the other is your investment position.

Let me just describe what these are. A core position of gold and silver is one that you hold as insurance for protection in the worst case scenario. I use the quote I always love which says, "Always keep enough gold on hand to bribe the border guards." So, you've heard the wonderful stories of somebody during the Holocaust who was able to get out to Germany because they literally had gold coins buried in their backyard. Those are wonderful stories.

But, essentially, gold and silver is a tangible. You can put it in your pocket. You can walk away. It's not dependent on the government or military to hold its value. It's liquid. If you have the right coins, it's recognized globally.

So, the core position is what you have for the worst case. It's what you have if any of the extreme scenarios occur where literally gold could go to $5,000.00 or $10,000.00. It's the position you have to protect yourself from that.

"One of the ways I calculate a core is how much do you want per person, and how many places do you want it?"

One of the things that's very important to understand about a core position is that you will find that different people have very different needs for a core. So, for example, one of the ways I calculate a core is how much do you want per person, and how many places do you want it? If you're responsible for a family of five, you're going to want more core position than if you're responsible for yourself as an individual and have no family that you're responsible for. So, how many people are you responsible for? How much purchasing power do you want in the worst case? Do you want a year? Do you want two years? Do you want five years? Again, how many jurisdictions do you want it in?

There's also wide variation in terms of what a person believes the worst case or how likely the worst case is. If you think the worst case where you would need gold or silver is relatively high, you're going to want to have more than a person who doesn't feel as strongly. So, for example, I would much rather put a lot more money into building my business or in investing (I'm sort of a people investor), and gifting or helping family and friends, than I would put into gold or silver. I think at the end of the day if we hit a worst case scenario, what we're going to need is each other, and sort of not only a resilient team, but resilient assets.

So, in many respects, you'll find some people would say, "Look, I'd much rather have land with a garden and an orchard and an operating entity than gold and silver." Other people don't feel that way. They want money they can put in their pocket and head across the border. So, I think different people feel very differently about economic collapse or a scenario where gold and silver can run up tremendously in price, and having some will protect you from those price rises. So, whenever anybody says you should have a core of X or you should have a core of X percent, I have problems relating to those kinds of advice because I think everybody's different, and you need the kind of insurance policy that's appropriate for you and your unique circumstance.

So, think a lot about what your core is and how much of your assets you want to dedicate to that core. Gold and silver is an excellent, excellent position to have for your core position. It is important that your core position isn't physical – either that you can control or you believe you can access it. So, if you have it in another country, you need to make sure that it's in a depository where you think you can get it.

So, the first part of your position is a core position. The second is an investment position. The reality is that an investment position has to be held as a part of a portfolio where whatever you're doing in your investment position, it has to be competitive with your other opportunities. What I said in the article, and it's sort of at the end of the last year, is until the primary trend reasserts – and, as I said before, I would define that as when the gold moves back through the $1,530.00 line and holds that and continues to move up. Until the primary trend reasserts, there's no indication that gold or silver are a good investment or an attractive investment up against other investment categories other than possibly as a short term.

So, for example, this year we could easily see gold and silver or gold move from where it is today –approximately the $1,200.00 line – up to about $1,450.00 and back. The likely scenario is we trade in that range, so I can easily see somebody saying, "Well, you know, $1,250.00 up to $1,450.00 is an attractive investment." But those are short-term positions. For gold and silver to be a good long-term investment position, we're going to have to reprove the primary trend, and that means breaking through the $1,530.00 line and holding that technical support line, from my point of view.

Now, there's a lot, as I said, that could swing investments one way or another. A big one being interest rates. Higher interest rates are not great for gold and silver because gold and silver don't offer a dividend or an interest. But a lot of what's going to happen this year will relate to the politics of the dollar and the bond market. If we're in an environment where essentially the New York fed member banks take a position that they're going to keep gold down, I would submit that they have the power to do it. I would also submit that ultimately the nature of the demand coming from Asia and the growth of an emerging market middleclass is going to overwhelm the market.

So, fundamentals matter, but that doesn't mean they're going to reassert in 2014. So, my recommendation is the same as I said in the article, which is, for 2014, you absolutely want to continue to hold your core position as you determine that to be. In terms of investment position, I think it's going to be problematic as to whether gold is going to be attractive until and unless it reasserts the primary trend. So, don't be surprised to see it bounce around a lot.

Many subscribers I know of are still holding positions that they don't want to sell unless it breaks the $1,200.00 line. If it does break the $1,200.00 line, we could easily see it going down to the $1,100.00 line. So, don't be surprised if it does. If it does, it still doesn't mean the primary trend won't reassert. We'll just have to wait and see.

I said in the commentary that I put up this week that one of the most important things that's important to understand about this environment is that since gold peaked in the fall of 2011 we've seen another 500 million people around the world connect on the global internet through smartphones or tablets. In September, 2011, we had approximately 850 million people online connected. We've added another 500 million. Many of those people are in Asian emerging markets. So now we have 1.6 billion people connected through the internet. That's a very profound change in terms with a very profound impact on both the financial system and the management of assets globally. It's why I want you to read the wrap-up, because I talked about it a fair amount.

What it does mean is that the economy is shifting from what I call the global 2.0 model to the global 3.0 model, and it changes relatively what the opportunities are, including in the equity markets. It changes the opportunity among the G7 nation companies as to what their opportunities are and what their focus is, and so remember that the fundamental economics of all financial markets is changing dramatically as a result. If you get those 500 million people through their cellphones investing in a variety of ways, it can have a dramatic swing impact on not just retail businesses, but on financial markets as well.

So, for example, if you literally have the growing middleclass globally start to buy equities, it could have a dramatic impact. Instead if they choose to buy gold, it could have a dramatic impact. So, we're looking at a very dramatic change, and we're all going to hear a lot more about that in 2014. It's one of the reasons that you're seeing tremendous focus and discussion on digital currencies, because digital currencies are the way that reach that audience.

We saw at one point at the end of the year a conversation between the Jersey Isle and the Channel Isle and the regulators in the U.K. about marrying bit coin with gold. If that happens, it's going to be off to the race needless to say. So, just be prepared for this thing to go many, many different ways. I think that's why it's important with your investment position to not be vested in gold going in certain ways. I, for one, believe in an investment position, not a core position. But an investment position, you can sell a position, and if gold turns, you can come back in. So, be prepared to be flexible with your investment positions. Make sure you take a look at that article because I think it will help you think through this a little bit more clearly. It's up on the blog. It's called "What Percentage of My Assets Should I Hold in Precious Metals?"

Okay, some great questions in Ask Catherine. "I bought a large amount of gold from Kitco years ago. Some of the ten ounce bars have changed color and have a magenta color aura on them. How can I find out what is wrong here? I seriously doubt that contacting Kitco will result in anything but denials that it's the same bar as they sold me."

I sent the question to Franklin, and he responded as follows. "Gold coins might obtain a sort of haze. A gold bar might darken just a little, but I don't know about a magenta aura. The only way to prove the genuineness of the bar is to perform a specific gravity test, which any commercial laboratory ought to be able to do. The person wrote 'years ago', so that puts ten ounce bars out of the recent time period when tungsten counterfeits have appeared. Tungsten is so close in specific gravity that it might fool a specific gravity tester." And then Franklin says, "Another reason ten ounce bars aren't such a good idea."

I would also add that I think if you have your original invoice, and certainly Kitco should have a copy of that invoice and record of the sale, I think it is worth contacting them. If you bought them and have your invoice and that's your quoted transaction, I wouldn't assume they wouldn't be helpful.

"Dear Catherine, these are the same two questions I asked last week, but since there was no Ask Catherine segment in the wrap-up, I'm asking them again. Would you consider doing a Solari Report featuring people you recommended to us at Rambus Chartology?"

Yes, I would, but the folks at Rambus Chartology are very quiet. They don't do radio shows, and they work through something other than their name. Rambus is their code name. So, I respect their anonymity and have not pressured them to come on The Solari Report. But, again, I do recommend their work. I think Rambus is a remarkable chartist and does some great work in this area.

"In terms of the preservation of asset value and/or appreciation of asset value in 2014 generally speaking, please rank the following three asset classes in the order in which you believe they will perform for investors in 2014." Then he lists three asset classes. One, single family homes. Two, equities. Three, precious metals.

Very good question, but let me reframe it. This is why I want you to read the wrap-up. I describe money moving from 2.0 to 3.0. So, you have a world of 2.0 assets and 2.0 companies. What I said about the housing market last year is what I'm going to say about it again. If you're in an area that's receiving significant 3.0 investment, the housing market's going to do very well. If you're in an area that's not receiving any 3.0 investment, the housing market's going to do very poorly. So, it's not a matter of housing market versus equities. It's a matter of the housing market in an area that's strong for 3.0 versus 2.0. It's equities that are going to be winners who are strong in 3.0 as opposed to 2.0. So, within each asset class like homes, like equities, you're seeing an extraordinary divergence of values, and so that's why you want to read the wrap-up and you want to understand this concept of 2.0 and 3.0. When you look at where you work and what you do, how your business is positioned, the housing market or equities, you don't want to look at things through the prism of homes versus equities. You want to look at homes and equities in 3.0 versus 2.0. So, very, very big difference.

"It's not a matter of housing market versus equities. It's a matter of the housing market in an area that's strong for 3.0 versus 2.0."

Precious metals interestingly enough is a bridge, and I think a lot of the economic warfare going on in the precious metals market is about shifting money out of 2.0 and into 3.0 and building that bridge. I think this year precious metals is going to be in that battle zone, and so it's probably going to underperform most asset classes. But, as I said, so we're in a year that anything can happen, and that's why this year you don't want to position yourself based on any prediction of where things are going to want to go. You're going to want to be positioned to be flexible and pay attention to where things are going.

There was great quote last year when Hugh Hendry finally capitulated on investing based on fundamental. He said, "The only way this market makes sense is through the prism of trends." It's a very funny quote.

We got one other comment from a subscriber that I thought was very interesting on the wrap-up that pertains to gold and silver, so I thought I'd read it. "I read your yearend wrap-up and wanted to comment on the space economy and the comments on gold. When the space shuttle was flying the in the '80's, a journal I read had a comment that if the shuttle flew into orbit, had the bay filled with gold, and then landed, all of that cargo, gold, would not cover the cost of the flight. While this makes nice fiction, the idea of harvesting an asteroid has been around since I was a pup. Nothing has ever come of it. To me, it has zero impact on our current gold prices or economy. It's an extreme niche, and so little energy and money is being spent in this area. It truly doesn't matter in the global economy."

"If they were to bring a ton of gold to earth at $1,500.00 an ounce, that would be approximately $48.2 million U.S. dollars. While a nice chunk of change, and certainly a lot of large pizzas, it's nothing to do with the trends in the global economy. If they pulled it down from far orbit, the sure shock to the markets would drop the price which means their success would destroy the profits they were trying to achieve. To me, this is a rabbit hole and makes your argument seem shallow."

"What are some of the factors in 2013? I'm no expert, and I do not own any gold, however, based on my readings and curiosity, I would say the following is or has happened. You stated the primary answer in your report when you said gold dropped and S&P rose leaving a $0.58 USD spread. Money flows to the greatest return, even if it's not always a wise choice. The big money dumped the mining stocks and the gold ETFs and precious metals to pursue a greater return. The amount of gold being mined today is greater than at any point in history. The Chinese have turned loose a lot of miners in their country both legally and illegally to mine for precious metals. The legal and illegal mining in South Africa and other countries continues to flood the market under seed fields. This is near-term an active field of gold mining. The first licenses have been granted and the Chinese are going after this one. This is where the action will be. Not in space. Robotic strip mining of the ocean floor around thermal vents is cheaper than any rocket. The economics makes sense. Plus, the old scrap and destroy the eco system for a decade before any regulatory agency gains control will be a huge incentive. Think of mining in the 1800's. Strip the metals and leave the hole in the ground and move on. In this case, nobody will be able to see the massive scraping going on at the bottom of the ocean. While the U.S. and U.N. has jurisdiction in some areas, they are powerless and inapt in almost everything they do. At any rate, thank you for your report." And he goes on and on.

Anyways, but I thought those comments on supply where very interesting and very useful. Anyways, so that's it for our Precious Metals Market Report. First one of the year. I wish you good hunting and good investment this year. I remind you of the quote that I used when I described the core, which was, "Always keep enough coins to bribe the border guards."

I would just say on a personal note, I've put a lot more money in my business than I've put in gold, but I didn't sell any gold in 2013 because everything I own is core and I have no intention of touching it. The price could go to $900.00 and I'm not going to sell it and I'm not going to touch it.

I wanted to close with another quote from Janet Yellen who is the chairman elect of the Federal Reserve. She said, and this is a recent quote, "I don't think anybody has a very good model for what makes gold prices go up or down." That is a comment of remarkable candor. Very refreshing from the new Fed chairman. I think as you listen to all of the commentators talking about the gold prices and where they're going to go in 2014, I would recommend Janet Yellen's wisdom to you. Again, "I don't think anybody has a very good model for what makes gold prices go up or down." I agree. I would say, however, that gold is at the very heart of the war for who will control the new emerging currencies globally, and so if you want to know where the power lines run, they absolutely run through the gold depositories and gold exchanges of this world. So, ladies and gentlemen, keep your core.

That's it for the Precious Metals Market Report. I look forward to talking with you shortly on money and markets.