The Solari Report

AUGUST 14, 2014

Precious Metals Market Report

with Franklin Sanders

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C. AUSTIN FITTS: Ladies and Gentlemen, it's my pleasure to welcome back to The Solari Report Franklin Sanders to 'It's Time for our Precious Metals' market report. There is a tremendous amount to discuss.

We're going to talk about both an update on the market and how gold and silver are doing, and then we want to discuss the Fed taper which is going to have a pretty dramatic impact across the board on all markets, but particularly intriguing is the role that it will play in the gold and silver market.

So Franklin, welcome to The Solari Report. How's your summer going?

FRANKLIN SANDERS: Cool. It's ridiculous.

C. AUSTIN FITTS: This morning was unbelievable.

FRANKLIN SANDERS: I know. I woke up this morning and I thought I was going to freeze to death!

C. AUSTIN FITTS: Well, I don't know if you realize this, but CNN just put out a report saying that this winter is going to be much colder than last winter. I don't know how they know that.

FRANKLIN SANDERS: It's so comforting that we've got global warming to chill us to death.

C. AUSTIN FITTS: Well, tell us. I'm dying to hear what you've been seeing in the markets because you're in the gold and silver market every day. It's been a very interesting time. Bring us up from the last time we talked.

FRANKLIN SANDERS: Well, so far what I had been expecting was that some time about the middle of this month or by the middle of this month – which is where we almost are – we would see the unequivocal continuation of what is arguably a rally in silver and gold. We've basically seen that, except right now there is just a little problem that silver is lagging gold rather badly.


$GOLD Gold - Spot Price (EOD) CME
@StockCharts.com
13-Aug-2014 Op 1310.40 Hi 1319.30 Lo 1306.00 Cl 1313.70 Vol 251.5K Chg +3.10 (+0.24%)
RSI(14) 52.30
$GOLD (Weekly) 1313.70 (13 Aug)
MA(50) 1295.10
MA(200) 1500.42
MA(20) 1300.24
Volume 251,516
MACD(12,26,9) 2.633, 0.584, 2.049
ROC(12) 1.60%
Full STO %K(14,3) %D(3) 62.20, 61.19
1432.50
1309.10
1577.40
1535.00
1792.70
1526.70
1798.10
1434.00
1321.50
1179.40
1181.40
1392.60
1346.80
1240.20
1500.42
1313.70
1295.10
251516
11 F M A M J J A S O N D 12 F M A M J J A S O N D 13 F M A M J J A S O N D 14 F M A M J J A S O

If you look at the gold chart – and I believe I sent you a longer term gold chart, a weekly chart – what you can see is that there is a downtrend that began in October of 2012 and gold is trying to close above that downtrend and it's been trending up since the end of last year. Just yesterday it closed over that line, but it's been fighting that downtrend line but hasn't been able to close through it.

What we need to see really is the gold close above 1350 and then a pretty steady advance. I think you're going to see that roughly from now until certainly into September and October. It may be longer than that.

We're still looking at the same levels. We need a close over 1350 and then a close over 1390. The big barrier is going to come about 1550 where gold broke off in April of 2013. Once we get over that we can say that another rally has commenced.

Just to give you the really long-term view, every primary uptrend or bull market has some kind of big break at midlife. Think of it as a midlife crisis. If you look at stocks, they began a primary uptrend in 1982 that lasted until 2000, but in 1987 they had a terrible break – nearly 50% - and it took them about two and a half years to overcome that break. With silver and gold beginning 1975 until the August of 1976 there was a big break in gold and silver and then it began to recover.

What you have to understand about these two parts of a primary uptrend or bull market is that whatever the percentage gain was in the first part before that midlife crisis, the second part will exceed. So if it gained 700% from the beginning of the bull market to the break, from the bottom of the break to the end of the bull market it will gain more than 700%. For that reason we're really looking forward to what silver and gold are going to do because it should be better than what we saw in 2001 until 2011.

If you look at a shorter term gold chart, you can see that it's formed a kind of a head and shoulders bottom and the momentum indicators like the rate of change and MACD are positive and the RSI is positive. It just really looks like it's got everything going for it except silver.


$GOLD Gold - Spot Price (EOD) CME
©StockCharts.com
13-Aug-2014
Op 1309.60 Hi 1310.40 Lo 1306.00 Cl 1313.70 Vol 95.3K Chg +3.30 (+0.25%)
RSI(14) 55.16
From 8/2011
$GOLD (Daily) 1313.70 (13 Aug)
MA(50) 1300.98
MA(200) 1286.43
MA(20) 1303.95
Volume 95,280
From 10/2012
From 4/2013
SHOULDER
SHOULDER
HEAD
MACD(12,26,9) 1.108, -0.394, 1.501
ROC(12) 0.74%
Full STO %K(14,3) %D(3) 69.67, 70.33


$SILVER Silver - Spot Price (EOD) CME
@StockCharts.com
13-Aug-2014 Open 19.92 High 20.16 Low 19.70 Close 19.81 Volume 119.4K Chg -0.11 (-0.53%)
RSI(14) 44.66
$SILVER (Weekly) 19.81 (13 Aug)
MA(50) 20.55
MA(200) 28.31
MA(20) 20.04
Volume 119,381
44.28
37.58
35.44
32.30
26.30
26.15
26.15
26.10
25.12
22.18
21.63
18.17
18.72
18.61
14.65
MACD(12,26,9) -0.041, -0.079, 0.038
ROC(12) 1.75%
Full STO %K(14,3) %D(3) 46.60, 57.60

So we turn to a long-term silver chart and we see that looks pretty good, too, because since the October 2012 high, if you take a downtrend line from that you see that silver has broken out above that downtrend line. It's made three bottoms there in June 2013, December 2013, and again this year in May below $19.

It started up. It's gotten through that line, but lately it's been lagging. It really is not far from the downtrend line from the April 2011 high. That downtrend line right now comes in about $22.50, so once it gets over that it will be doing well. Here recently, if I look at a short-term chart – about a year and a half – it's very evident that silver can't get through $20. That's what's been slapping it around. It needs to first get through that $20 level and then $20.50 to turn up. Once silver and gold get into step again, then we're going to see a strong advance. That should start this month.

If you've lived with gold and silver for more than 30 years the way I have, you expect August to be a good month because normally you get a bottom in June or July or maybe the first early part of August. Out of August you get a rally that begins and usually carries quite a ways. There is nothing to contradict my forecast that gold and silver are going to pick up and begin in earnest a new rally this month.

Would you like to look at some other charts, too?

C. Austin Fitts: Yes. I just also want to note that I've got a list on my desk of people who want to be notified when I think it's turned and it's time to buy. Some of them want to buy at $15.30 (instead of $15.20). Some of them want to buy after the primary trend has been proved to reassert, and some just want to buy when I think it's a bottom. I'm not 100% clear how I'm going to define that.

I have to tell you, Franklin, and I'm looking at the politics now, not just at the charts. The politics say to me that we can still have to test 1,100 again before it heads back up. I haven't said "go" yet, and I hope you're right.

Franklin Sanders: Can I give a rule of thumb on that?

C. Austin Fitts: Sure.

FRANKLIN SANDERS: If I look right now at the gold chart today, I see that there is – let's call it $1,310 is the place where the downtrend line is. There is kind of a rule of thumb that says in order for a breakout to be confirmed, it needs to be at least 3% above the breakout point.

If I take $1,310 as the breakout point and multiply that by 1.03 which is the same thing as adding three percent, I come to $1,349.30. Let's call that $1,350. It is an interesting coincidence that the high that we saw this year in July was $1,346.80.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: So if we get a close above $1,350 that's a pretty solid confirmation that the market has turned. That gives you a breakout over that downtrend line for gold that extends back to October of 2012. I would be right comfortable with that breakout.

The problem always with waiting for confirmations is: Which one are you going to wait for?

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: When you get a $1,530 price, yes sir. That's going to really solidly confirm.

C. AUSTIN FITTS: Conservative is you wait for a higher high and a higher low. One or two of both.

FRANKLIN SANDERS: Right, but those are massively higher highs and higher lows. We've gotten the higher lows since December, and we did get some higher highs, but they've been declining. That's not good. That makes a triangle formation and it's an even-sided triangle which blows hot and cold out of both sides of its mouth; you don't know which way it's going to resolve itself.

For right now, I'd say that first confirmation is that close above $1,350. Then without much slacking, gold needs to get through $1,400 to confirm that breakout. The problem, of course, in waiting for $1,530 – which is not a strategy I can condemn – the problem with it is that it's $200 higher than where we are now.

C. AUSTIN FITTS: Right, but if you look at what the long-term is, that's not going to turn out to be a lot. The one thing I do want to make sure everybody understands is if we do retest $1,100, that in no way detracts from the chances we're going to reassert the primary trend. We could retest $1,100 and that could just be part of the consolidation you and I have been talking about here.

FRANKLIN SANDERS: Right.

C. AUSTIN FITTS: Is that fair to say?

FRANKLIN SANDERS: Yes, but I think $1,100 pushes my boundary a little bit. If you look at a long-term chart, especially a monthly chart, you'll see that that line comes in way down there somewhere. The uptrend line you would hit is down there considerably.

Let's look at the US Dollar chart because the US Dollar chart is very much instrumental in what gold and silver will do, and oddly enough I had to take stuff off the chart. I'm ashamed of this chart still because it has so many trend lines and so forth on it. It still looks like it's all junked up.

What I'm trying to show is that for basically since last October or last September, the US Dollar Index has traded in a sideways fashion between 81.50 on the high side and 79.00 on the bottom side. Within that range it has made an upside down head and shoulders formation, and it broke out of that last month. It got up to that 81.50 line but it can't seem to make up its mind which way it will continue to go.

It will continue to move up. Normally when a market gets through a strong resistance like that it will continue to advance. It may take a breather to consolidate, but if that head and shoulders formation is accurate then you're going to get a high in the Dollar Index somewhere

around 82.75 or 83 before it drops.

I know people believe that the Dollar exchange rate is the primary determinant of the gold price. I'm not that much convinced of that. They can rise together. Right now the most confusing thing for me is how much geopolitical tension is contributing to the gold price. I'm not sure it's that much. I'm really not. I mean, it ought to be because if you look at Obama trying to get involved in a war in Iraq and trying to get involved in a war in the Ukraine, certainly there is reason to be fearful of what kind of war will break out next.

C. Austin Fitts: Franklin, my experience since I've been a gold investor is that when the US makes war, dollar up, gold down. It's kind of the opposite of what you would expect. There's an old notion that the more chaotic things are the more people want gold, but that's not been my experience.

Franklin Sanders: I'm not impressed – ever – when you get some kind of international crisis and gold bumps up $10-12. The reason is because it loses that same impetus just as quickly as the crisis settles down. It's like a meaningless rise. It doesn't do anything permanently.

Right now what I'm saying is the dollar and gold don't always drop together.

C. Austin Fitts: Right.

Franklin Sanders: Sometimes that dollar can be rising and gold can be rising, too. It just depends on a lot of different conditions. Part of it depends on the interest rate. When the Fed is suppressing the interest rate to zero, then there is much more incentive to hold gold because it means that you're not losing interest by holding gold. You're basically holding cash.

Back to the charts, I've got a weekly chart of the Dow and you can see it's formed like a five-year rising wedge which normally resolves by breaking out to the downside. It broke that downside early this month. It broke that uptrend line, and that is very portentous. The S&P has not done that.

C. Austin Fitts: The S&P chart looks very strong still.

Franklin Sanders: Well, it hasn't broken through that uptrend line. That is correct. It's not clear what it's doing. I don't think this is the final break.

I think that will come later in the year, but after a five-year run you're going to get some kind of long correction.

We talked about gold stocks. All the gold stock indices have been stronger than gold during this year, and in fact, if you look at the gold stock end of season and you compare them to all the other stock indices and to gold and silver, they have outperformed by a factor of two or three every other category of investment. It's astonishing, but it's also a very good sign because the stocks typically will lead a rally in gold. In other words, they start rising in the anticipation of a rally in gold.

C. Austin Fitts: They've fallen much more than gold and silver. The Miners have fallen much more than gold and silver. They have a lot more to come up.

FRANKLIN SANDERS: Right. They have more to make up, but if you look at a chart of the XAU, for instance, which is just one gold index, it clearly in this year has done very well.

That's the way it looks right now. In other words, we've come through a three and a half year correction in gold and silver, and it appears that we have double bottoms in both gold and silver in June and December of last year. There is nothing to contradict that picture yet. Although there is, of course, the potential that we might see a big drop as you alluded to one last drop, for the time being that's not happening.

Everything I look at says that both gold and silver will rally in August and put an end to that long correction.

C. AUSTIN FITTS: The other thing I wanted to bring up because it bedevils me day to day is the US stock market is very seriously overdue for a 10-20% correction. If that happens, one of the things I've been doing is looking at commodities saying, "Oh, that looks really good." The problem is if you get the US market correcting 10-20% there is a risk that there is a downdraft on almost everything else.

I'm particularly interested in commodities. For the last two and a half years there has been enormous divergence between the US equity markets and the emerging equity markets. Part of that is they are very commodities-related.

FRANKLIN SANDERS: There are people who are recommending a rotation out of US stocks and into foreign indices.

C. AUSTIN FITTS: Right. On one hand it's a no-brainer. The only problem is if you come into the taper and the US market corrects 20%, historical patterns are that everything else corrects, too. That's the big question mark. It's not a question of if; it's a question of when. The timing on that is sensitive because 20% is a big number.

FRANKLIN SANDERS: Let's go back. There has not been a significant correction of even 10% in over two years.

C. Austin Fitts: We had a 5-8% in the beginning of this year, so I was kind-of checking the box in the 5-10% category. We're way, way overdue for 10-20%. Let's say we're in the long-term upper trend. You still need a 10-20% to consolidate within that trend, and more than 20% then it's over.

Franklin Sanders: Right.

C. Austin Fitts: I've been saying this for a long time. I just can't imagine we're not about to get a 10-20% correction.

Franklin Sanders: The possibility of that is increased by the end of the taper because I don't think anybody questioned that the stock market rise has been driven by the taper.

C. Austin Fitts: Right, but there are three things. If you want to make a case for a crash-up scenario, there are three things that could be playing into this. Every time you look, the biggest conundrum in the securities market is: Where do I go on the taper?

In 2008 we could all just go into fixed income. We can't go there now. In other words, you've got real quality issues and liquidity issues that you didn't have in 2008. You have a whole lot more money in the fixed income markets and it's looking for a place to go because it can't go to fixed income. That's a problem, and I think it's one of the reasons the dollar in the treasury is doing as well as it is.

The other big swing is we've watched an unprecedented move on governmentally controlled institutions globally of money into equities. There's a flow of funds that is happening from the development of the emerging markets, which is a big question mark.

Then there is so much more now in the fixed income markets, and it's so much bigger than all the other markets. People have to get out. If there are credit issues and quality issues, including unsovereign debt, then where are they going to go?

FRANKLIN SANDERS: Well, you raise two or three questions. I misspoke earlier. I said that the stock market rise has been driven by the taper, and I did not mean that. Of course I meant it's been quantitative easing.

C. AUSTIN FITTS: Right, by easing.

FRANKLIN SANDERS: You've also raised the issue that governmental institutions – which is not only sovereign wealth funds but also central banks – have been investing in equities around the globe so that now they hold 40% of all equities. Well, you now have a situation of outright fascism where official institutions own something like half of the market. That's a crazy feedback situation.

There's an additional problem in the bond market in that central banks have bought up so much government debt that there's actually a shortage.

C. AUSTIN FITTS: Right! Can you imagine this?

FRANKLIN SANDERS: Please forgive me. I've lost my mind! There's actually a supply shortfall in those markets. The dangerous thing is that a lot of dealers in those markets are backing out of their inventory or backing down their inventory. That is, they are lowering their inventory levels. What that means is that there is less slack for that market to adjust if suddenly people want to start selling those bonds.

I think it's just as likely that in the very short term you'll see a run-up in those bonds because if you look at the ten-year treasury yield, what you see is that it broke out to new highs. It made a breakout in June of last year. It traded in a sort-of sideways but a little bit upward channel, and it's broken down out of that channel this year. The only thing is that it hasn't followed through with that breakdown.

If it follows through with that breakdown, there will basically be a melt-up in the price of treasury securities or US bonds. That would mark an end in the trend. That would be the last blow-off of the trend.

But all of these things are very scary because what this meddling by the central banks has done is destabilize every market. So when the investor looks, he says, "Where can I get a return? Whoops! No place I can get a return because they've driven interest rates down so low. That means that I've got to take on more risk."

They've brought about supply issues in markets. It's just a wreck. It's a train wreck and it's very difficult even for people who are a lot smarter than I am to figure out how to prosper safely in this environment.

"It's a train wreck and it's very difficult even for people who are a lot smarter than I am to figure out how to prosper safely in this environment."

C. Austin Fitts: I don't know if you remember Anne Williamson. She was the reporter who did such a great job of documenting The Rape of Russia in the 90's. She wrote a couple of great pieces for *World Net Daily* on the IMF, the World Bank, and the Fed and how they all worked.

I was on the phone with her yesterday. We were talking about the NSA system, which both of us believe is essentially an insider trading and market manipulation – including consumer markets, not just financial markets – operation. She said that basically what they're trying to do is come up with a way to do communism in a central-controlled economy but make it look like a market system, and digital technology is the key.

That's part of what we're dealing with. We're dealing with a very managed and manipulated system. It can be very frustrating, and I think they find it frustrating.

Franklin Sanders: Let me go back to what you just said. I think her comment is the most insightful and the most accurate that I could imagine. The governments have surreptitiously taken over markets. Take the stock market for example. There is no question that they have a plunge protection team and that that plunge protection team invades the stock market at certain levels to keep the stock market from melting down or from crashing.

They have, in effect, put a floor under the stock market.

C. Austin Fitts: Except for this, Franklin. This applies not just to the equity markets but precious metals or any real asset or entity that has real assets or operates real assets. If you have an economy that is this centrally managed and is this leveraged, if it doesn't reground to fundamentals on a regular basis, that's what a market does. It regrounds you back to fundamentals. It regrounds you back to economic supply and demand. It kind of cleanses you regularly – moment to moment, day to day, week to week.

If you don't have that regrounding, then the problem is if you look at the markets, you have to be prepared as someone who does what you or I do, for the market to swing from a PE of 6 to a PE of 160 because when something is that centrally controlled and leveraged with both debt and government debt and derivatives, the swing is potentially wild because you haven't regrounded to fundamentals for years.

Franklin Sanders: You just stole my next line. Thanks a lot, Catherine!

C. Austin Fitts: Sorry there.

Franklin Sanders: What's the purpose of a market? A market is like kidneys, except in the economy it's supposed to clean all the bad stuff out of the blood and pass the good stuff through. As you say, there's no way to cleanse the market. There's no way that you can get unprofitable operators out of the market because the government is in the market manipulating it so that the price signal is distorted or suppressed or advanced when it shouldn't be.

This is the inherent problem with central planning. Central planners aren't God. That's the simple problem. We don't know what the future holds, and it's certainly difficult to fade an economy that reflects the desires of five billion people.

C. Austin Fitts: It's very interesting because Yellen when she first was appointed went up and testified. She didn't do it in a cranky, whiney way, but basically in a cranky, whiney way what she said is, "You're requiring me to print more money because you refuse to make hard decisions and reengineer the federal government. You want to delay facing any of these fiscal things that have to be faced, and instead you're requiring me to print money so that we can just delay it some more. The reality is that I can't do this forever, and you need to start making responsible decisions. There needs to be some kind of financial accountability here."

It was really funny.

FRANKLIN SANDERS: This is the same thing as a prostitute complaining to her pimp that he makes her practice prostitution.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: You see what I'm saying?

C. AUSTIN FITTS: Right. But it's so bad that they're now openly complaining to each other in testimony. I mean, can you imagine Alan Greenspan complaining about that?

I don't know if you saw it, but Barry Ritholtz had an editorial in Bloomberg blaming Greenspan for the bubble. I was like, "Well, that was 20 years late!"

FRANKLIN SANDERS: None of them said that when he was engineering the bubble, did they? They all talked about what a genius he was.

The thing is, central planners always back themselves into a corner some way or another. They make some large mistake and keep making that large mistake, like the Fed intervening in 2008 with the mantra, "Oh, the whole system will fail if we don't intervene."

What they mean is that their friends would fail if they didn't intervene, and now we're still paying the price of keeping alive business organizations that should have gone bankrupt.

C. Austin Fitts: So let me defend them for a second. I think in 2008 if the Black Budget fraud that was involved in the mortgage back and other securities markets had become obvious, basically what you'd done is you sold fraudulent securities intentionally by the US Government or with US Government credit to our allies around the world.

If we hung them with it and we didn't bail them out, then the Black Budget fraud would have come out and you would have had a war between the overt side of the government and the covert side of government.

I think one of the reasons they did what they did was to avoid that war. I'm not saying it's the right thing to do, but I think the financial system could not have tolerated the truth without an incredible violence.

Franklin Sanders: I know, but one of these days that's going to have to be faced.

C. Austin Fitts: Absolutely. I was trying to do it in '94.

Franklin Sanders: Here are the two choices: If you don't touch it, it will get worse and worse until it crashes. Literally the whole financial system comes to a halt and there's no way to put it back together, or you continue to do it and make it worse and worse.

On the other hand, what you can do is say, "Okay, we can't do this anymore. It's ruining us. It's costing lives." Not just prosperity, but it's costing lives. We can't live this way anymore.

What are the chances that I think Obama and the rest of those clowns will wake up tomorrow morning and slap themselves on the forehead and say, "We can't live this way anymore"? I doubt it because they have their jobs because their job is to keep the system up.

C. Austin Fitts: Right.

Franklin Sanders: Sooner or later it's going to catch up. They can paper it over by printing trillions of dollars of money doing what they've done and quadrupling the money supply in three years and that kind of stuff, but at some point…

C. Austin Fitts: I think the insiders think they can pay for it with outsiders' laws. In other words, they can pay for it with lives and they can engineer that. That's all part of the slow burn that's happening now.

If you look at life expectancies of the lower income groups, they've been dropping dramatically. I hate to say this, but I think when they couldn't balance the budget in '95 they decided they'd just change the actuarial assumptions and lower life expectancies.

"I hate to say this, but I think when they couldn't balance the budget in '95 they decided they'd just change the actuarial assumptions and lower life expectancies."

Franklin Sanders: That's been going on for a long time, and if we get into that conversation then your listeners are going to talk about what terrible conspirators we are.

C. Austin Fitts: I'm not. I'm a portfolio strategist. I understand. I used to work with these guys. I know how they operate. I'm not being conspiratorial, but here's the thing. If you can't achieve a fiscal solution and you're going to keep the system sustainable, then you've got to change something else. It's a fait accompli.

Franklin Sanders: It's a mathematical formula. You save money if you don't have to keep as many people alive. I got that picture.

C. Austin Fitts: Let me not get gruesome. Let me turn instead to the taper. Can we talk about the taper?

Franklin Sanders: The famous taper!

C. Austin Fitts: The famous taper. I want to bring up a number because I've been reading this wonderful article. I wrote a commentary about the blog where an investor was writing about all these different studies where it proves that more information makes you more confident, but it doesn't lead to any wiser decisions.

The important thing is to have the six most important pieces of data, not 40 or 80 or 100 pieces of data. I'm always trying to think, "What are the six most important pieces of data that will explain how this works?"

There was a new clever website put up. It's linked on my blog. It's called JP Madoff. It's by two attorneys who represent some of the Madoff victims. It's about how JP Morgan was complicit.

There's a link on the blog you can link to. There's this spinning wheel like you'd see in a casino. It's got about 25 different categories. If you click on every category you can see all of JP Morgan's settlements for all sorts of fraud. There are like 25 different settlements that total up to $29 billion of settlements for constant criminal activity.

Anyway, I did the calculations. I sat down and I counted up all the quantitative easing on one, two, and three – not other things the Fed did and Fed arbitrageur loans to the banks or anything else. I'm just talking about the buying of bonds through quantitative easing including commercial, multi-family, and single-family mortgage-backed securities. It comes up to about $3 trillion by the time the taper is over.

If you look at that number and you assume that the paper that they bought – the bonds they bought – were really about $0.10 to $0.50 on the dollar, so they paid par for $3 trillion, and basically 90-50% of that was pure subsidy.

Let's say $2 trillion was pure subsidy into the bank. If you look at what 1% of what was, it was the amount that JP Morgan and Chase made out of all the settlements.

Now it gets even better! I've been following the New York Governor's race because there are all sorts of politics going on around it. Cuomo is the Governor of New York. He is running for his second term. Of course, he was the Secretary of HUD who was so instrumental in engineering the housing bubble and getting a lot of the laws and regulations changed.

It's always funny when people say, "Why is nobody doing anything?" Then they're voting for the very guy who did it. There's Cuomo, and it turns out New York State – are you ready for this – has a $4 billion windfall surplus from these settlements. Well, Cuomo was running around the state handing the money out to reengineer his election. It's quite amazing. $250 million for the Tappan Zee bridge, money for this community, money for that community.

Think of it. You have the Fed debase globally. Hand the money over to the banks for fraudulent paper. They get a huge windfall, and then they start parsing out different settlements to the governmental entities so the politicians can take their kickback as you will, and run around and buy everybody up, going around the rosy. Quite amazing!

FRANKLIN SANDERS: Sounds like a great system to me! It's like the snake eating its tail.

C. AUSTIN FITTS: Right. It's quite remarkable because as you watch the press, nobody ever points out, "Oh, this is a little circle." And around and around we go.

Anyway, let's step back up and explain what quantitative easing was and what the taper is. Do you want me to do it, or do you want to take a whack at it?

FRANKLIN SANDERS: No. Go ahead.

C. AUSTIN FITTS: The Fed in 2008 as we were coming out of the bailouts faced the question of: What are we going to do with the banks owning all of these mortgage-backed securities and other securities – which I would submit were fraudulently constructed. They began a bond-buying program Quantitative Easing 1, which is about $1.3 trillion, then Quantitative Easing 2. Then finally in 2012 they said, "Wait. We need something really, really big."

They said, "We're going to buy $40 billion a month." Then a couple of months later they brought it up in December of 2012 to $85 billion a month. That's what they were doing until September of 2013, so about a year at $85 billion a crack each month buying in from the banks. They proceeded to say they were going to cut back to $40 billion and the markets immediately tanked and they backed off and went to $85 billion.

Finally between the Bernanke-Yellen crossover they've started to taper and they're down. I think they intend to get down in the last month to $25 billion. Then they say they're going to end with I believe October being the last month.

Of course, this has been part of keeping interest rates way down because you're supplying massive amounts of financial Methadone into the market and massive amounts of liquidity. Part of this I think they're just having a shredding party. This is part of cleaning up after the financial coup d'etat. It wouldn't surprise me if a lot of that bond paper came from paper which had been sold to allies, if financial institutions had allies around the world anyway.

We're coming into a period. We know, Franklin, that Dodd Frank dramatically cut back the financial incentives to have big fixed income departments on Wall Street and the financial community. So this is happening at the same time we're seeing dramatic decrease in fixed income capacity within the financial system. Those are the market-makers. Those are the guys who provide liquidity. At the same time, you and I and everybody sitting around saying, "Interest rates can't possibly go any lower." There's no incentive to really buy bonds because you're not getting any yield. If interest rates go up, the value of the bonds go down.

You also have the market saying, "It's the end of the long-term bull market and bonds. Where do we go?" Anyway, we're coming into this into October which – as you remember – is the silly season. For anybody who's lived and worked in Washington or Wall Street, October is always the month when crazy things happen. It's a little bit like the pig going through the snake.

We have the end of this provision of liquidity, and we see a lot of things going on in the market where you can tell regulators are concerned about liquidity and sort-of getting ready for it.

So let me ask you the question: What do you think is going to happen on the taper? What do you think is going to happen to interest rates? What do you think is going to happen to liquidity in the markets?

FRANKLIN SANDERS: You know, the Fed is always behind the times. That is, they are reactionary. They are not proactive but reactionary. I think that once they stop pushing money into the system, which – of course – goes first into financial assets, which means stocks. Once they stop doing that, they're going to have a problem with the stock market. It's going to start dropping. That will scare them and they'll start pumping in money again.

The interest rate problem that they face is that the danger is that at some point they pump in so much money that fear begins to take over for the future of the dollar and interest rates begin to rise to compensate for that.

"Once they stop [pushing money into the system], they're going to have a problem with the stock market."

In other words, the market takes interest rates out of the Fed's hands. If they do that, that's the keystone of the whole arch of their operations and they're sunk. Then the Fed faces everything from mere sickness to a complete collapse of the system and hyper-inflation. I'm not predicting that; I'm just saying that's what they face.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: I think once they've gotten on this monkey, it's a lot like you using the word 'Methadone' which alludes to heroin addiction. The problem with heroin addiction is once that monkey gets on your back, it's pretty hard to get that monkey off your back. In fact, it's impossible because your system becomes addicted to it. I think that's the same place they are with the taper. They know that what they've done is foolish and dangerous, but once you've done that much of it, how do you get back out of it?

C. AUSTIN FITTS: How do you get out of it?

FRANKLIN SANDERS: Here's the thing. All of this has no historical precedent or experience. Nobody's ever seen what happens when you in three years or in four years quadruple the amount of money supply, and what happens when you try to get out of it? The answer is that nobody is quite sure.

C. AUSTIN FITTS: I've talked a lot on The Solari Report about the SCC changing the rules on money market accounts. Now we're starting to see brokers change the rules on who can use the money market accounts versus bank sweeps. They're trying to engineer more and more customers and more and more money out of the money market accounts and into the banks sweeps.

Now what's interesting is the SCC did not include government money markets, and yet the brokers it's the same thing – at least from what I've seen. There's a push to get folks who have cash sitting in their brokerage accounts into the FDIC systems, not into the money market.

FRANKLIN SANDERS: Excuse me. You're interpreting things differently than I did.

C. AUSTIN FITTS: Really?

FRANKLIN SANDERS: I need to make sure I understand what you're saying. You're saying that the change in the SCC rules about money market funds, which delivers them from the requirement to maintain a dollar's value, the goal of that was to drive people into FDIC-insured institutions?

C. Austin Fitts: No. I don't know that for a fact, but what I'm seeing so far from the brokers is that they are beginning to switch their arrangements so that you have to have a much higher net worth to access the money markets. Otherwise you have to go into the FDIC-insured money sweep.

Franklin Sanders: Well, you're seeing a different thing in it than I saw. I saw them preparing for the next panic because, you know, that was a problem in 2008.

C. Austin Fitts: Right.

Franklin Sanders: Typically what the people who run the system do is they see the things that didn't work in the last crisis and they set up firewalls against that. It's kind of like the French building the Maginot Line. In other words, they're always facing the last crisis and something new happens the next time.

C. Austin Fitts: One of the reports this week is that there is real tightening up in the repo market and the dealers are significantly reducing their positions in the repo markets. We're seeing the actions in the money markets. We're now seeing the actions in the repo market. We've seen the layoffs and the downsizing on the fixed income market. Of course, we keep watching Bill Gross run around and act hysterical about where his market is going to be when the world's largest bond fund has to make adjustments.

Franklin Sanders: What you're pointing to, though, are you saying that credit is drying up? Isn't that what you're implying?

C. Austin Fitts: Here's the thing. The credit is drying up only in the sense that the Fed is no longer buying $85 billion. In that sense, there is a reduction of infusion in credit. I don't see credit drying up, so let me about a couple of examples.

For a couple of years now there has basically been a boot on top of smaller banks and banks not to lend to Main Street. So Main Street has literally been shut off from many different kinds of credit. The SCC, who was supposed to promulgate regulations on Crowdfunding to help ease that still hasn't done it.

The boot has been on. When the announcement came out that the housing market was really going slower, except in a couple of the areas where we're seeing big reinvestment, what immediately happened about a month or six weeks ago is we started to see articles saying that the banks and Fannie were loosening up.

They're loosening up credit in the housing area. That we are seeing. That's an offset. I don't see any diminishment of credit. I just see the institutions getting ready to protect themselves when it comes to liquidity.

Now, of course, we also see junk bonds have done miraculously until very recently, and now I think they're down for the year because we've seen the money moving out of junk bonds and into much higher quality. So that's happening.

But I'll tell you the one thing that really rang my bells and one of the reasons I wanted to talk to you about this was when the Ebola stuff started I said, "Okay, what's this about?"

I was hoping that it was just about getting as much as you could get on the African-American summit because when you turn around to the African-Americans and say, "If you don't give us what you want we'll shut off all your tourism business and everything else." I was hoping it was economic warfare and it would stop with that, but we have continued to see the drumbeats about Ebola in this country. The question is why. What is this about?

My concern about what that is about is that's your Plan B if you have liquidity issues and need to do bank holidays or bank closings.

FRANKLIN SANDERS: You're talking about killing people.

C. AUSTIN FITTS: Well, you don't have to have it be real, Franklin. You don't have to have it be real. It can be a media event.

FRANKLIN SANDERS: Okay. Right. What reinforces that is that if you look at Ebola since it was discovered in 1974 or 1976, it's killed about 3,000 people.

C. AUSTIN FITTS: The flu kills 30,000 every year.

"What reinforces that is that if you look at Ebola since it was discovered in 1974 or 1976, it's killed about 3,000 people."

FRANKLIN SANDERS: I know. That's not even a number. Because of that, nobody in private industry has tried to create a vaccination for it because there's not enough money in it.

The whole thing is suspect. The whole crisis is suspect and yet NPR and all the rest of the media keep beating on that drum about Ebola. Give me a break! I mean, this is not a problem. It just isn't. But they're trying to make it a problem. So, yes, that makes it suspicious to me.

C. AUSTIN FITTS: That's the only thing I can think of. The one thing I will say is that even if they only think there is a 5% chance of a problem on the taper, they've got to be prepared for it.

They tend to be more afraid of the crowd than you or I, because we're sitting in the crowd. The crowd is afraid of them, and they're afraid of the crowd. They've got to have a plan for the worst case. They can't wait until the worst case happens to put together their disaster recovery plan.

Anyway, we'll see what happens.

Let's talk about you and me and everybody listening to this phone call.

What do we need to do to be prepared to navigate through the taper period? What should we be doing?

FRANKLIN SANDERS: I think one of the things that anybody in today's world has to do is always to be somewhat defensive in his stance. The taper – you have alluded to it – the fact that they stop sending out that money or printing that new money potentially could cause astounding upset in several different markets. We don't know what's going to happen, and that means you have to remain relatively defensive in your investments.

C. AUSTIN FITTS: Right, and if you're planning on having your business renegotiate your letter of credit in October, you might want to get that finished now. And take down a bunch of money just in case.

FRANKLIN SANDERS: There's a phrase in the prayer book in the daily family prayer. It says, "Give us grace always to live in such a state that we may never be afraid to die."

I think that's a very, very good recommendation for investment and financial planning. Always consider: What if everything went wrong? What if everything died? Where am I going to be then?

C. AUSTIN FITTS: Here's my biggest concern. My belief is that the global financial system will never melt down but we will instead have a war or tornados or there will be some kind of violent thing. I really like the idea of having enough provision for one to three months.

If the world goes nuts, if you're in Kentucky and you have that power outage, I just think there could be some unusual things going on in the fall when things get tense. One of the things I didn't bring up is we don't see – in terms of monetary policy – as much coordination as you might think between the ECB, the Japanese, and the US.

You have central banks doing a variety of quantitative easings around the world and there's a lot of tension now both within the G7 and within the G7 and the G20. I think the chances of a hiccup – I don't know if it's 5% or 10% – exists. If you're a small business and you don't get bailed out, that 5-10% can kill you. You want to make sure you're prepared for a hiccup in liquidity, a hiccup in events that could affect your ability to run to the store and get food and other things.

I just think it's being very defensive.

FRANKLIN SANDERS: If you don't mind I'll make the offer to your readers. They can send me an email and I'll send them a copy of my latest Moneychanger that has an interview with a survival expert in it.

C. AUSTIN FITTS: That's a great interview, Franklin. Thank you so much. I'll put that up on the blog if it's okay with you.

FRANKLIN SANDERS: Yes. If they just send me an email at www.Franklin@the-Moneychanger.com. In the subject line put 'July Moneychanger'. Then I'll send them a copy of it.

C. AUSTIN FITTS: That's very generous. I can't recommend that enough. His name is…

FRANKLIN SANDERS: He won't tell.

C. AUSTIN FITTS: That's why I didn't remember his name!

FRANKLIN SANDERS: He said, "You can't use my name."

C. AUSTIN FITTS: I think one of the things that was so good about it is he's so sensible and he really focuses on what the practical risks are and how to get prepared. I thought it was a very, very useful article.

FRANKLIN SANDERS: Thank you. He's been studying survival issues for about 30 years and he's really formed my thinking on it. He's two things: He's well-informed and he's cheap. Those two things make it very easy to follow his solutions.

C. AUSTIN FITTS: Yeah. A lot of people who cover that territory will spend all your money doing stuff that's a very low probability of ever happening.

Franklin Sanders: Exactly.

C. Austin Fitts: I thought that was good. Okay, Franklin. I can't thank you enough. Before we close, is there anything else?

The one thing I want to say is it doesn't matter what's happening in the market with the prices. If we get into a crazy kind of situation there's nothing like having coins you can put in your pocket and walk away.

Franklin Sanders: Oh, absolutely. That's right.

C. Austin Fitts: If you don't have your core position, forget what's happening in the market. Forget what the price is. You need to have a core position and you need to get it now. You need to make sure it's someplace where you can easily get your hands on it and you've got control of it and nobody can intercede between you and the control of your stash.

All the things we're talking about is why you want to have something that's under your control and is not part of the NSA insider trading system.

Okay, Franklin. Any last words you want to share with us?

Franklin Sanders: No, I'm just going back to what I said earlier. I think if we all just tried to live every day so that we wouldn't be afraid to die today we'd be a lot better off.

C. Austin Fitts: Well, listen. You have a wonderful month and we'll talk to you in two months. Okay?

Franklin Sanders: Okay. Thanks so much. I appreciate it.

C. Austin Fitts: Thank you.