

BUILDING WEALTH IN CHANGING TIMES



The Solari Report

JULY 24, 2014

A vibrant, abstract painting of a tropical beach scene with palm trees and a colorful parrot. The painting features bold brushstrokes in shades of green, yellow, red, and blue, creating a sense of movement and energy. A large, colorful parrot is the central focus, with its wings spread as if in flight. The background is a mix of green and yellow, suggesting a lush tropical landscape. The overall style is expressive and artistic.

2nd Quarter Wrap Up
with Catherine Austin Fitts



2nd Quarter Wrap Up

July 24, 2014

Table of Contents

Introduction	3
Theme	3
The Slow-burn Frays as the Fed Tapers	5
Sharing Our Neighborhood with the Break Away Civilization	10
Rebalancing with China & the Emerging Markets	13
The Energy Model Evolves	15
Smart Phones, Digital Currencies & Payment Mechanisms are of Growing Importance	16
The Drum Beats of War	17
Expect the Shift to Quality in the Financial Markets	18
Be Serious About Quality	27
Hero	29
Let's Go to the Movies!	30
Coming Up & Closing	30



INTRODUCTION

Good evening! Welcome to The Solari Report. Today is July 24, 2014. I'm Catherine Austin Fitts, and I'm delighted you could join me this evening for our 2nd Quarter Wrap Up on The Solari Report.

Every year we have a poster to announce our theme for the year. This year it was *Break Away* and that is because with the Financial Coup d'Etat over, money and politics are shifting. These are big shifts, and all sorts of break aways happen naturally as a result.

Things come apart, things come together – all in new ways. Our conversation throughout the first half of this year has been about how we break away. What's remarkable is when I have lunch with subscribers or meet with them and talk with them it comes up quite naturally:

“What do we do? How do we break away?”

THEME

Our theme tonight is a major overhauling of institutions. It's inspired by a quote that was reported in a book on Dillon Read, the Wall Street firm where I had the opportunity to work and serve as a partner and a member of the Board of Directors. It's a story of Clarence Dillon and Paul Nitze in 1929. Let me read it to you:

Driving through New Jersey, Nitze asked Dillon if he thought the market decline an omen of hard times.

Dillon thought for a few minutes and then replied, “I think it pre-stages the end of an era.”

By this Dillon meant that what lay ahead was not merely a period of retrenchment after which his fears would be conducted as before, rather the world was in **for a major overhauling of**



institutions.

Where we sit right now is very much like 1929, not in the sense that we should expect a great depression, but that institutions are starting to break down, break apart, shift alliances, and lots of planning for changes in institutions is going forward and being affected. Remember, things often happen in very organic ways despite the best laid plans.

A major overhauling of institutions has accelerated in part as a result of a US and global economic growth being slower than was expected. Things are coming apart faster and coming together faster than I expected. So change is accelerating faster than what we talked about in the Annual Wrap Up in January, in the 1st Quarter Wrap Up.

If you haven't listened to those, I really encourage you to go access those materials. I'm going to quote and refer to them tonight. I recommend that you also refer to the charts and graphs we posted as you listen, particularly in the section on financial markets, as well as refer to the charts and graphs at the links provided for the Annual and 1st Quarter Wrap Up.

I was reading a wonderful investment book last weekend. One of the studies that the author described was an analysis that showed the more knowledge and information that an investor had, the lower the quality of decisions. He stressed the importance of focusing on key and important issues.

I've spent a lot of time over the last couple of weeks stewing about what I want to talk about on the 2nd Quarter Report, particularly as I drove back from California. I get these long drives and it gives me a chance to think about what is really important.

I was struck in my conversations with subscribers – both at our lunch in Marin and at the *Secret Space* conference in San Mateo – how important it was for me to emphasize and repeat what are the most important themes so that we make sure we have a clear understanding of them and it's also a deeper, more

“A major overhauling of institutions has accelerated in part as a result of a US and global economic growth being slower than was expected.”



emotional understanding.

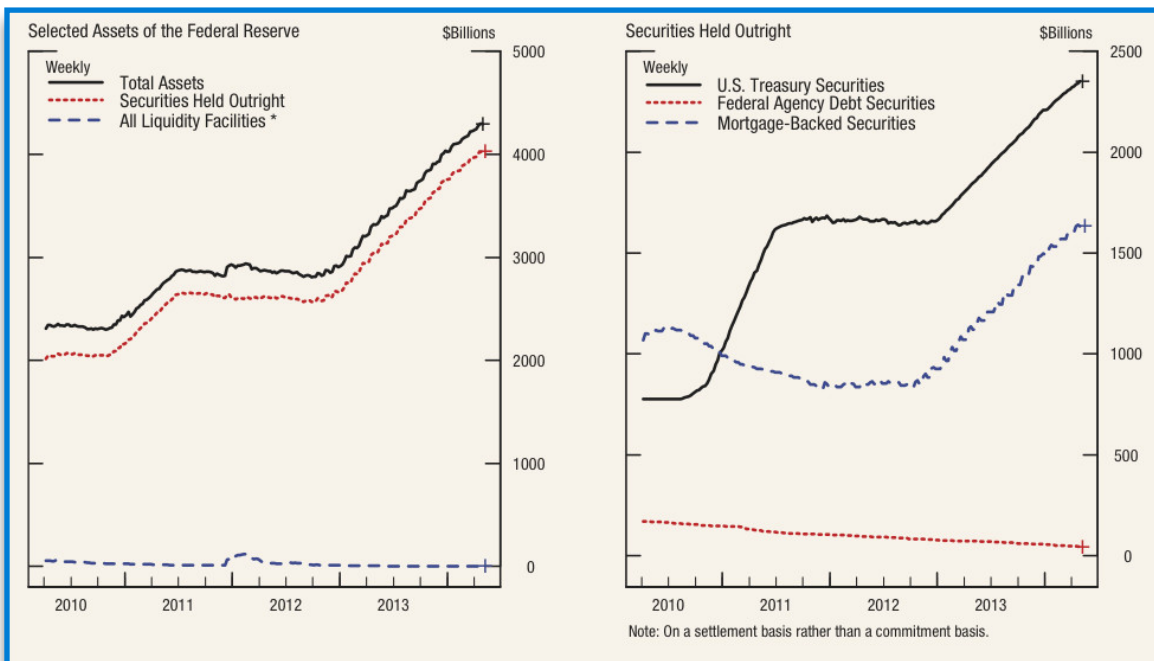
I've thought a lot about what I can say that will really bring that home for you and help to get you grounded in what you need to do in your life going forward.

I want to organize my comments around seven areas.

THE SLOW-BURN FRAYS AS THE FED TAPERS

We see the new Fed chairman, Janet Yellen, announce that the taper will finish in October. That means that enormous monthly monetary infusions are going to come to an end. This is a very dangerous moment for the people who manage the economy.

We're already seeing anticipation of liquidity crunches. I've noted in The Solari Report and on the blog that the SEC promulgating the new money market rules is very important. We already see high-yield bonds, which had done remarkably well into the first half of the year, now turning negative for the year.





Anticipate a shift to quality. We will talk about it later. You want to make sure when it comes to banks and money markets that you maintain the best of quality in service providers and custodians.

Part of the challenge is that the Break Away Civilization has won. The Coup was successful, and that means the Break Away Civilization – as well as transnational organized crime – has won. We're essentially seeing a situation where the more extreme folks have more assets and power than ever, and the more moderate people are now managing more liabilities with less power.

That also means that the US government as the provider of global enforcement is having more and more trouble enforcing, and their behavior is getting uglier and uglier. Of course, keeping the dollar system working to pay for the entire global enforcement is getting harder and harder to do - to keep everybody in the fray.

The signs of the seriousness of the fraying rising means that there is more win-lose kind of competition. That means that somebody is a winner and somebody is a loser in economic warfare and it can make things worse.

In other words, as players compete in dangerous ways, the entire global economy can shrink as a result of that. The question for all of us is: How do we evolve into a win-win model? It's a much bigger conversation.

We're seeing tremendous amounts of what I would call 'asymmetrical warfare'.

Let me just talk about four examples of this fraying, the first being asymmetrical warfare.

I put up on the blog this week a video by a former border patrol intelligence officer, Zach Taylor, which is very interesting. I checked it out for a variety of reasons. I think that Taylor is reputable and knows what he is talking about. I encourage you to watch it.

Taylor addresses the extraordinary influx of illegal immigrants on the nation's southern border. We know that corporate media reports 57,000 young people from Central America crossed into the US illegally between last October and



June, and almost all of those have stayed. Fewer than 2,000 have been sent back as a result of administration policies. Taylor is warning us about various risks associated with what's going on.

The question, of course, is: What is going on? My guess number one is you have the cartels sending across people who work for them. Don't be surprised if this could result in an explosion of cartel activity moving northwards.

I also think that bringing young people in is a way of shoring up the Social Security system. So as more and more people retire one of the things the government is looking for is: How do we get young, hard-working people appreciative of the opportunity to shore up that system? This is one way.

Another is we know that there is tremendous interest in merging North America – Canada, Mexico, and US – into one sort-of European union. It's another way of bringing us into a merging of NAFTA, but there are some deeply disturbing questions about what is going on. I would recommend you watch the video.

One of the things that Taylor points out is that the most powerful force in the Mexican drug business is the Russian Mafia. The Russian Mafia was partnered with the US on the rape of Russia. One of the best books I ever read on the Russian Mafia is called *Red Mafia*. It points out that 99 percent of the Russian Mafia at that point in the late 90's was Jewish. They are an extremely interesting operation and it's extremely interesting what financial institutions and activities they have been associated with. It's very important to remember as we watch what's going on in the world that we're watching something called asymmetrical warfare.

We now have players, whether it's transnational organized crime or the Break Away Civilization. They crisscross and align in various ways. They are more powerful than sovereign governments, so it's very important to remember as you watch these situations that you're dealing with more parties than just the cartels and Mexico and the United States. There are other third parties involved and they are very dangerous and have an agenda. It's very interesting to ask the question because many of these immigrants are coming across on Federal lands and they're coming into areas that are very significant operations for the Black



Budget and the Break Away Civilization. It is worth asking the questions whether there is a need for workforce in the underground operations that have no personal network into the US population.

So asymmetrical warfare is one example of the extraordinary fraying that is going on of the slow burn.

The second example is events in the Ukraine – is Europe in the empire or not? We see the tensions in the Ukraine escalating dramatically with the downing of the Malaysian Air plane. It's still unknown exactly what happened. We see today the Prime Minister and Cabinet resign. They're staying in until the election, but that indicates lots of tensions between the Ukraine and the US. More rounds of government sanctions – both US and Europe – are threatened.

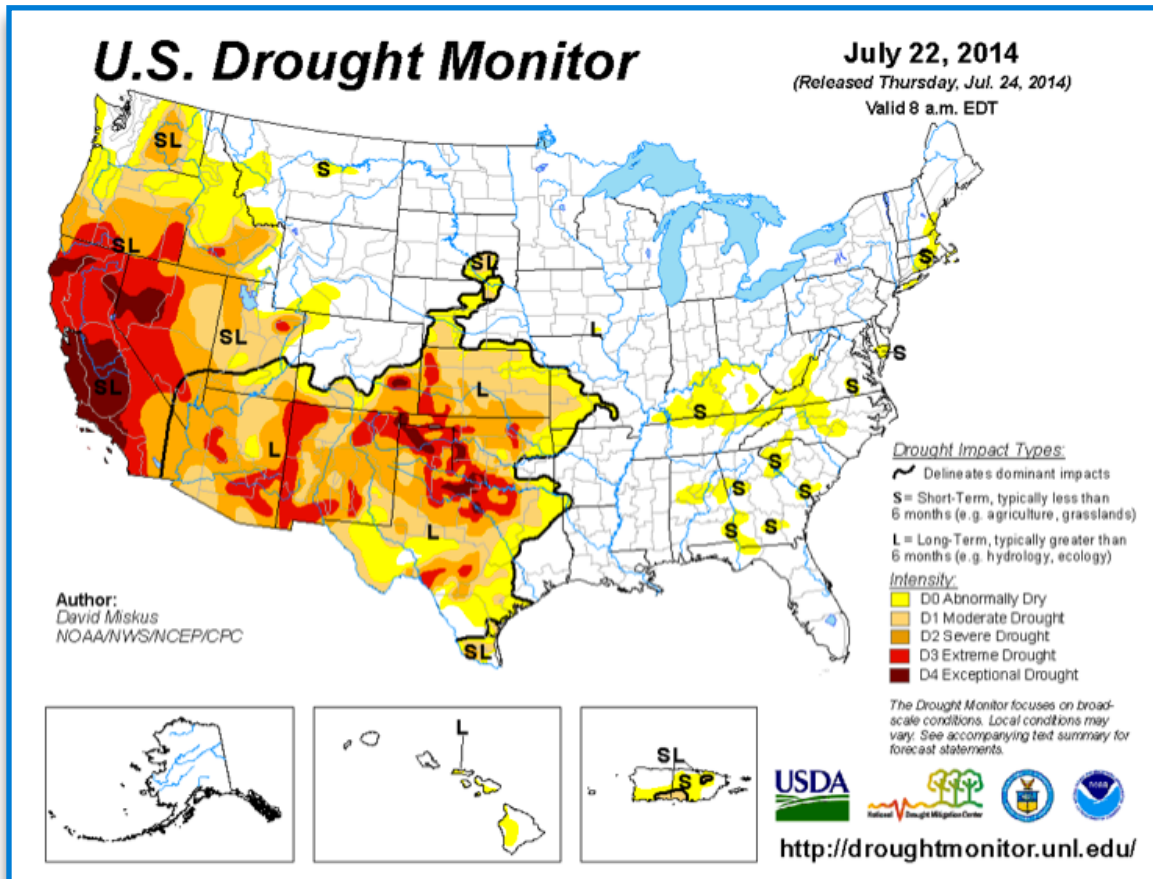
There's a very deep oil and gas story here. One of the questions I keep asking is: Who's helping Putin. It looks to me like he's getting help from North America. One of my questions since the Breakaways so deeply came out of the US oil and gas story or business area is: To what extent is Putin getting help from the Breakaways?

“We see the tensions in the Ukraine escalating dramatically with the downing of the Malaysian Air plane. It's still unknown exactly what happened.”

Even though the US is beating up on all sorts of European companies to try to enforce sanctions, what we see is US-based oil and gas companies continuing to do business in Russia or partnered with Russia in the Arctic Circle. Really there are big questions of who's zooming whom.

Note that there have been several other air crashes and disappearances since then, and you almost wonder if somebody wants the air spaces cleared and is putting tremendous pressure on the general population not to fly.

So Ukraine area of tension is really a symptom for the squabble for economic market share within Europe and the dance of Russia and China vis-à-vis the Empire.



The third example is drought. Drought in the Southwestern United States and California is very serious. We continue to see more and more pressure on those areas. Don't underestimate the impact the drought could have on the economy because remember it's the earth just bursting forth with the harvest every year that is such a blessing. We see areas in the Southwest where if the drought continues they literally cannot support their population. We're going to start to see water refugees if this keeps up for another year or two.

Finally, the fourth example of the slow burn fraying is events in the Gaza. As I've discussed in last week's Solari Report, we see what I suspect is Europe giving Israel the, "We'll stay away," or, "Hands off," as they go into the Gaza. Israel wants to exploit the offshore oil and gas deposits and they need to control the Gaza to do that. It's certainly an opportunity to trade, trading that gas to Europe in exchange for having a free hand in the Gaza.



We see a lot of folks in Europe demonstrating against it. It's unbelievably important, I think, that they connect the dots to energy independence.

On one hand you see consumers pressing for lower gas prices at the same time they're criticizing politicians for letting genocide continue in the Gaza. We need to see the double binds in the different issues along our balance sheet and income statement.

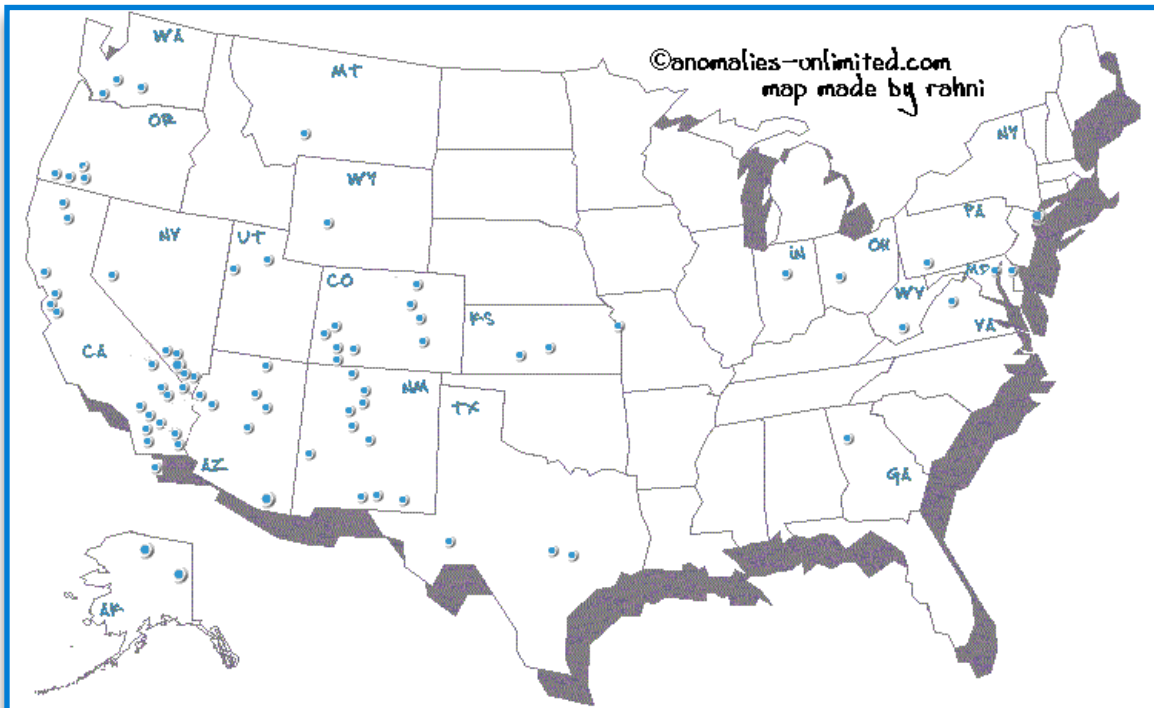
So that is it for our first topic area, the slow burn is fraying as the Fed tapers. We need to keep an eye on that slow burn very carefully because if it really frays badly we're going to have war – not to say that we don't have war now, but we're going to have something much more serious.

SHARING OUR NEIGHBORHOOD WITH THE BREAK AWAY CIVILIZATION

I had a wonderful breakthrough after the San Mateo conference. I was driving over to Coast to Coast with a very dear friend on the highway in Los Angeles. For the first time I could physically see the Break Away Civilization within a place and how physically and financially they related to the Black Budget and intelligence community – the covert side of life, which is a slightly different line, and then of course the overt economy and life.

I could see the three worlds – the three parallel universes – and the three financial systems integrated within a neighborhood, all in one place. Of course, part of that is happening because more and more we're going to start to see the visible signs of them – not just of the growing investment in certain kinds of manufacturing or spaceports or space activities.

I think as we go into this next phase they're going to feel a little bit more emboldened to influence what's going on overtly. Two of the things that really struck me at San Mateo were Richard Dolan's description – and you can see it on the stream – of using night vision to see the extraordinary number of unusual spaceships flying around in our airspace. I've gotten myself some night vision goggles so I'm going to start checking that out.



One of the other interesting things that emerged from the conference is that many of the researchers I most respect made it clear to me that they think a very important part of the financial drain has not gone into space travel and weaponry but gone into the extraordinary investment in underground infrastructure or underground bases and tunnels and transportation systems which clearly have been significant but it's very hard to get a reliable beat on them.

What struck me was how important they thought it was as a financial matter to build and operate all those underground and underocean facilities. [CAF Note: For a good general introduction to this topic, see the lecture by Richard Dolan that I posted on the blog.]

When you're driving around, if you look at what's going on and you contemplate what's going on in the skies above and what's going on underground in the bases and transportation systems below, I think it's a lot easier to see what has – until now – seemed a little bit like an invisible parallel universe and see how it really is integrated into our place.



One of the interesting things to think about, and my impression of the Breakaways, is that one of the inspirations for them was not just getting control of the flow of Black Budget money and technology, but part of it was an inspiration to break away from European money and control and the factions in the United States that are more loyal to the European financial interests. It's very interesting to contemplate what the relationships are between the Breakaways and the political 'football' going on in Europe. It's a murky picture, but it's one I have to explore a little bit more with our guests over the next quarter.



Elections are going to be important this year because the ability of the Congress to balance between the different invisible universes – to balance between the financial demands or operations of the covert side of the house and the Breakaways versus the regular population – has really reached an untenable place. Right now Congress has to do what will get them elected. We see tremendous tension coming into these elections. Congress backing down on immigration reform and trade agreements is an example of this.

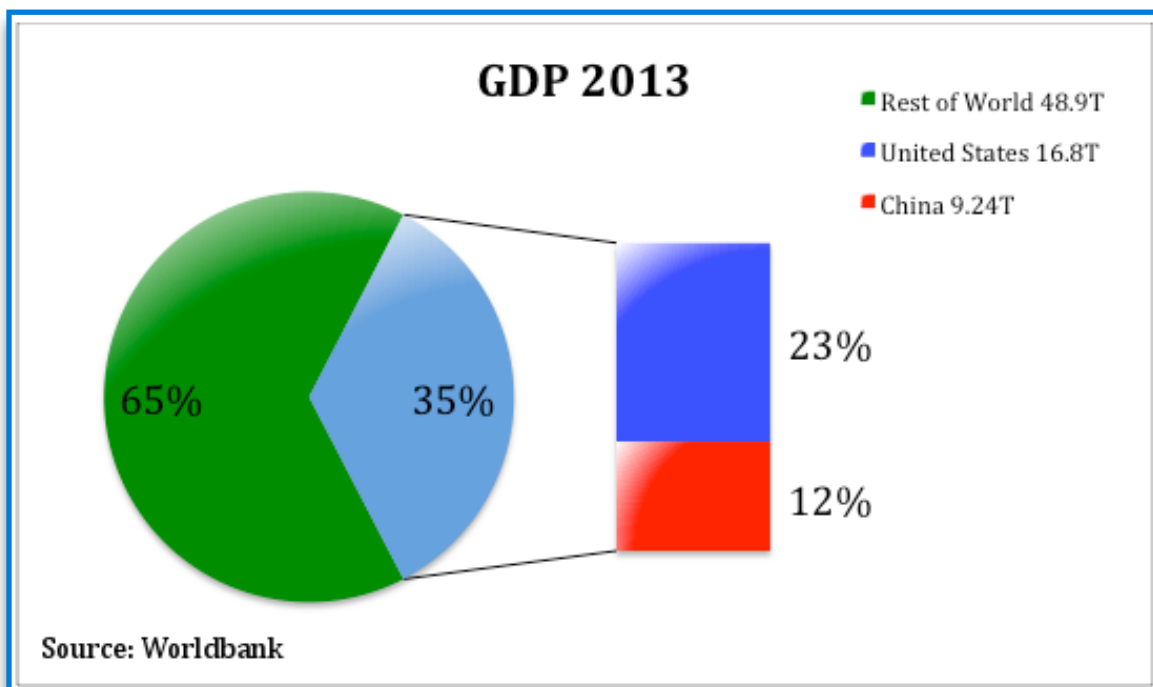
As I said, in 2016 I think the private side really wants a corporate kind of handler like Jeb Bush, but it remains to be seen what is going to happen. I do think we see a government that, in fact, has many, many factions and is in a much more insecure position than they were three or five years ago.



REBALANCING WITH CHINA & THE EMERGING MARKETS

One of the Solari Reports, if you can only listen to a few from the last quarter, you really must listen to is the interview with Steve Roach on his wonderful book, *Unbalanced*. I strongly recommend the book to you. It's the best economics/business book I've read so far in 2014.

If you look at the history of our relationship with China, we have engineered a false prosperity in the US where we spent far beyond what we could afford financed with debt and a burst of productivity in China. Let's just look at some of the statistics:



In 2013, the global GDP was about \$74 to \$75 trillion. The US was \$16.8 trillion of that amount. China was \$9.24 trillion, and that's up from \$1 to \$2 trillion only a decade ago. It demonstrates explosive growth to get there with tremendous productivity.

Let's just look at what the numbers are: In 2011, the US had 4.5 percent of the global population and 17 percent of consumer demand. China and India had 40 percent of the population but only 4.25 percent of the consumer demand.



If you just do a simple mathematical calculation, if we rebalanced instantly tomorrow, on average we would have to reduce our consumption by approximately 75 percent. Imagine having to overnight reduce your consumption by 75 percent.

This process of rebalancing is a serious one. We have to get more productive. We have to reduce consumption. China has to increase consumption, and services. They don't need to lower productivity, but it will lower as a percent relative if they grow consumption and services.

How is that going to happen? There is tremendous opportunity inside of that, but it means a very different United States and a very different global economy. How we go about doing this is of the utmost importance. Roach goes into it in our interview and in his book in great detail.

One of the symptoms of this rebalancing is you're seeing tremendous tension between the G7 and the other members of the G20 throughout the globe, and that's what a lot of the tensions are. It's this unbearable gap in terms of participation in the economy and the BRICS being very uncomfortable with continuing to subsidize the system through their support of the dollar.

Don't underestimate how much the Snowden revelations have contributed to that. They've underscored the importance for the BRICS of having independent clearing, settlement and communication systems. Trying to build those kinds of systems and have them work with dependability and trust is an enormous job, but we see a tiny first step in the BRICS Development Bank that happened very recently. I doubt that that ever would have happened if it hadn't been for the Snowden revelations. Again, it's very interesting to think who facilitated and helped that happen.

This is what the G7 has been trying to stop. They bring everybody, including the outliers, into the model. They stopped Libya's African Development Bank. So it will be interesting to see what happens that will be done to try to sabotage the effort.

At the same time, the big, exciting, and unbelievably wonderful secret is there is lots of equity and lots of transactions and lots of trade that wants to happen if it



can happen in a much more decentralized and robust way. So we need a lot of these trustworthy systems. Just like the BRICS have broken away and started this Development Bank, I think you're going to see more and more people doing it because they can't sit around and wait for the centralized system to squeeze them into the ground.

As the centralized system tries to maintain control and gets uglier and uglier, we're going to see more of these popping up all over the place like the Caddyshack gopher.

THE ENERGY MODEL EVOLVES

We continue to see a very dynamic story with the reliability and economics of renewable energy improving. Solar is improving, the battery technology is improving. We are, I think, within two years of some unbelievable breakthroughs; we'll just have to see.



In the meantime, oil and gas continues to be an extremely important control mechanism for the dollar system. The dollar is essentially on an oil and gas standard, so that's one of the reasons you're seeing more hardball from the oil



and gas, and it wouldn't surprise me if one of the reasons you see the Breakaways break away is because a lot of them are coming out of oil and gas. They knew that wasn't going to last forever.

Also, all the guys doing the drilling are the guys in a position to make money doing the underground bases. It could be the mining companies. It could be the offshore drillers. As I said, watch the oil and gas story with Putin. Russia benefits by the oil card in keeping the oil and gas price high, so it wouldn't surprise me if that were part of where Putin is getting some of his support.

SMART PHONES, DIGITAL CURRENCIES & PAYMENT MECHANISMS ARE OF GROWING IMPORTANCE

I talked a lot about this in the Annual Wrap Up and the 1st Quarter Wrap Up. One of the things I learned talking to subscribers during my last trip to California is it really takes sitting down and thinking about this to understand the importance of what this is going to mean.

We're talking literally about giving every person on the planet a tool that allows them to connect with everybody else. This is absolutely unprecedented. It has implications for communication, for culture, for innovation, and for the economy. You're talking about something that can reorganize the communication systems, the global consumer markets, production, distribution – everything. I don't think there is anyone on the planet that quite really understands what it means. Given the centralization and control of the digital systems, it also means a very invasive – even as some people would describe as a 'slavery' – system.

There are significant pro's and con's. I really want you to imagine what it means that billions of people who have never had running water or toilets and sewers are now getting smart phones. We're talking about quite a revolution for billions of people all around the globe.

Google, Facebook, and Amazon are going to be unbelievably important to what I think is the end game on the dollar system, and that is digital currencies and payment mechanisms. I've talked a lot about this already. I do think that it is



going to be possible at some point to literally tender for the global citizenry through the currency the way Chancellor Kohl did for the East German population in 1989. It's going to depend on private and government satellite systems.

Part of the key to this is the sub-orbital platform, and it's going to work through social media and the online systems. If energy was the control point for the dollar or the standard for the dollar, one question to ask is whether space telecommunications and social media will be the equivalent for the 21st century digital currency. But that's an area to watch closely because the battle for control of the digital wallet and the digital wallet citizen by citizen globally has just begun and it's going to be very, very important.

THE DRUM BEATS OF WAR

I said at the beginning of the year in the Annual Wrap Up – and I've said on many interviews – that our risk if the slow burn frayed and began to fall apart – that the risk was not a global financial collapse; the risk was war. I think the chances of war are, in fact, rising. Economic warfare is more than running the risk of doing enormous damage to the economy and we see what I describe as 'asymmetrical war' rising. Asymmetrical war is organized crime and covert operations among other things. I think the risk of war is right now greater than what I had expected at the time I did the Annual Wrap Up. I think the risk is rising.

I have had a lot of people send me various videos or emails that our risk is likely to be as a result of actions by the US government. I don't think so. Someone I have great respect for sent me an email that said, "There's incredible shift in personnel and resources by the Department of Defense to Tennessee and West Virginia and Kentucky. Aren't you worried that they're worried about something going on that requires controlling the population?"

I said, "No." I think if that's true – and I don't know that it is – if they're moving people and materials in it's because they're looking for the same thing I'm looking for which is a safe home base.



My guess is that if that is happening, they're preparing for an increased chance of nuclear war. When you have this much squabbling with people like Russia and tensions with Israel you're talking about nuclear powers. Nuclear powers, if cornered, could use nuclear weapons, including in terrorist attacks. I think there is a real concern that this could happen. It would not surprise me if transnational organized crime groups include nuclear powers.

I don't think our risk is that the government is going to be targeting us. I think the risk is that the gods are warring and they're too busy fighting their wars to be concerned about what it means to us, or they are using tactics that they are going to resort to a greater lawlessness or violence that could impact us. So, the chances of war are rising. It's just something we have to keep an eye on. It doesn't mean that I think the chances are large, but I'm just saying to watch the slow burn. If it starts to fray, then violence is going to increase.

EXPECT THE SHIFT TO QUALITY IN THE FINANCIAL MARKETS

Who can enforce what has inelastic demand from an economic standpoint? What is essential? What is durable? Dividends matter. Who can pay a dividend



on an ongoing basis?

Let's just walk through the different areas. Precious metals. The big question, of course, all year long has been when and if precious metals will reassert their primary trend. I've said for a long time now that I think there is an 80 percent or better chance that they will reassert their primary trend up, but it's not a guarantee and I've been waiting.



Gold was up about 9 percent in the first half of the year and it has backed off a little bit since then. The chart continues to look to me very, very weak. August and early September are traditionally the worst time of the year in terms of seasonality for gold and silver. I think we need to just watch and wait.

The danger, of course, is - you want to make sure you have a core position, we could see gold at the heart of what I call a 'reset' of global values. That's where you literally go to bed and gold is \$1,290 and you wake up the next day and it's been reset to \$2,500. That's how they use it rebalance accounts. In the wholesale system you see a lot of the gold bugs saying that a reset is likely. I would be surprised if a reset happened this year, but we've seen enough fraying of the slow burn such that anything could happen, and certainly a reset could happen in 2015 or 2016. It doesn't mean it will. It really comes down to what the arrangements are.

If Google gets the wallet out there, we could skip a reset and the reset could be on a wholesale basis and retail will never see it.



That's it for precious metals. Again, Franklin will be with us in the second week of August and we'll have a very in-depth conversation about what's going on in precious metals.

Fixed income is a very important area to watch, and that's because quality matters. We're starting to see the credit problems that we've known were there come up. As the Fed tapers the liquidity in the financial institutions will not be there to deal with it or cover it up or, as I said, the Fed has had a shredding party buying in weak paper and shredding it is my theory of part of what's been going on.

Let's just go through the different areas. Bank deposits. I continue to believe that the safest bank deposit is a very good insured credit union or bank. The bank is FDIC insured. The credit unions have a different system. You want a very high quality institution that you think could make it without the FDIC insurance, but you want to stick within the FDIC or credit union insurance system if you're domestic.

I like to have money in other jurisdictions, but remember that you need very sound jurisdictions. I keep getting questions about whether I think Switzerland is safe, and the answer is yes. I think Switzerland is one of the safest jurisdictions, but I don't underestimate the fact that European liquidity issues are going to impact them as well. The reality is they have played ball with the Department of Justice at great expense to themselves, but in a liquidity crunch that is probably going to help them enormously.

“The reality is they have played ball with the Department of Justice at great expense to themselves, but in a liquidity crunch that is probably going to help them enormously.”

Money markets, as I said, the S.E.C. is promulgating new rules. It's very important for your money markets to stay in either government credits or with a custodian that is excellent, or both. Actually, I would say both. Be very careful about money markets because the weak ones could get shaken out.

What the S.E.C. will probably do – and we'll have to see – is if they allow the net asset value to be reported at less than a dollar, the weaker ones could get



shaken out. With sovereign debt the weaker credits are going to have trouble. You've got a lot of countries around the world that can't afford to pay their debt so let's see what's going to happen. They can print, but that has other ramifications.

Municipal debt we have known for a long time that there are weaker credits who are working out of reserves and can't continue to carry their debt service. They're going to get in trouble, so expect that to start to catch up with us in the municipal market by the fourth quarter in 2015. It will probably accelerate in 2015 unless the Fed's step in and helps again. The Fed's can print money that municipalities can't. That's going to be their challenge. Expect to see more trouble in the municipal debt market.

U.S. Bond Market Debt vs. U.S. Stock Market Capitalization Adjusted for Nominal GDP



Equities. There was a very interesting June publication by a think tank, OMFIF, that I have talked about a fair amount on The Solari Report. Let me read you what I wrote in one newsletter this last month:

A new round of questions was inspired by the June publication of *Think Tank OMFIF* of a survey of global central banks, sovereign wealth funds, and government pension funds which report that



Financial Markets First Half 2014

Index	6/30/2014	12/31/2013	YTD	High	Low	Description
S&P 500	\$1,960.23	\$1,848.36	6.1%	1963	1742	US Largest 500 Company stocks
DJIA	16,826.20	16,576.66	1.5%	16947	15373	Large-cap stocks (DJI)
Russell 2000	118.36	114.62	3.3%	119	108	Small-cap stocks (IWM)
MSCI EAFE	68.37	67.10	1.9%	69	62	Europe, Australasia & Far East (EFA)
MSCI Emerg. Mkts.	43.23	41.80	3.4%	43	37	Emerging Markets stocks (EEM)
Barclays Agg. Bond	109.20	105.83	3.2%	109	106	Total US Bond index (AGG)
Barclays H/Y Bond	41.54	39.97	3.9%	42	40	High-yield Corporate Bonds (JNK)
Gold	1,315.00	1,204.50	9.2%	1385	1204	Gold Spot Price
Silver	20.87	19.50	7.0%	22	19	Silver Spot Price
US T-Bill	0.0%	0.0%	0.0%			3-month T-bill

government institutions – public institutions – now own \$29.1 trillion of the estimated \$130 trillion in cross-border assets. This includes \$13 trillion held by 157 central banks, reported before the recent increases from quantitative easing, \$9.5 trillion held by 156 public pension funds, and \$6.5 trillion by 87 sovereign wealth funds.

OMFIF reported a broad-based shift to central bank assets into the equity markets. China's central bank with \$3.9 trillion of assets has now become the world's largest public investor in equities. The Swiss National Bank reports holding 15 percent of its foreign exchange assets in shares.

What are we facing in the equity markets? When you have a highly centralized system that is very leveraged, what can happen in the equity markets is a very wide dispersion. You can literally see the market shift to PE's of 30 or PE-s of 10. There is huge variability because you don't have the market re-grounding with the fundamentals day by day by day. That's what market economics does. But when you have enormous intervention in a centralized system you get a situation where you can have unbelievable variability.



Markets Year to Date



In 2010 McKinsey wrote a report saying, “As the economy shifts to growth in the emerging markets it’s going to be trouble for the equity markets because the emerging market populations don’t invest in equity.” Well, surprise, surprise.

If you have the central banks, sovereign wealth funds and public pension fund systems – and remember, China and the emerging markets are now talking about providing more of a public pension social safety net – if those institutions start to swing enormous money as they grow into the equity markets then you’re talking about literally a shift of the entire planet away from the debt model into the equity model. It would certainly be wonderful if it could happen on a nice basis. I continue to beat this drum because of the ramifications of a debt dominant financial system. I always say, “Debt equals war and equity equals peace.”

One of the things that is preventing war so far in the Ukraine/Russian situation is you have a whole series of American and German and other corporations who are doing business with Russia and they don’t want their profits interfered with and their operations interrupted. Greed is holding us together in one sense of the word. If we have equity invested with each other then we want each other to succeed. We change the incentive system. The reality is the entire planet has far more debt than we can afford and support with proper cash flow.

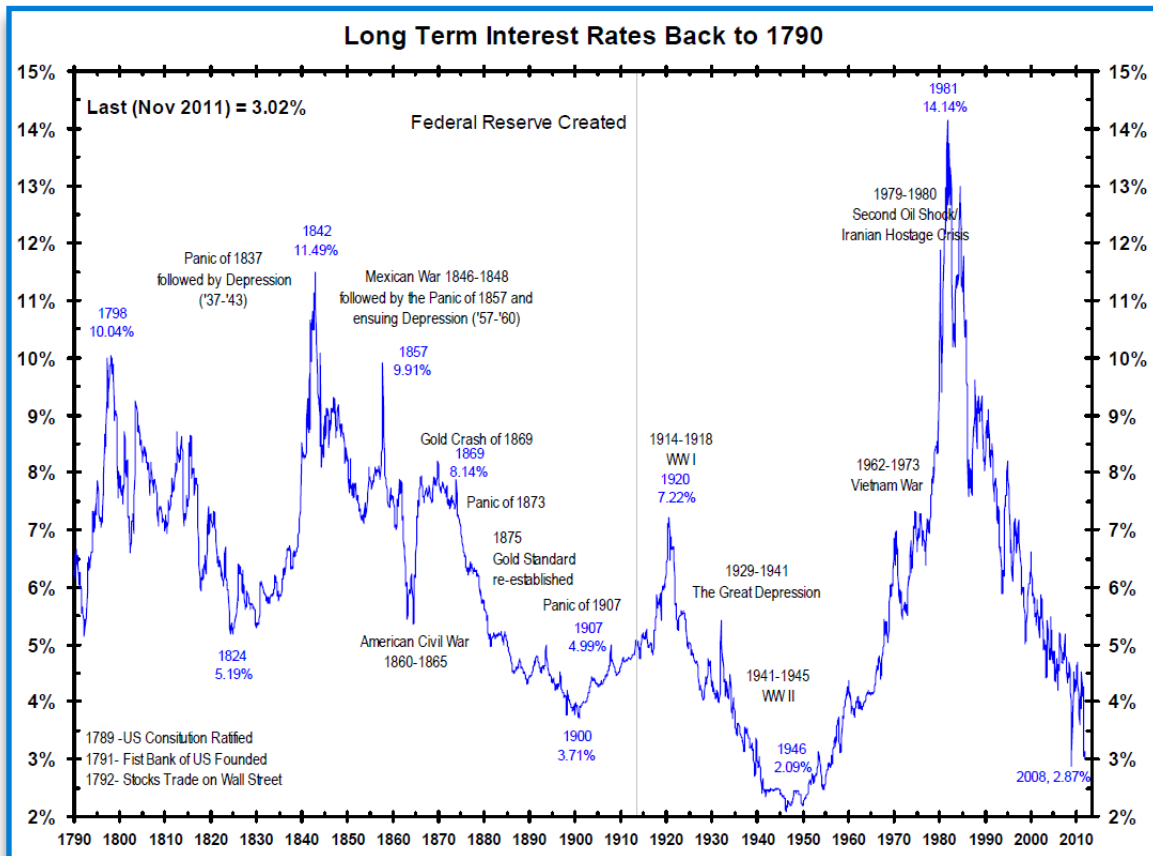


I've said it before. We literally need a planetary debt for equity swap. The question is how to get there. One way to get there is we start the money we're shifting out of the bond market into the equity markets. I certainly think that is what is happening if you look at the reports of institutional investment. That's why in 2008 and 2009 when the slow burn more than frayed everyone went to fixed income. The challenge is fixed income is not necessarily the safest place to go now.

That's one of the reasons I suspect that you're seeing dividends matter so much. Strong companies paying good dividends are doing remarkably well in this market, and I think it's because dividends matter. If you haven't listened to the equity report we did with Chuck Gibson last year on why dividends matter, it's very prescient as to how the market has performed over the second quarter.

I think even with the Fed tapering and the possibility of interest rates rising, there are some reasons why we may see the US markets continue strong if you look at all the technical analysis. The bull market in the US continues.

We also see the emerging markets perking up. The emerging markets had diverged very strongly through the end of last year and they started to perk up, but it was early. Of course, the concern was that if the US market corrects, particularly as its summer, seasonality patterns and the history would argue for at least a 10-20 percent correction. The fear was that if the US markets correct, the emerging markets would correct more. However, they continue to perk up and have been moving ahead.



Europe relatively flattened. Of course, given what's happening in the Ukraine and the various tensions, Europe is having a struggle.

Interestingly enough, one of the best performers over the last year has been the frontier markets, which are those countries that are not in the G20 but are growing. It's sort-of the Outer-Mongolia group. It is a very small illiquid market but growing, and lots of opportunity there.

The big story in the markets in the third quarter, I think, will be the Alibaba IPO. One of the things that has happened, remember China literally just started its equity markets in the 1990s. The equity markets are a relatively new thing around the world and they're still not deep and rich.

The Alibaba IPO may happen in August. I think it will be a real ringing of the bell to indicate that the Chinese companies are growing and are many and are now ready to compete as equals in the global market. That's going to be a very



big shift because their management and corporate infrastructure is very weak. It's one of the reasons that their accounting is not considered trustworthy. Their audits are not considered trustworthy. Their corporate infrastructure and leadership isn't considered trustworthy. To a certain extent that is a reflection of youth, so let's see if the corporate infrastructure grows up. If it does, it's going to make them an incredible juggernaut in the corporate world and in the markets. To me, the Alibaba IPO is the ringing of the bell that that new phase is upon us.

The question, of course, is: Which way do the equity markets go? Is the money trying to get out of the debt bubble and the derivative bubble looking to go into equities or not? So, could we get a crash up? No way to tell. It could go either way. As I said, the nervousness with the central nature of the system is that the pricing possibilities are very wide. Variability is possible.





BE SERIOUS ABOUT QUALITY

Let's turn to you and look at what you need to do. It is extremely important to understand that in the environment we're going into that it is important in the investment world to look for quality, the same way it is important to look for quality in your life. You need quality.

If you look, we have our Summer Picnic Special up on the blog. We have a cap and a picnic apron for your barbecuing with the Solari logo on it. The Solari logo is a solar armillary. An armillary is a tool of alignment. That's the way I think about it. Until the Europeans brought the telescope out in the 17th century the armillary sphere was an instrument used by astronomers in determining celestial positions.

It's very important to keep moving towards the people and activities that align with your purpose and values and break away from those who don't. If you have anyone in your life that wastes your time and energy, get them out of your life if you possibly can. We spent a lot of time at our various lunches and activities over the 2nd Quarter talking about that.

We got a question from one of the subscribers that I wanted to address:

The television shows that are on TV today are dramatically different than they were 40-50 years ago. They were kinder and gentler back then,



and today there is much more violence, ego, and putting down of other people. In your opinion, has this shift been orchestrated by the powers that be in attempting to shift our thoughts, feeling, behavior, and actions into the direction that suits them?

It's a combination of things. We've had Adam Curtis's work several times on *Let's Go to the Movies*, the lead documentary being *The Century of the Self*. He does a great job of describing this degradation of entertainment, and you really want to watch that.

Also, please if you haven't listened to Adam Trombly's interview on entrainment, please do.

I do think that TV is teaching people to behave in ways that negates their personal power. As you learn the behavior taught to you by TV, your power goes down. Part of it is we learn how to denigrate each other and engage in "drama queen" behavior that doesn't really get us to a place where men and women make each other more powerful and families help each other become more powerful.

If you've heard me beat the drum about our interview with Jay Hughes called *On Family Wealth*, it's about how families get together and make each other more powerful. The reality is if you look at what TV teaches, it teaches men and women to tear each other down, and it teaches young people and old people to tear each other down. It teaches families to tear each other down. That is not a way to build personal power whatsoever.

I want to talk about time management, too, because I have seen in the Solari team the amount of stress placed on individuals in their personal lives as a result of family getting sick, of a variety of legal and financial challenges in families, friends or community.

We all need to build reserves into our time to just

“The reality is if you look at what TV teaches, it teaches men and women to tear each other down, and it teaches young people and old people to tear each other down. It teaches families to tear each other down. That is not a way to build personal power whatsoever.”



manage things that could go wrong for those around us because the risk in the environment – legally, financially, and physically – is going up. Just make sure not to over commit, and build reserves into your time. Build in time to take care of you. It is so important to stay healthy in this environment, so keep investing in health.

Learn to say, “I don’t know.” I’m watching enormous waste of time in people engaging in wasteful and angry conjecture. It’s reaching epidemic proportions on the Internet. We don’t know a lot of what was going on. That was what was so wonderful about being in San Mateo with Richard Dolan and Dr. Farrell. It was a team of fearless scholars with big brains who know a great deal and can teach a great deal, but they can say, “We just don’t know.”

We can’t get to the point where we know if we don’t start with what we don’t know. So pay attention to quality of life, and your quality of life is making sure the people around you and the place where you are and what you do in this world to earn a living or generate equity value is something that is really quality. Just get ridiculously tough about quality.

HERO

We have a tie for our hero for the quarter. They’re both from Europe. They are public officials who’ve engaged in acts of enormous and inspiring courage. The first was our hero on April 10th and his name is Dominico Scilipoti. He’s an Italian senator who has petitioned to abolish state secrets about chemtrails. I can’t tell you how courageous you need to be to do that, particularly given what’s going on in Italy right now.

The second is Saskia Stuiveling who we discussed on June 12th, President of the Dutch National Court of Auditors who pointed out that there were billions missing from the NATO accounts. I don’t want to remind everyone, but I believe the number of the count is now 198 dead citizens on the Malaysia Air plane that went down, but it almost makes you wonder if there’s a connection, as frightening as that may sound.



LET'S GO TO THE MOVIES!

Our movie today is *Salamander*, which is a Belgian TV series, which was purchased by the BBC. As one reviewer said, "It's a cross between the House of Cards and Wallander." If you liked the House of Cards and Wallander, you might like Salamander.

Salamander is the story of a Belgian police inspector who is fighting corruption. It goes for twelve episodes. There is talk of a new English-speaking version of it being done and filmed in the UK or the US. It's deeply fun to watch.

One of the reasons why I wanted to recommend it, in addition to it being great entertainment if you like that kind of police inspector genre, is it shows you the power of control files and the extent to which control files are used in a variety of ways.

I think it's very helpful to understand it, to get an emotional understanding of how important this issue is. I have struggled mightily with various subscribers or clients to help them understand the power and importance of these kinds of systems to control a political system.

COMING UP & CLOSING

Let me describe some of the special things that are coming up in the next quarter on The Solari Report. We have been working now for over a year on new blog and subscription software. We sat down and made a list of everything our subscribers wanted in terms of improvements to the blog and improvements to the subscription software.

We thought we were going to launch it in the first half, but now we're going to launch it in the 3rd Quarter, and we're very excited. You're going to be hearing from us more about that. You'll certainly see the blog when it comes up. We'll give you a heads up before it does, and we think that subscriber software is going to make your lives much easier. It's going to be a more professional experience. The Solari team has worked mightily hard to do this, and we're very excited. We hope it satisfies you as much as we expect it to.



We hope to do a lunch in Albuquerque in late September as I drive back to the San Francisco Bay Area, and then we are exploring the possibility of a small weekend retreat in the San Francisco Bay Area in the fall or spring when I return. A lot of subscribers and friends and some of the speakers want to keep the conversation going that started in Marin and San Mateo, particularly about cosmology and values. There was a lot of talk about how we start a new culture.

If we're going to break away, how do we break away in a way that gives each other energy? Of course, it starts by talking about: Who are we? Why are we here? What do we want to do? How do we relate to each other in a way which is meaningful and supportive over time?

If you're interested, please keep us posted. These subscribers will be given notice, but the first one will be small. If it's successful, we'll do more. It will be by invitation only. It won't be open to the public. Those invitations will only be offered to probably the Solari subscribers and members of Dr. Joseph Farrell's website or any of the other people who participate.

I want to say how much I appreciate your support of the entire Solari Report team and me. Having the opportunity to serve you and to do The Solari Report is one of the finest things that has happened in my life. I'm very positive about the future and my future, and it's because I've met many of you. I know what can happen when a group of positive people come together and do what they can in a way that's energizing for them to really shift things. I think there is a lot of opportunity as things come apart for things to gather and come together. I can feel that happening, so please keep the flow of ideas, suggestions, and feedback coming. I think you're terrific and I'm so delighted that we are "in cahoots."

In closing, next week we have our Quarterly Equity Overview with Chuck Gibson.

The following week we have Dr. Joseph Farrell on his new book *Hermetica*. If you want to revisit some of those important issues of cosmology and values and how we got to where we are, it's a really good one. A book review on *Hermetica* went up last week, so you can check it out on the blog.



Then on August 14th we have the Precious Metals Market Report with Franklin Sanders. As always, we have an enormous amount to talk about. August and early September are typically the time of the seasonal low for precious metals, but if they're going to be strong they're going to be strong in the fall. Given the geopolitics globally, there are a lot of things happening that could impact precious metal prices. If prices aren't strong, having coins will certainly be useful. War is a time when it's nice to have that stash of Krugerrands, so we'll have a lot to talk about.

Ladies and gentlemen, that's it for the 2nd Quarter Wrap Up. Until next week, July 31st for our Quarterly Equity Overview with Chuck Gibson, 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.

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.