The Solari Report

MARCH 12, 2015

Precious Metals Market Report

with Franklin Sanders

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Table of Contents

C. AUSTIN FITTS: Welcome to The Solari Report. This is the Precious Metals Market Report. It is Thursday, March 12, 2015, and I am joined by Franklin Sanders who needs no introduction.

Franklin, welcome back.

FRANKLIN SANDERS: I'm glad to be here.

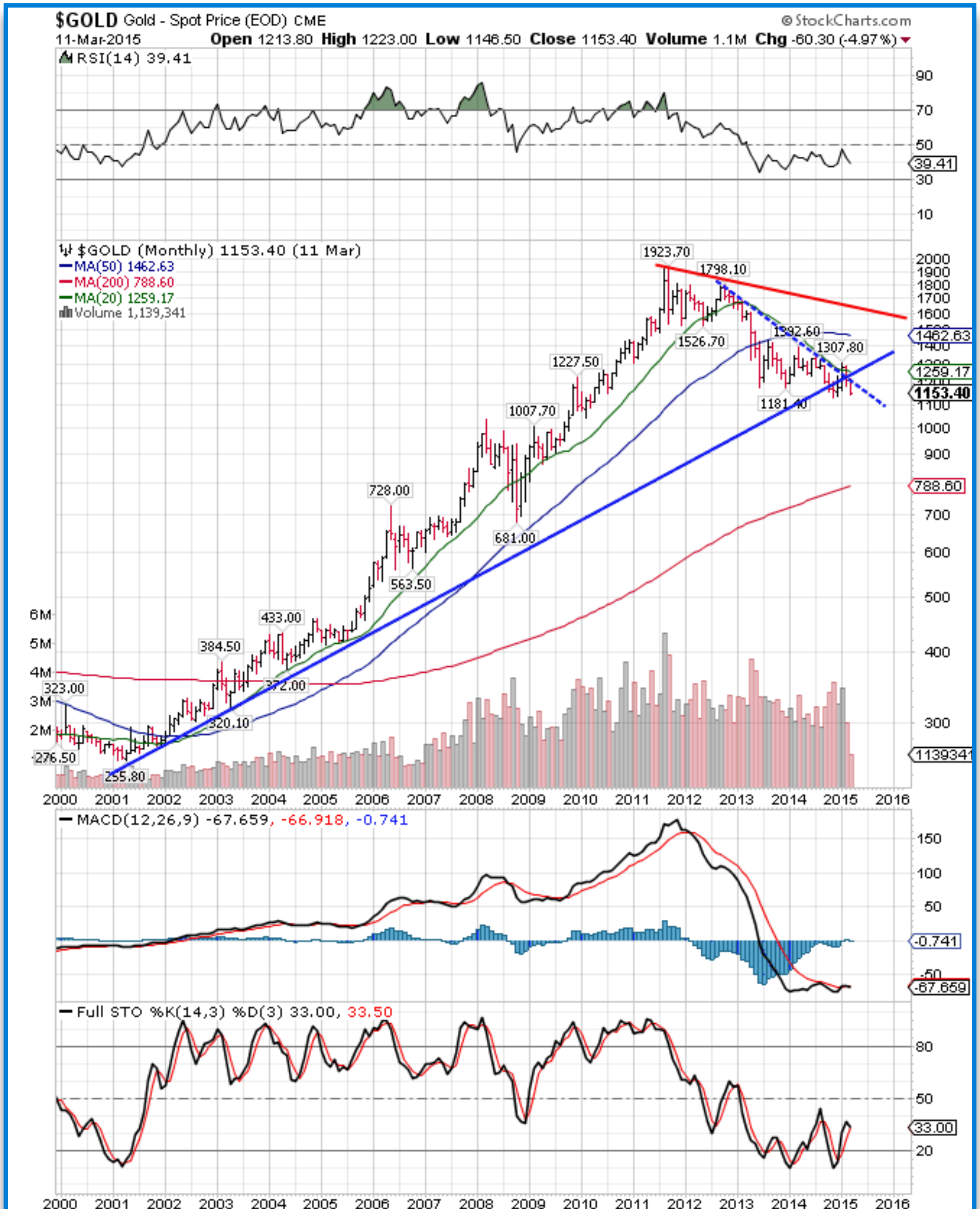
C. AUSTIN FITTS: It's been quite a couple of months in the precious metals markets. We've had quite a run-up, and now a run-down. Bring us up on what has been happening.

FRANKLIN SANDERS: Well, this time last month I really thought we had seen bottoms in both gold and silver in November and December, and the charts certainly looked that way. They have since contradicted themselves. It hasn't happened yet, but it looks like there's another low in their future.

If you look at the monthly gold chart that goes back to 2000, what you see is that gold is dancing on that uptrend line. The significance of that is that whenever a trend line is broken you get a big move down or up, whichever way the line is broken.

Sometimes the market will dance on that line – back and forth across that line – before it turns the other way. I have to think that is the reason that silver and gold are doing this because I continue to believe that we're making a move now analogous to 1974 through 1976 in the gold market when there was a long correction in gold that took it down 50% from its previous high, and a long correction in silver. Then it came back to rise more times than it had risen in the first seven years of that bull market.

There is kind of a halfway pause in most bull markets, and I think that's what we're going through now. Markets never do what you expect them to do exactly. It's as if they're maliciously trying to fool as many people as possible, although of course they have no intention there. They have no more intention than a guillotine; they just cut because they're sharp.


$GOLD Gold - Spot Price (EOD) CME
© StockCharts.com
11-Mar-2015 Open 1213.80 High 1223.00 Low 1146.50 Close 1153.40 Volume 1.1M Chg -60.30 (-4.97%)
RSI(14) 39.41
$GOLD (Monthly) 1153.40 (11 Mar)
MA(50) 1462.63
MA(200) 788.60
MA(20) 1259.17
Volume 1,139,341
1923.70
1798.10
1526.70
1392.60
1307.80
1181.40
1227.50
1007.70
728.00
681.00
563.50
433.00
384.50
372.00
320.10
323.00
276.50
255.80
MACD(12,26,9) -67.659, -66.918, -0.741
Full STO %K(14,3) %D(3) 33.00, 33.50
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016


$GOLD Gold - Spot Price (EOD) CME
© StockCharts.com
11-Mar-2015 Open 1169.60 High 1174.40 Low 1146.50 Close 1153.40 Volume 435.1K Chg -14.80 (-1.27%)
RSI(14) 37.89
$GOLD (Weekly) 1153.40 (11 Mar)
MA(50) 1251.44
MA(200) 1472.36
Volume 435,111
Note lows in both price & Relative Strength Indicator (RSI)
Log Scale chart shows price in percentage gain.
MACD(12,26,9) -14.183, -9.657, -4.526
Full STO %K(14,3) %D(3) 21.19, 32.48

If you look at this chart, you see that the MACD indicator – I have these trend and momentum indicators. You see that the stochastics and the MACD seem to be about to turn up. Certainly that's what we hope they're doing.

If you go to the weekly chart, you can see that those indicators are all at levels where they either have turned up or they're about to turn up. If you look up at the top – at the relative strength indicator – which tells us about lows and highs, whether we're in low-high territory, oversold territory, or high that is overbought territory. You can see that there have been higher lows in the RSI which would seem to indicate that the momentum lows are behind us.

Again, on this weekly chart you can see that gold is dancing all over that long-term uptrend line and has closed under it. So, that's a do or die point.

C. Austin Fitts: Right.

Franklin Sanders: This is not a point of indifference. This is a do or die point. Either you recover and go back and reverse upwards or you're going to fall a lot farther, which is the reason why you hear these technicians calling for gold to go down to $900 because they think it's going to go further down.

C. Austin Fitts: Let me just go because I think this is a great chart. If you haven't taken a look at this, this is up on the blog. You want to open this up while we're talking.

If it really breaks the $1,100 line – if it really breaks here – we could see it go down to the 200-day moving average line. It could go down to $800 and still be in a bull market. That is not an unreasonable consolidation to have happen. I'm not saying it wouldn't.

One of the things that has made me feel a lot more confident is every time it looked like it was going to, it held the $1,200 line.

FRANKLIN SANDERS: Yes.

C. AUSTIN FITTS: One of the things you get is the notion that three billion people in Asia just are not going to let it break all the way down to the 200-day moving average. You've just got too much physical buying.

FRANKLIN SANDERS: You say "200-day" but you mean 200-month.

C. AUSTIN FITTS: I'm sorry. 200-month.

FRANKLIN SANDERS: That is a very long-term moving average. I agree with you. Every time we get down around $1,150 or $1,130, all these buyers come in suddenly. Clearly somebody is hitting their number, and clearly a lot of them are clustered around $1,100.

If you look at the same chart you can see that there is a support resistance line that would go across about $1,000. There's another cluster of support there.

Again, if you look at the weekly chart you can see that what I've done is I've put red arrows that mark where there were RSI lows. You see those RSI lows coincided with price lows and gold. You can see that back in 2013 we reached a low in the MACD that has proven to be the lowest low of momentum in the whole course of this correction.

Those are things that say, "Well, it probably won't break down." That stochastic is about to turn up, too. It's no question it's an iffy chart.

C. AUSTIN FITTS: Here's the thing. I think what's important for an investor to understand is a bull market can take us as far down as $800 and still be in a bull. To break back up and prove the primary trend up again, we probably have to go over $1,450 or $1,550. That's a pretty wide swing if you're not used to those kinds of swings.

FRANKLIN SANDERS: Yes. I would like to see it over $1,550. That would be a clear breakout. It needs to get above that $1,400 top that we saw in 2014 to really prove that we're there.


$GOLD Gold - Spot Price (EOD) CME
©StockCharts.com
11-Mar-2015 Open 1161.10 High 1164.30 Low 1146.50 Close 1153.40 Volume 152.9K Chg -7.60 (-0.65%)
RSI(14) 24.99
Way oversold
$GOLD (Daily) 1153.40 (11 Mar)
MA(50) 1228.03
MA(200) 1243.57
MA(20) 1199.24
BB(20,3.0) 1139.02 - 1199.24 - 1259.47
Downtrend
From Oct 2012
Failure at $1,308
NECKLINE
Resistance
$1,210-1,240
Shoulder
Shoulder
HEAD
Gold hits 3-Standard
deviation Bollinger Band.
Testing support
at shoulder line
Volume 152,874
MACD(12,26,9) -18.863, -13.926, -4.937
ROC(12) -3.99%
Full STO %K(14,3) %D(3) 8.36, 8.58
Indicators signal
a low nearby

And here's the 200-week moving average. It's at $1,472. It needs to get above that. That will give us confirmation.

If you look at the daily chart, you see why I was fooled earlier. I'm sorry for the complication of this chart, but life is not simple sometimes.

You notice that there was a head and shoulders that was formed from October through January, and that head and shoulders formation broke out – gold did – and it went in January to $1,307. Right up there at $1,307 it was running right along the line of the three standard deviation Bollinger band. I won't stop to explain that. Just say that's a measure being way overbought.

It was logical that you would get a correction from there, but it's gone farther than it ought to have gone. If it were just a touchback to the neckline of a breakout, then it ought to have stopped at that neckline about $1,225. It didn't and it's gone through there. It's gone to the other extreme and hit the three standard deviation Bollinger panel – the bottom.

Testing supported that shoulder line is way oversold. It's not oversold as we saw it in November, but it is way oversold. It appears that the other momentum indicators are trying to make a low either already have turned around like stochastic looks like it has almost turned around, and then the rate of change at MACD looks like they're turning around, too.

That three standard deviation Bollinger band is really an extreme low. It's the kind of thing that says, "This can't go on. It's about to turn around." I would put a pretty good degree of confidence in that. I would say it's about a 60% chance that it ought to turn around from here.

Now let's look at silver. Let's look at the monthly chart of silver. When you look at the monthly chart of silver, you see it's in exactly the same place that the gold chart is. That is, it's dancing over and under the long-term uptrend line, and it's not far from the 200-month moving average which is $1,379. It's perfectly possible it might go do down and touch that.


$SILVER Silver - Spot Price (EOD) CME
© StockCharts.com
11-Mar-2015 Open 16.58 High 16.79 Low 15.26 Close 15.47 Volume 248.1K Chg -1.11 (-6.70%)
RSI(14) 37.02
$SILVER (Monthly) 15.47 (11 Mar)
MA(200) 13.79
MA(20) 18.96
Volume 248,119
49.82
37.58
26.15
21.44
19.50
14.89
14.65
18.17
14.15
11.06
9.60
8.35
8.40
5.50
4.01
MACD(12,26,9) -2.581, -2.533, -0.048
ROC(12) -21.70%
Full STO %K(14,3) %D(3) 28.37, 25.96

The significance, by the way, let me just throw this in the parenthesis. The significance of the 200-day moving average is just simply mathematical. In a market that's trending up, prices are going to be sequentially higher. Therefore, if you take their 200-day moving average, which is the average of the last 200 days, that keeps moving forward every day.

Mathematically the market should stay above that 200-day moving average. Often when it makes a correction it will come all the way back to the 200-day moving average, touch it, and then turn around and go back up. That's the reason why we talk about 200-day moving averages.

And, of course, if it goes below it and persists below it, then that's a negative sign. That's a sign that the momentum continues to be down.

Looking at the weekly silver chart, we see the same picture and we see that there's a downtrend line at the top at $20.11. There's a downtrend channel and a downtrend line. The top of that downtrend channel is somewhere around $19. In other words, it's got to get over $19 before we can say with perfect confidence, "Yes, that's it. It's turned up."

Right now, it's at a little bit below that uptrend line. The move of desperation now – the move so much needed right now – is for silver to get up above $17 or $17.50 to turn around, but the momentum of the trend right now is downward, although it appears to be ready to turn.

How far down could it go? Well, it could go back down to $14 or $15.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: There's nothing to say that it couldn't do that. There's nothing to say that it couldn't go further. Again, that monthly chart shows a 200-month moving average at $13.80.

C. AUSTIN FITTS: Let me ask you a question, Franklin. When I look at these charts, what I see is lower highs and lower lows ever since 2011. I mean, it's a pretty steady trend down.


$SILVER Silver - Spot Price (EOD) CME
©StockCharts.com
11-Mar-2015
Open 15.93 High 15.96 Low 15.26 Close 15.47 Volume 95.6K Chg -0.46 (-2.89%)
RSI(14) 39.51
$SILVER (Weekly) 15.47 (11 Mar)
MA(50) 18.22
MA(200) 26.03
MA(20) 16.48
Volume 95,590
49.82
37.58
25.12
26.15
26.10
21.44
19.50
18.50
18.17
15.20
14.89
14.65
14.15
11.06
9.60
8.40
8.35
5.50
4.01
MACD(12,26,9) -0.533, -0.542, 0.009
ROC(12) -3.76%
Full STO %K(14,3) %D(3) 34.21, 47.00

FRANKLIN SANDERS: Yes.

C. AUSTIN FITTS: You're more of an optimist than I am. I don't see anything yet that indicates a bottom or return.

FRANKLIN SANDERS: I hope I didn't give the impression that I did.

C. AUSTIN FITTS: Okay.

FRANKLIN SANDERS: I'm sorry. I didn't mean to give that impression. I'm just talking about possibilities in the chart, but not things that have already happened.

No, the rule is that a trend in force remains in force until it's contradicted or until it's invalidated. That's why I say you have to get up to about $20.50 before you've invalidated that trend. It's a downtrend. It's lower highs and lower lows until it gets to higher highs and higher lows. So that's what we're looking for now.

Looking at the daily chart you can see that silver did the same thing that gold did from October through December or January. It formed an upside down head and shoulders. It was a pattern that promised much better prices.

C. AUSTIN FITTS: Yes it did. I was all excited.

FRANKLIN SANDERS: Well, it had a target of $20.60. It broke out and went through the neckline. It went up to $18.50 and just passed out.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: That $18.50 – not coincidentally – was a 200-day moving average at the time. So it's come down since and it's made this falling wedge. Here's one of the most hopeful signs in the chart, and that is that that's a falling wedge. Wedges usually break out the opposite direction that they point, so this one points down. You would expect it to break up. That isn't necessarily the case always. Sometimes they break


$SILVER Silver - Spot Price (EOD) CME
©StockCharts.com
11-Mar-2015 Open 15.62 High 15.73 Low 15.26 Close 15.47 Volume 39.2K Chg -0.15 (-0.99%)
RSI(14) 28.98
From 4/2011 High
H&S Target
$20.60
$SILVER (Daily) 15.47 (11 Mar)
MA(50) 16.76
MA(200) 18.01
MA(50) 16.76
From 4/2013 high
NECKLINE
Shoulder
HEAD
SHOULDER
Colossal Reversal
On high volume
Volume 39,242
MACD(12,26,9) -0.324, -0.235, -0.089
ROC(12) -5.06%
Full STO %K(14,3) %D(3) 6.03, 6.54
Sep Oct Nov Dec 2015 Feb Mar

down.

You see yesterday where it punched through the bottom boundary of that falling wedge, so we're really at the limit on it. It's got to turn around in the next couple of days. It has turned around this morning, but not by any measure that you could say, "Oh, that's it! I see that hand." It's not gotten that far yet.

You see that there are higher lows in these bottoms of the rate of change. It looks like the stochastics have turned around – turned up – but, again, that needs confirmation. It's also oversold on the RSI.

Putting that all together, there are some things that say, "Well, maybe it will turn around, but you haven't seen that change yet."

What is causing all of this? What is the real driver behind all of this? I think if you look at the next chart, which is the US Dollar Weekly chart, you can see immediately what's driving it. You have to have one fundamental understanding to comprehend why silver and gold markets move the way they do and what the driver is.

The driver is monetary demand. The driver is people buy gold and silver because they lose confidence in the financial markets. They lose confidence in the dollar, and that's the reason they buy gold and silver long term.

You can forget about commodity analysis; that's not what drives gold and silver because they have huge above-ground inventories. What drives them is confidence in the monetary and financial system.

When the dollar is high and rising, clearly there is confidence in the financial system. Let's just think about the gold chart and that big high in the gold chart and the silver chart in August and early September 2011. What was going on in August and early September 2011? The euro was coming apart. There was a crisis in the euro that looked like it was going to blow the euro apart. That loss of confidence in the financial system was bleeding over into gold and silver as monetary demand and


$USD US Dollar Index - Cash Settle (EOD) ICE
©StockCharts.com
11-Mar-2015
Open 97.77 High 99.97 Low 97.31 Close 99.75 Chg +2.08 (+2.12%)
RSI(14) 87.30
$USD (Weekly) 99.75 (11 Mar)
MA(200) 81.47
118.59
111.61
104.50
102.56
97.04
92.22
92.33
85.02
80.53
71.33
89.11
88.71
74.17
72.70
84.10
84.96
78.60
78.93
??
99.75
MACD(12,26,9) 3.342, 2.886, 0.456
ROC(12) 11.03%
Full STO %K(14,3) %D(3) 97.02, 91.76

driving the price of gold – and silver, too, but mostly gold – up in August of 2011 just like the dollar is rising today just in exactly the same way.

C. Austin Fitts: Right, although the dollar is much higher than where it was in 2011. It's gone back to 2003.

Franklin Sanders: Yes, that is correct. It's just the form and shape. It's the quality of the rise that I'm talking about where you get 1.5% or 2% or 3% rises a day.

C. Austin Fitts: Which is amazing. In the currency market, that's an amazing one-day rise.

Franklin Sanders: Exactly. Whenever you see a rise like that, your mind has to go back and say, "Look, hyperbolic rises always end in tears. They're the sign of a blow-off. They're the sign of a buying stampede or a buying panic. They're a paroxysm – like when a human being gets sick and there's a crisis in that illness. All the vital signs go to extremes, and then – boom! – the crisis is over and it fails or gets better, one of the two.

Whenever you see a hyperbolic rise, that is normally a short-lived phenomenon. It can't be sustained because there are extreme factors driving it.

If you look at this dollar index chart, I want you to start over at the left-hand side of the chart in 1997. You see that RSI up at the top of the chart. You see that green area where the RSI is so overbought. Well, in all the time from 1997 to 2015 you've never seen that dollar index so overbought until the last part of 2014 and the beginning of 2015. That's significant. That says, "Wait a minute. This can't go on forever. This has got to come to a halt."

C. Austin Fitts: Although you will see charts where something will stay overbought for quite a while.

Franklin Sanders: Oh, yes. Yes.

C. AUSTIN FITTS: So here's my concern, Franklin, because I've been doing a lot of studying of the debt situation. Coming out of 2007 the debt has just continued to grow globally and one of the more interesting aspects is debt was high coming into the financial crisis in the developed world, but the emerging market was light. Since 2007 we've levered up the emerging markets' world and the BRICS much, much more.

I've just been recording a Solari Report called *Planet Debt* with Dr. Farrell, and we're coming into enormous leverage globally. Part of that leverage is people borrowing dollar in the dollar carry trade because with quantitative easing dollars were cheap. We've levered up with dollars, and we're coming into a situation where the US has plenty of debt, but we can just print dollars. We don't have to earn dollars.

We've got a global slow-down, and you've got a whole world of borrowers, including sovereign nations, who need to earn dollars. It's getting much harder to earn dollars. Quantitative easing has suddenly shut the door on dollars. Then if the fed raises interest rates, you're going to bear-trap the planet and put everybody over a barrel.

FRANKLIN SANDERS: You just stole my thunder.

C. AUSTIN FITTS: Oh, sorry. Well I've been watching this coming for a year and I've been saying, "Watch out! Watch out! Watch out!"

Part of this is the politics. How rough does the American Empire want to get? If it wants to get rough, it can get very, very rough.

It's interesting. In the last couple of days we've seen the dollar just skyrocket. At one point the index touched 100. We have not seen the long treasury come up very much. The long treasury has come down a lot this year, and in these last couple of days it's not going up a lot. That's a signal that people may be rushing into the dollar but they're not rushing into the long part of the bond market because they're worried about interest rates.

FRANKLIN SANDERS: Well, yes, but let's go back just a minute and address what you just talked about.

C. Austin Fitts: Okay.

Franklin Sanders: A carry trade for your readers who don't understand this is when you take money out of one market and invest it in another market. As long as the fed had announced the intention to keep the dollar low and to depreciate the dollar, the market's expectation was, "Well, I can borrow dollars and I don't have to worry about them going up on me," because the fed has already promised they're going to keep the dollar low, and they're going to keep interest rates low.

So to go and borrow money at near zilch percent, and they borrow dollars from somewhere, so they're short dollars and they go and invest those dollars into the stock market or some other market. That's a carry trade. Well, it works great until you're short and the dollar goes against you.

What you're seeing in this chart here is that the short in the dollar has gone against these people since about July of last year. Hell hath no fear like a short who's being squeezed. That is exactly what you're seeing in that chart, and that's the reason why the price goes straight up. They can't stand the pain. The losses get so great that they say, "Close me out at any price."

C. Austin Fitts: Right.

Franklin Sanders: So they keep driving the market up. The covering of that carry trade – the reversal of that carry trade – is certainly part of what's driving the dollar. It's driven them to pan for dollars, but there's more going on there. It's sort-of a self-enforcing cycle. If you've ever bathed the baby in the bathtub and started playing with the water, you know how you can take your hands and go up and down in the water and you'll start making a tidal wave that delights the baby but eventually sloshes out of the bathtub all over the floor. That's a self-reinforcing wave.

As this goes up, it's being driven also by the rising interest rate by the dollar's relatively higher interest rate.

C. Austin Fitts: Right.

Franklin Sanders: Sometimes the one force that primarily determines what currency exchange rates will be is their relative interest rate. So if the interest rate is higher in the dollar than it is in the euro, then all things being equal, people will dump euros and buy dollars. Not only is it higher, but in the short maturities in the euro, it's negative. That means that if you buy debt instrument there, and let's say it was a year-long bond for $1,000 and it's paying -4%, at the end of the year you're not going to get back $1,000 plus interest. You're going to get $1,000 minus interest which is -4%. You'll get back $960 for $1,000.

Now the rates are not that negative, but they are negative.

C. Austin Fitts: Last week you had to go out 20 years on the Swiss yield curve to get a positive yield on the sovereigns.

Franklin Sanders: Exactly, and it's still dropping. You're absolutely right. What that means is that there is a twofold effect of that. It will run people out of euros and into dollars, and corporations want to issue debt in euros because it pays less, but in order to hedge that currency risk they need dollar swaps. Somebody needs to write them a dollar swap or a hedge some way.

Well, nobody is going to offer to sell you dollars – now or in the future – except at an elevated rate because the market is going up and they don't want to take that risk. They lay off that risk by raising the price at which they'll do it. All of these things are working to build a market shortage of dollars, which is driving the price up.

Now this is on the daily chart of the US dollar. If you flip to the daily chart of the US dollar, you see that back in January of 2015 the US dollar broke out of the top of its trading channel. That's that dashed green line that runs through the middle of the channel. Well, when that

$USD US Dollar Index - Cash Settle (EOD) ICE
©StockCharts.com
11-Mar-2015
Open 98.55 High 99.97 Low 98.46 Close 99.75 Chg +1.15 (+1.17%)
RSI(14) 83.49
Wow.
Half-staff pennant
target about 100
$USD (Daily) 99.75 (11 Mar)
MA(50) 94.18
MA(200) 86.62
MA(20) 95.59
To 100?
Flip the channel line!
MACD(12,26,9) 1.232, 0.841, 0.391
ROC(12) 5.35%
Wow.
Full STO %K(14,3) %D(3) 96.49, 96.21

happens, you can just flip that channel. You can double the size of the channel and say that the target is up at the new upper channel line.

Back in January, that gave us a target of about $100. Now you can come back and measure the height of the pennant that it formed – the pennant outlined by a green line. The height of that pennant also gives you a target of about $100.

Here it is at $99.75. We're there.

C. Austin Fitts: Right. In the Wrap-Up I had said this year as much as $105 to $110, although I admitted that the corporate earnings are going to get hurt a lot by this. Politically I would think they would be screaming bloody murder. I noticed in that analysis you sent me the other day the gentleman who wrote it had it going at $120 which took my break away.

Franklin Sanders: Let me go back to the weekly chart for just a minute. What he's talking about is if you look at a very long-term line, that's the top blue line that I've drawn here with the arrow that points to the question marks. Once it breaks out of that, how high can it go to the last high? $120? That's a possibility. It's not a necessity, but it certainly is a possibility.

On the other hand, you can do some other measuring like the triangle that it broke out of and you don't get a target nearly that high.

Going back to the daily chart, though, even though it may go higher later, if you look at the RSI at the top of the chart, look at how overbought that thing is. I mean, it's as overbought as it ever is. If you look at the MACD, the momentum is huge. It's way far above all the moving averages. Then if you look at the rate of change, it's going practically straight up that hyperbolic curve that it's moved into, and the full stochastic is at a top, and the next move there is down.

Again, you can't look at an overbought condition and say that it's about to turn around because it can get overbought. You've got a panic going on here. You've got a buying panic.

It may not be blood in the streets, but that's a buying panic when it goes up straight like that. I don't know how long that can go on, but as long as it goes on it's going to hurt silver and gold. I think it's going to hurt stocks, too.

C. Austin Fitts: One question is: The fed may be mouthing about interest rates just too jawbone – they could be not serious.

Franklin Sanders: I have no doubt about it.

C. Austin Fitts: Except for one thing, Franklin, and that is certainly negative interest rates have devastated households. We had a chart in the Annual Wrap-Up that showed in 1990 $100,000 CD got $6,000-$9,000 of income. Last year it got $390 of income. That's part of what is really devastating the middle class – certainly the people who make a real effort to save.

The risk-free return has gone to nothing, and the risk returns are nowhere near as glorious as they used to be. That's really hurting a lot of people, but if you look at who it's hurting the most, it's hurting the insurance company and pension funds.

You have insurance companies who have made contracts with the world for annuities and life insurance and other kinds of insurance products, and they're depending on a given return. If they don't get it, you're going to have widespread institutional problems in both the pension funds and the insurance companies.

Franklin Sanders: This has been going on, really, for 30 years. If you look at a 35-year chart – start at 1980 or 1981 – you'll see that interest rates have been falling that entire time.

It's not clear to me whether the fed is pushed into that by habit and events – by their own stupid ideology – or they've done it on purpose. I'm sure there's part of that time that they've lowered rates on purpose.


$INDU Dow Jones Industrial Average INDX
@StockCharts.com
12-Mar-2015 10:09am Open 17626.84 High 17829.94 Low 17620.49 Last 17795.68 Chg +160.29 (+0.91%)
RSI(14) 46.14
$INDU (Daily) 17795.68
MA(50) 17785.70
MA(200) 17261.97
MA(20) 18038.21
Uptrend From March 2009
Volume undef
MACD(12,26,9) 3.354, 71.654, -68.300
ROC(12) -2.27%
Full STO %K(14,3) %D(3) 9.16, 12.13
Turning?

But what you have is an inexorable, unrelenting downward slope to interest rates. You have to stop and think: Interest rates are the opposite of the price of an asset. So if the price of a bond falls, the interest rate rises.

C. Austin Fitts: Right.

Franklin Sanders: The net present value rises, and what you have to realize is that the falling interest rates raise the net present value of debt, so they raise the interest rate burden. They raise the burden of carrying that debt.

C. Austin Fitts: Well, they do if you have to earn the money. If you can print the money, they don't.

Franklin Sanders: Who's got leverage now?

C. Austin Fitts: The US government does not have to earn the money. They can print it.

Franklin Sanders: Okay. That's true, but the point that I'm making is this erodes a falling interest rate over time. It eats up capital. It erodes capital. It erodes the value of the capital, and it lowers profit margins, and it operates to push competitors and entrepreneurs out of markets.

C. Austin Fitts: Right.

Franklin Sanders: This is terribly hurtful to the whole economy and economic performance, but nobody gets it in the central banks. They keep lowering the interest rates. They've lowered them to negative rates.

If I had told you ten years ago that central banks would do this, you would have looked at me and said, "You belong in the funny farm."

C. Austin Fitts: No, I wouldn't have said that. Whatever the central bankers are doing, I don't think it's because they're stupid. I think they're serving an agenda that we can't see. I also think that when you start the rebalancing of the global economy and you start to compete labor globally against each other and then you add in the kind of technology that we have – particularly everybody on the planet gets a smartphone and can communicate digitally – then you set into force very powerful deflationary forces, unbelievably powerful deflationary forces. One way or another that is contributing as well.

Franklin Sanders: The fact that the debt burden is so great is deflationary because the debt burden is taking more and more out of the economy.

C. Austin Fitts: Right.

Franklin Sanders: That itself is deflationary. The technology usually at first does have the effective lowering wage rates, but in the sense that it makes some people superfluous and we don't have to do people's jobs anymore because technology does it for us, it also makes those people who continue to work more profitable. It makes them more productive than they were before.

You don't know what the on-balance result is going to be. But for right now, a lot of people are being put out of work.

I have to tell you, Catherine, there is also a huge social trend in the United States to push people out of the work force.

C. Austin Fitts: Yes.

Franklin Sanders: If you look at the labor force participation rate, it's back to a level of 1973. When I say, "Push people out of the workforce," what I mean is Fitzhugh's thesis that when you end serfdom, people become surplus. That is aggravated by the increase of technological impacts.

What I'm saying is the social planners want to push as many people as possible out of the workforce as they can. That's the reason for mandatory retirement ages. That's the reason for minimum employment ages. They want to push those people out.

Now you've got this whole social network, and most of your listeners will not be familiar with this, unless you mix with people in the lower socioeconomic strata who are the first ones affected by these events, you don't realize that many of them exist on food stamps and disability. They're just out of the whole working sector of the population.

I don't know what this percentage is. I mean, I don't know how many are on disability. Do you remember? Is it 20 million people? Eleven million people? It's as growing number. So what happens is you've got this huge group of people that the government is carrying, and they're basically non-contributors. They're basically useless to the economy.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: I don't say that they're useless human beings, but as far as the economy is concerned they're a drag on the economy. So you've got that group growing, too. They're also a drag on the economy. That has a depressing effect on labor rates.

C. AUSTIN FITTS: Right. It's pretty extraordinary. I think the last estimate I saw, between the different forms of government subsidy you have about 100 million. You have about a third of the population existing on government or highly financially dependent on government subsidies. It's pretty extraordinary.

FRANKLIN SANDERS: I've said before that just by the numbers, more than half of the GDP in most states comes from government spending at all levels – state and local.

C. AUSTIN FITTS: Right. You know, that's what our databases showed. It keeps growing and growing and growing. We're essentially being Sovietized.

FRANKLIN SANDERS: Right. So what we're talking about is if you take all these factors that central banks have set in motion, then what we're talking about is somewhere it has to stop. There someplace where things don't work anymore. When these people have set themselves up like the

Swiss franc with its negative interest rates and the kroner with its negative interest rate – and by the way, that was a fabulous quotation you had from the head of the Danish Central Bank, "We can do this forever." If I've ever heard hubris, there it is right there – right out of a Greek tragedy. "We can do this forever." I bet you can!

The point is that when they make those rates so low, there's going to be some point where there's going to be a repudiation or a revulsion against that currency, and it will go into a hyperinflation, not from creating so many Swiss francs or Danish kroner or euros, but from the fact that people don't want them. In other words, there will be a collapse of demand.

C. Austin Fitts: But here's the thing. If every currency is doing it, then there's only one place to go, and that's to precious metals or other forms of local currency.

"If every currency is doing it, then there's only one place to go, and that's to precious metals or other forms of local currency."

Franklin Sanders: Right. Well, I think that's the primary function right now, looking at this market and considering everything we said this morning. That insurance function is the primary function of precious metals today. Why? Because it has value not dependent on the financial and monetary system. It carries value across the erosion or collapse of those artificial values. How well that works, well, it works better than anything else.

C. Austin Fitts: Right. John Mauldin calls it 'central bank insurance' and I think that's a very good expression.

I look at the pros and cons of holding precious metals now. I'm a great believer in having a core position as precious metals as central bank insurance. One of the reasons I love it, Franklin, is I can put it in a pocket and walk away and trade with you, and nobody knows. It's private. It's one of the few things in this world.

On the positive, to me the positive is Asians never have trusted the fiat currency system. They believe that gold and silver is money. They've been buying very strongly throughout this period, so we've seen huge transfers of inventory into Asia. Of course, now China has the largest mining operation of anybody in the world.

You've got 2.7 billion people, and I appreciate if we are in a global slowdown or going into a global recession. Their buying will taper off for some period of time. But the reality is the emerging markets are growing, and they're buyers. To me, that is the strength. If we've held the line at $1,200 since 2011, I think it's that physical buying that is like a steady drumbeat that has given a lot of support to the price, and the long-term there is very good.

Now let me run through the negatives. To me, the big negative on precious metals – and you're the one who first taught me this – is you're sitting on your capital. It's not in a business that's earning any income. It's not producing a dividend. It's not a rental property.

With interest rates coming down, they need income. When you put a lot of money into precious metals, you're not getting that yield. That has really clocked your performance because if you look at assets that have gone down during that period but also produced a dividend, it makes a huge difference in living through the ups and downs on any investment if you're just steadily getting that dividend.

I have a REIT that I love and I own. It's down 30%. It's in Asia, and I'm getting a 7% dividend so I keep saying, "I don't care what the price is! I'm getting 7%!"

Franklin Sanders: Well, of course. Yes.

C. Austin Fitts: So part of it is that, and then, of course, it's what's happening with interest rates. If interest rates should rise or the dollar should – God forbid – go to $120, I think precious metal is going to be under a lot of pressure, but my long-term outlook says that three billion people who are steadily buying and want to accumulate more and who have growing economies in the long-term, that's a very bullish floor underneath the price of precious metals.

FRANKLIN SANDERS: Right. They're going to win. Over time they're going to win.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: There's something that's very interesting. Do you know what the second-best performing currency in 2014 was – out of all the money alternatives in 2014? What do you think was the second-best to the dollar?

C. AUSTIN FITTS: In 2014… I don't know. If the Swiss had broken the pig before the end of the year it would have been the Swiss, but what was it?

FRANKLIN SANDERS: It was gold.

C. AUSTIN FITTS: Really?

FRANKLIN SANDERS: If you look across other currencies – if you look at gold and the yen, gold and the euro, and gold and any other currency, it outperformed everything else against those currencies except the US dollar.

C. AUSTIN FITTS: Good point.

FRANKLIN SANDERS: That says we, of course, have dollar denominated incomes. We think in terms of dollars so we see that gold price going down. For a European it doesn't look anything like that. For a European he's got gains in gold.

That points out the fallacy of the way we think. We think in terms of dollars, but that is a fraction. That is an ounce of gold divided by dollars. Because it's a fraction, we can also exchange numerator and denominator and say, "Let's not think about the price of gold in dollars. Let's think about the price of the dollar in gold."

C. Austin Fitts: Right.

Franklin Sanders: If you do that, then it looks different.

C. Austin Fitts: Except for one thing, though. If you look at real assets – and if you look across the categories of real assets – there are a lot of real assets that we're doing much better than gold. So it doesn't matter what currency you price them in.

Franklin Sanders: Right, but what I'm saying is the insurance cost of holding gold is less if you're in any of those other currencies.

C. Austin Fitts: Absolutely. I mean, if you were in Greece, wouldn't you be buying gold right now?

Franklin Sanders: Oh, I was talking to Keith Weiner. I was interviewing Keith Weiner and he mentioned Cyprus. He had actually called a gold dealer in Cyprus to try to find out what the situation there was. That fellow could not sell gold to anyone who was paying him in a local bank. He couldn't take that risk because a gold dealer basically when he sells gold goes to a wholesaler and buys gold.

Whoever bought from him physical gold on the spot, he had to be able to pay him in a European bank where he wasn't in danger of having the money seized by the government, which is basically what they did. They put on capital controls in Cyprus.

Well, if you get into that situation, how much is having a little gold in hand worth?

C. Austin Fitts: It means you can feed your cattle and your herd won't die.

Franklin Sanders: Absolutely. It means you can get out of the country. I mean, I would dare say that you could get a boat ride from Cyprus for a quarter-ounce or a half-ounce of gold very easily at that point.

C. Austin Fitts: Right.

FRANKLIN SANDERS: That ensures value. That's what you have to talk about because there is the capital gain for people who are in dollars which is not that great.

Finally, to wrap up on the dollar, it's being driven by the interest rate. The covering of the dollar carry trade short, but that's a hyperbolic curve. That's not going to go on for six months. It might go on for another week, it might go on for another month, but it's near its end – at least for an interim correction.

C. AUSTIN FITTS: Franklin, I think we could see $105 or $110 this year. I mean, this is a hyperbolic move. It's moving back down this morning. It was close to $99 the last time I looked at the US dollar index.

I think if you look at what has to get sorted out globally, there is more room to rise. That is going to be the trend for some period here. How high it goes and how ugly this gets really depends on whether or not the fed raises interest rates.

"How high it goes and how ugly this gets really depends on whether or not the fed raises interest rates."

I think the question is the global economy versus the domestic insurance industry.

FRANKLIN SANDERS: I don't believe the fed can or will raise interest rates. I think that's too dangerous and they know it, but I may be wrong.

The thing I really want to point out for your listeners is this, that this has the feel of the breaking of the financial crisis in 2007 and 2008. I mean, it's not good news that the dollar is running up like this. The last time that we saw this kind of rise was in 2007 and 2008 when there was a panic and people were rushing into dollars because they were afraid of everything else.

That's the thing that concerns me more than anything else. I look at the market today and I say, "What's hidden in this? What hidden thing is driving this? Is there a huge crisis that the market is just beginning to recognize? I don't know. All the elements for that are always present, but that's my big concern.

C. Austin Fitts: I think the chance of another 2008 this year is exceedingly small. If you look, the US had issued enormous amounts of fraudulent paper, and then that was crashed. Whether it was crashed by the government or the guys who run the Exchange Stabilization Fund, we literally had a coup. That crew got their money and they got the government to cover their money.

The reality is there's a lot less incentive to play that game this time. This time you're not going to have global bailouts; you're going to have war. That's what it looks like to me. I just think the US got everybody in a dollar bear trap and now it's got to get sorted out. It's a political issue, and the danger is you can really slow down the economy and put the whole world into a deep recession.

If you look at what the US has been doing, Franklin, they've been positioning themselves to pull back into North America and the Anglo-American Alliance. If you look at the moves they've been making strategically to pull back into themselves, I hate to say it if the world goes into a chaotic period and Bretton Woods unravels. The US has positioned itself to be in relatively good shape.

It's a very ugly picture, and I hope it doesn't happen, but if it does the US has what it needs to gut through.

Franklin Sanders: Well, for me all the balls are up in the air. I mean, who wants to see the world end up in a war? But, it certainly looks like they're picking a war with Russia. Of course, there are other things happening in the Middle East. Maybe you're right.

C. Austin Fitts: Sometimes I feel like I'm living on the wrong team. If we look at where the real growth comes from and the real productivity, what we're talking about is the US is on the wrong side of productivity here.

FRANKLIN SANDERS: Oh, heavens yes!

C. AUSTIN FITTS: What we need is a productive economy globally, and we certainly need a productive economy locally. Whatever is going on – totalitarianism is not good for the economy.

FRANKLIN SANDERS: Right.

C. AUSTIN FITTS: To me, the greatest reason to own gold and silver is there are very few financial solutions for totalitarianism, but one of them is to have gold and silver in your pocket and be able to walk away.

FRANKLIN SANDERS: Right.

C. AUSTIN FITTS: Anyway, speaking of totalitarianism, I wanted to talk with you about a Constitutional Convention because periodically I give warnings on The Solari Report: Do not support a Constitutional Convention. It's the most dangerous, worst idea you could possibly entertain. It's like encouraging gun control; it's that bad.

Several very intelligent subscribers jumped on and said, "Oh, we think a Constitutional Convention would be a good idea for these reasons and those reasons."

I thought, "How can I explain this without losing my temper?" I said, "I know! I'll get Franklin to help me."

FRANKLIN SANDERS: A joint effort!

C. AUSTIN FITTS: You're much more intellectually sound when you lose your temper than I am. I start to spit!

Anyway, I wanted to talk with you about a Constitutional Convention and why you or I think it's an absolutely dreadful idea. Why don't I just pitch it to you? What is a Constitutional Convention, and what do you think of the idea of having one?

FRANKLIN SANDERS: Well, let me lay some background first. Let me lay a little bit of historical background.

In 1789 the colonies had secured their independence and they were in a state of great turmoil because they were independent. They weren't federated. Each colony was issuing paper money and the federal government, under the Articles of Confederation, had issued millions and millions of dollars of paper money that it sunk its intrinsic value.

Commerce was in a rotten condition because of all that, but mainly there was a class of people at the top who thought that the people at the bottom had too much power and had to be controlled.

If you look at the difference between the Articles of Confederation and the power they gave to the central government and the new 1789 Constitution – the one we're operating under today – there is a huge difference because it gives the power of the sword and the power of the purse to that central government, which is what Patrick Henry warned against.

I mean, you have to realize there were American patriots like Patrick Henry who were completely opposed to the adoption of the Constitution because it imposed more restraints on the freedom and the power of the people and less restraint on central government, but that's what you got anyway. In the event, it did last for 70 years before it blew up.

The danger today, of course, is that that Constitution of 1789 looks like a bulwark of individual freedom, and even to an extent of the sovereignty of the states – which is of course the principle of federalism that is to protect our rights. If you let the kind of people that we know in the United States would love to get in there and practice vivisection on the Constitution, if you let them go at it, there won't be any Constitution left. The example and the proof of that is the European Constitution. I can't imagine any form of government more bureaucratic and more restrictive of human liberty than the operations of the European Union.

C. Austin Fitts: Right.

Franklin Sanders: That's what you're going to get. I don't see how anybody could possibly argue otherwise because I know how this works. Anyone going into a Constitutional Convention, anyone who argues for individual rights – and I'm talking about every human right – is going to be portrayed as a right-wing Tea Party nut. The people who have control of the media are all a bunch of socialists and anti-freedom folks. They're going to be thumping for more government control of everything.

"The people who have control of the media are all a bunch of socialists and anti-freedom folks."

C. Austin Fitts: Right.

Franklin Sanders: If you like having somebody tell you how much water you can flush your toilet with, if you like somebody telling you what kind of light bulbs you can buy, if you like somebody telling you how to market cabbage, and making up rules for everything else in your life, you're going to love a Constitutional Convention.

C. Austin Fitts: Right.

Franklin Sanders: There's going to be a boatload more of that kind of controls if you get a Constitutional Convention.

C. Austin Fitts: Now some people say, "Look, they're not obeying the Constitution now anyway, so what's the point?"

Franklin Sanders: Well this is the same argument that they make against gun control. They say, "Well, nobody is going to rise up and use those guns, number one. Number two, the government is not afraid."

I don't think that's true. I think the biggest factor that restrains the federal government from absolute tyranny is the existence of 300 million firearms in the hands of people they can't identify. They don't know who's got them, and they don't know what they'll do. Something big would happen.

C. AUSTIN FITTS: When I left Washington, I said, "If there's anything worth fighting for, it's gun control." But a Constitutional Convention is up there because there is definitely a relationship. They've tried every way they can to pull in the guns, and now – to me – one of the next tactics to use is to try to do a constitutional convention because then you can get the different powers and authorities changed. You need to just do it by fiat.

FRANKLIN SANDERS: Right. One of the things that people don't realize is they hear this criticism of a log jam in congress. The Constitution we have was designed to create log jams.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: It's divided power between three separate branches of government to create log jams. Those log jams are supposed to stop seizures of power. That's a good thing.

When everybody talks about efficiency in government, God preserve me from efficiency in government! That's the last thing I want is to have my oppressors efficient at oppression.

C. AUSTIN FITTS: To me, the big source of the log jam in Congress is that we have such a wide separation between what the law says about how we're supposed to run the federal finances and how we're really running them. This gets us into the black budget. To me, our real government's problem in this country is you've got invisible forces who have the technology and the power to kill with impunity from behind the scenes, controlling government. The government is not sovereign.

If you look at what has checked that power – that force – the Constitution continues to check it. I think there is tremendous frustration on the shadow side, and there is nothing they love more than to push through by getting a Constitutional Convention. If you think the financial coup d'état was bad, that would be the ultimate breakout.

That's why the Obama administration pushed so hard for gun control. That was the next step. It's quite remarkable that they didn't get it. That shows you the intensity of the pushback, and the fact that Americans really understand that issue.

I don't know if you saw the latest polls, but the number of Americans supporting gun ownership is rising.

Franklin Sanders: No, I didn't see that.

C. Austin Fitts: It's rising.

One of the last things I wanted to bring up is the cleverest argument they have for a Constitutional Convention is campaign donations. The Supreme Court has basically opened the door to massive amounts of corporate foreign donations, and the theory is we need a Constitutional Convention because we can then fix that and we can overrule the Supreme Court.

The other thing is we can have a Constitutional Convention that will just be limited to that one issue.

So what do you say to somebody who says, "Oh, don't worry. We can run the process so it's limited to just that one issue"?

Franklin Sanders: I can say that they're wholly ignorant of history. I'm serious! I'm dead serious.

The people who called the Ptolemaic Convention, which was the beginning of the Constitutional Convention, called it for one reason: So we could set up rules for interstate commerce. That was all they were supposed to do under the Articles of Confederation. They were supposed to figure out how they could get economic cooperation.

They went in and they took their mandate and they exceeded their mandate by creating an entirely new government – an entirely new form of government.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: Again, this is vivisection on the Constitution. There is no way that it will come out alive after you start cutting on it. I mean, you can't put a limit. History shows that you can't put a break on them once they start messing with things.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: The folks who say, "We're just going to tinker with this one thing," – they're crazy. It doesn't happen that way.

C. AUSTIN FITTS: I know. Well, I appreciate this because this is a conversation that makes me afraid. I try not to live in fear, and I try not to go to fear, but when I hear extremely capable, intelligent people thinking, "Oh, we don't need guns," or, "A Constitutional Convention is okay," that fear starts to well up in me. This is an idea that cannot afford to be gotten. You can't let this idea get fashionable.

FRANKLIN SANDERS: Absolutely. And people need to understand that this absolutely does not matter to the issue of a Constitutional Convention whether you're a conservative or liberal because what you're talking about doing is changing the entire playing field. You're talking about tearing down the coliseum and building a different kind of coliseum.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: So whether you're a liberal or conservative, we have to hang onto that Constitution.

C. AUSTIN FITTS: When I started litigating with the federal government in the 1990's I had really believed that there was no law, and I didn't take the legal system seriously because I thought the powers that be could just do whatever they wanted and the whole thing was just a show and tell and nicety.

Then I went through a process, and what I discovered was, no, there is an infrastructure there of law and courts, and for a whole variety of reasons they take it very seriously – even though, ultimately as my case has proven, you can rig everything, it's not so easy. Laws do matter. Courts do matter. The Constitution does matter. The fact that it matters is the reason I'm alive today.

FRANKLIN SANDERS: You and me both.

C. AUSTIN FITTS: Yes, you and me both. If you get in there and you use the law and you bring the resources in there and you take the time and you fight, they can't just say, "Oh, well. The law is irrelevant." Although I did have one judge, Stanley Sporkin, former CIA General Counsel, say to my attorney in the middle of court, "Well, you know, I disagree with the law. If you have a problem with that, take it up with Congress." It was one of my favorite court moments.

The law does matter. It really does matter. It matters not just because the legal system takes it seriously and you've got way too many lawyers who take it seriously, but the fact is that it is also a covenant that we keep with each other. My covenant with 300 million other Americans is a vision that we can stand on together. It's a way to unite us, and it's hard to create ways of uniting us outside of something that has media support.

"It matters not just because the legal system takes it seriously and you've got way too many lawyers who take it seriously, but the fact is that it is also a covenant that we keep with each other."

FRANKLIN SANDERS: You stated that very well. The word 'covenant' is not the same as 'contract'.

C. AUSTIN FITTS: Right.

FRANKLIN SANDERS: The word 'covenant' implies something much more personal and closer. It's akin to family. It's akin to our relationship to God. It's the deepest kind of relationship that people who are not kin by blood can have.

But I think you're absolutely right. I don't understand it. I went through 15 years of fighting in courts representing myself. I spent hundreds if not thousands of hours in law libraries. It's true that they will roll right over you and use the law to stamp on your face, but they have to do it a certain way. The law still is valid in a certain way, and you can wrest justice out of the system if you fight long enough – not always, but there's a much greater chance there than most people think.

C. Austin Fitts: Right, and if you're part of a covenant that we all share.

Franklin Sanders: Right. Exactly.

C. Austin Fitts: So don't let that covenant be torn asunder because if we don't have that covenant with each other…

Franklin Sanders: We're dead.

C. Austin Fitts: Yes. We're dead.

Franklin Sanders: We're done.

C. Austin Fitts: We're done. It's that simple. Well, on that cheerful note, Franklin, I look forward to speaking with you again.

Franklin Sanders: But we have it.

C. Austin Fitts: Yes, we do have it, and it's real and it counts and it's an extraordinary blessing. We also have a drumbeat floor on the precious metals market. I for one am ready to find the bottom. So let's hope we find the bottom soon. If not, whatever we do, we'll find the bottom. I know it's going to be interesting.

One quick thing I forgot to ask you on precious metals. HSBC shut down all their vaults in London except for the one that supports GLD – the gold ETF where they are the depository. I've listened to several interviews. The consensus seems to be that so much of the gold has moved to Asia that there is not a profitable business for them there other than doing the GLD support. Any thoughts on that?

FRANKLIN SANDERS: I have not considered it, but that certainly would be an issue. I mean, there is a great article that your listeners ought to read called *Silver and Opium* by Antal Fekete. Just do a Google search for silver and opium and Fekete and it will pull up.

The economic history of the world is largely governed by movements of gold and silver from east to west and west to east. That short article will explain that. So what you're seeing now is a movement of wealth that is going from west to east. The theory that you have about HSBC closing its vault in London would align with that. We're seeing this flow of gold and silver to the east because that represents wealth, and the wealth is going that way.

C. AUSTIN FITTS: Unless a US dollar bear trap rakes it back.

FRANKLIN SANDERS: Which is always possible, but what I'm saying is that usually when they get started, those waves that move from one direction to the other last a long time – not just decades. Well, maybe now it's just decades, but has been centuries in the past.

C. AUSTIN FITTS: Well, Franklin, it's always a pleasure. You have a wonderful day. Thank you very much for joining us on The Solari Report for the Precious Metals Market Report. We look forward to our next one.

FRANKLIN SANDERS: It's been fun! Thank you so much.

C. AUSTIN FITTS: Bye.