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The Solari Report

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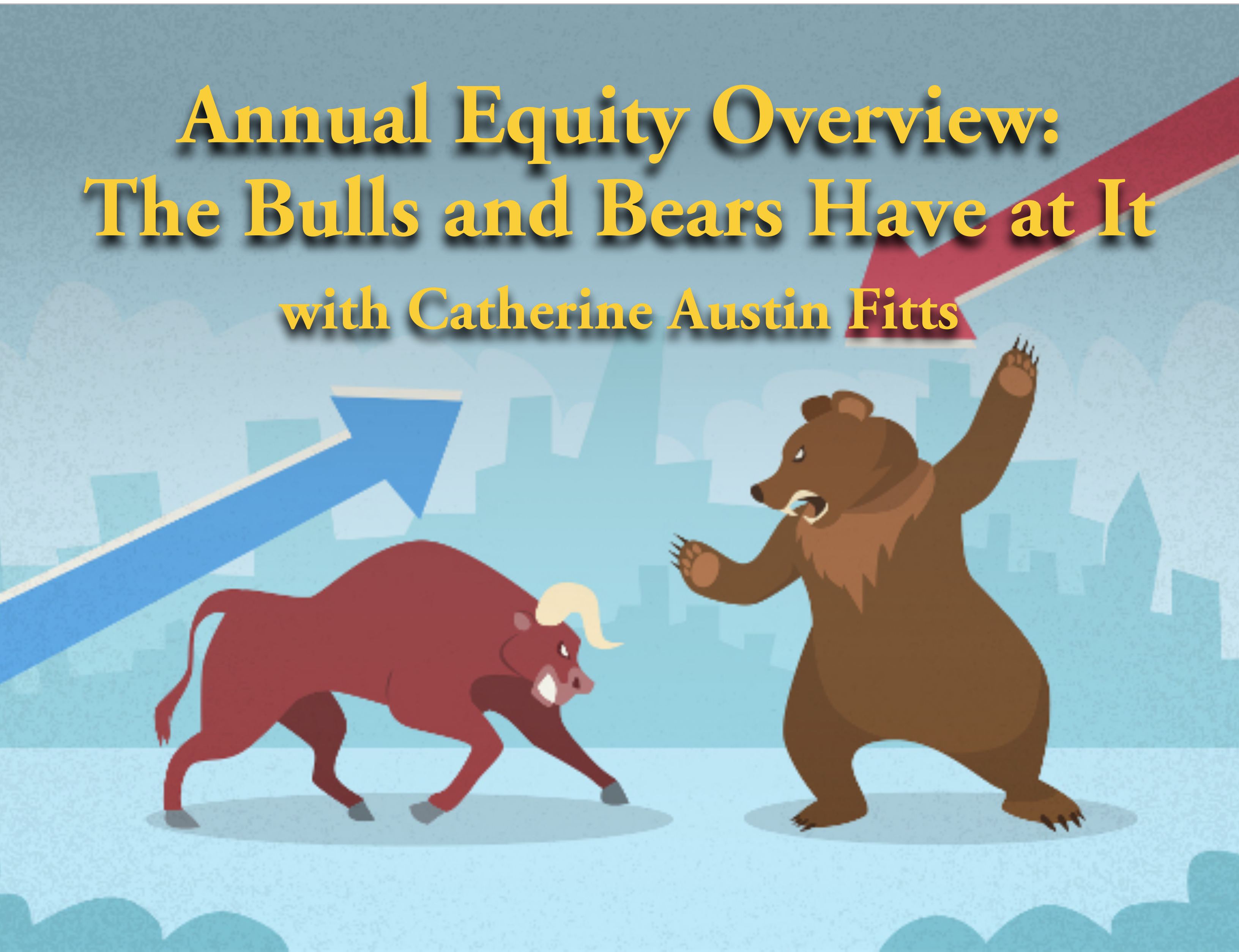
Annual Equity Overview: The Bulls and Bears Have at It

with Catherine Austin Fitts



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Good evening. Welcome to The Solari Report. Today is January 14, 2016. I'm Catherine Austin Fitts, and I'm delighted you could join me this evening for the Annual Equity Overview.

I hope you've had a chance to look at the Wrap Up, especially the web presentation. I want to make sure for tonight's discussion, if you can please link to the Market section of the web presentation for the Annual Wrap Up. It's the Markets Round Up.

The pdf for the entire Wrap Up I'm hoping will be available next week. We wanted to give it another good proofing this weekend. Again, it's going to be good background for everything I'm going to say today. So if you could, make sure you pull up that Markets Round Up because we're going to use it tonight.

Events

I'm in California at the ANP conference in San Rafael. It's going to be held on Saturday and Sunday. Tickets are still available. ANP stands for Architects of the New Paradigm.

There are some great allies here. Joel Garbon is going to be here, and Richard Dolan, and many friends as well. The organizers and sponsor of the Secret Space Program and Breakthrough Energy Conference is going to be here as well, so it's going to be a great group. As I said, there are still tickets available.

I'm going to do two hours on Coast to Coast next Wednesday night, January 20th, so stay tuned for that. It's going to be an economic update. I'm speaking at the Economic Round Table of the Ohio Valley in Marietta, Ohio on January 27th, and then don't forget our first lunch of the year is going to be in New York City with Richard Dolan on April 30th.

Our theme tonight is The Bulls and Bears Have at It. It looks like the bears may be winning. I expected January to be a down month, but the speed and strike of the correction has been surprising. You've got all sorts of pundits out there seeing who can panic first.

We've had the Royal Bank of Scotland basically come out and say, "Sell everything except bonds," and Societe Generale coming up behind them. There's no doubt that the squeeze on commodity producers is very ugly. They've got revenues falling, the price of their capital is increasing, and credit destruction is happening at the same time. So they're in a perfect squeeze. That's not just the companies; that's countries, municipalities, and it's happening all around the world.

Literally oil and gas is really experiencing a perfect storm, and it's impossible to say what percentage each is, but you have the Fed quantitative easing policies really financed an enormous amount of activity in the oil patch. Low interest rates really got North America a stockpile of oil and gas happening.

"Literally oil and gas is really experiencing a perfect storm, and it's impossible to say what percentage each is, but you have the Fed quantitative easing policies really financed an enormous amount of activity in the oil patch."

So we have enormous oversupply and OPEC has not stopped pumping. A lot of that is the fracking technology along with all sorts of other applied technology and innovations in oil and gas, which is really legacy technology at this point.

Then, of course, you have the oil card being played against Russia, and Russia seems to be doing surprisingly well in the face of it. Then, of course, the big $64,000 question wildcard is: How much of this new technology, whether expecting solar to reach parity by 2020, the optimization comes from much more intense communication and 3.3 billion people on the internet, but of course there is breakthrough energy hanging out.

When I did my discussion with Joseph about the Wrap Up, which we'll publish next week, one of the things we talked about was the multi-polar world – the different dynamics and the kinds of surprises you can get from the breakthrough energy technology.

Lower oil and gas prices are good news for manufacturers and consumers, and it's good news for China. It's bad news for Russia, but good news for China. All of those are really struggling as the economy slows down, so it's a benefit for those. When you have prices come down this far this fast, things can really struggle.

If you look at the stories in the Trend section in the Wrap Up, our top story of the year for 2015 was 'Rising Dollar, Falling Commodities'. Let me just read that section to you because I think it's important.

There was just one word for financial markets in 2015, and central bankers spent all year trying not to use it: deflation. We had many different variations on it. On a term I think we had 'falling inflation' and 'negative inflation'. They went to great lengths not to use the word 'deflation'.

So after falling by 18% in 2014, the commodities CRB index was down another 24% in 2015. Gold and silver had a strong first quarter but then continued their long consolidation down about 11-12%. Equity markets were flat or falling.

The dollar was up by 9% in 2015 – one of the few things that was up – and that followed on its 12% rise in 2014. That was bad news for US exporters as well as US companies consolidating a large percentage of their earnings from abroad.

So this was a major head one on S&P earnings in 2015 with expected earnings for 2016 looking softer still.

The financial markets spent all year waiting for the Fed to raise interest rates with market rates rising in anticipation. One of the things that baffled me during 2015 was the expectation that the US economy would come out of recession and in so doing help sustain global growth.

Whether attacking people domestically with global spraying, student debt, zero savings rates, Obamacare, Common Core, false flag operations internationally with mass migration, financial and Russian sanctions, covert operations and mercenary armies, why the expectation that the general population would be eager to expand, invest, and take financial risk?

Centralization was choking animal spirits in North America and Europe throughout 2015, which explains one of the reasons behind mass migration – new ways of population eager to work hard and to start businesses.

The fallen commodities is a powerful evidence of a global slowdown. By playing the oil card against Russia, the United States has clearly contributed with the oil ETM down 50% for the year. (That's pretty stunning.)

A US deal with Iran means more supply to come on the global market in 2016. It wouldn't surprise me if that's part of the little spat between Saudi Arabia and Iran going on.

Slower growth in China was clearly a factor. China's growth for many years resulting in demand for commodities was fueled by the United States fueling a false prosperity. Development of a Chinese consumer market is still slow-going.

If you have not listened to our interview with Stephen Roach or read the book *Unbalanced: The Co-dependency of America and China*, I recommend it as an excellent overview of the evolution of this relationship.

With the US working to reduce Europe's dependency on Russian oil and gas, one of the most sensitive moments of the year was European media reporting that ISIS was financing its mercenaries by marketing oil to Israel through Turkey. The story (not surprisingly) was whited out by the San Bernardino mass shooting.

The greatest pain for fossil fuels was coal. Despite the fact that coal remains the single largest source of energy globally – it's about 50% globally and about 33% in the United States now – three of the four largest US coal companies experienced decline in their stock prices of between 77-95%. The fourth went bankrupt, and now that January has opened, another one of them has declared bankruptcy – Arch.

This is creative destruction at work reflecting the implementation of new technology and increased US oil and gas as self-sufficiency. We've made a huge bet on natural gas, and that means that coal is really being devastated.

Falling commodity prices have translated into enormous pain in areas of the world that depend on commodities for income. In North America, falling revenues for commodity producers translated to falling income for farm producers, expected to be down by 38% in 2015.

There are some economists who believe that the GNP is really a multiple of farm income – it's the harvest that the earth brings forth that is such a great gift and contribution to wealth.

Falling revenues in the oil patch translated into falling income for the railroads and fallout for the high-yield junk bond market, down by 12%. The greatest ping was in the emerging markets where falling revenues meant and increased difficulty of servicing debt's denominated more expensive US dollars.

The signs of recession showed up in *Wall Street Business*. Flows and mergers were up. Stock buybacks continued to support the stock market, and IPOs were down. It seemed like companies with cash were doing everything but growing their basic business.

From satellite systems to payment systems to international agreements, the BRIC nations worked overtime in 2015 to build financial liquidity and independence around the dollar, with China finally winning inclusion in the IMFSTR.

The financial story of 2015 was not that the dollar was strong; it was that underneath the rising price, the dollar market share continued to deflate, raising serious questions about its long-term status as global reserve currency.

The top story I linked to was from *The Economist*, which I pointed out to you before. It is, *Dominant and Dangerous as America's Supremacy Fades, the Primacy of the Dollar Looks Unsustainable*. Those are strong words coming from *The Economist*.

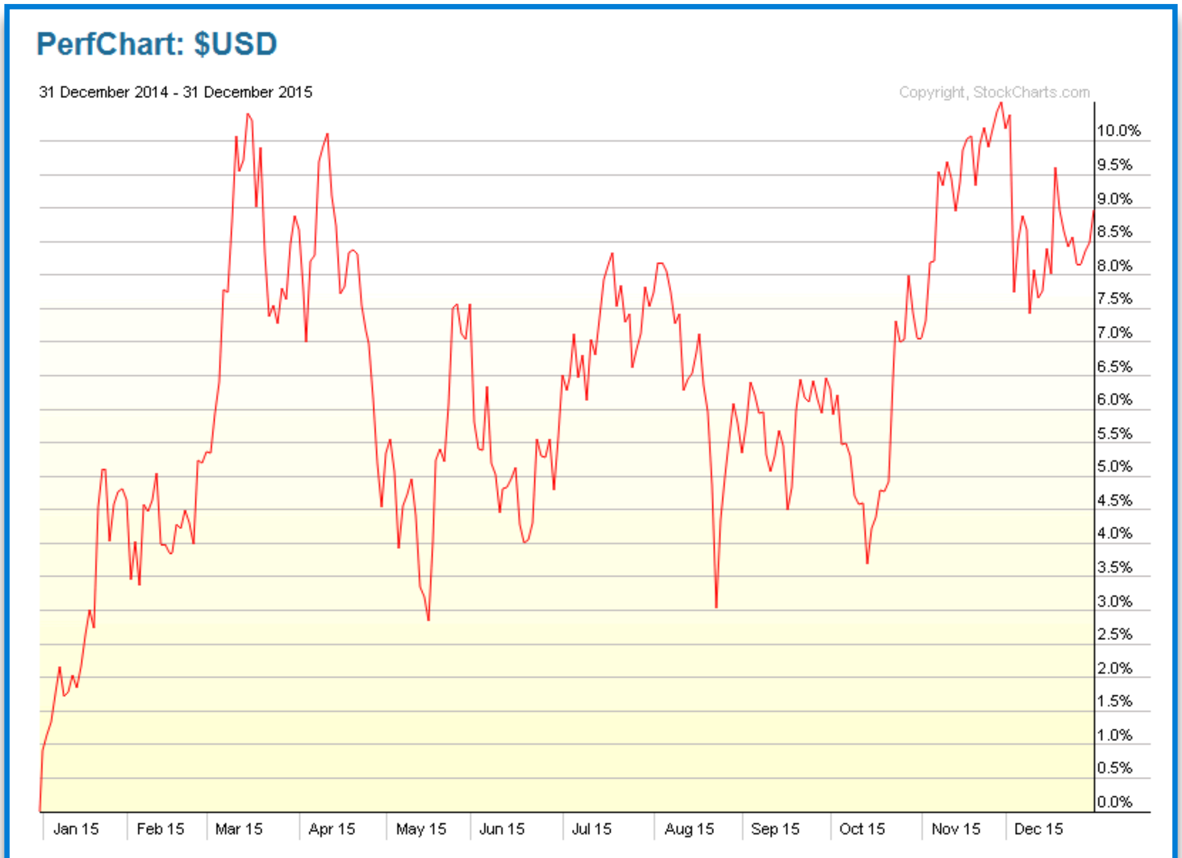
Charts

Okay, let's walk through the charts for 2015. If you could, just make sure to link to the Markets section of the Annual Wrap Up. It's called 2015 Annual Financial Markets Round Up.

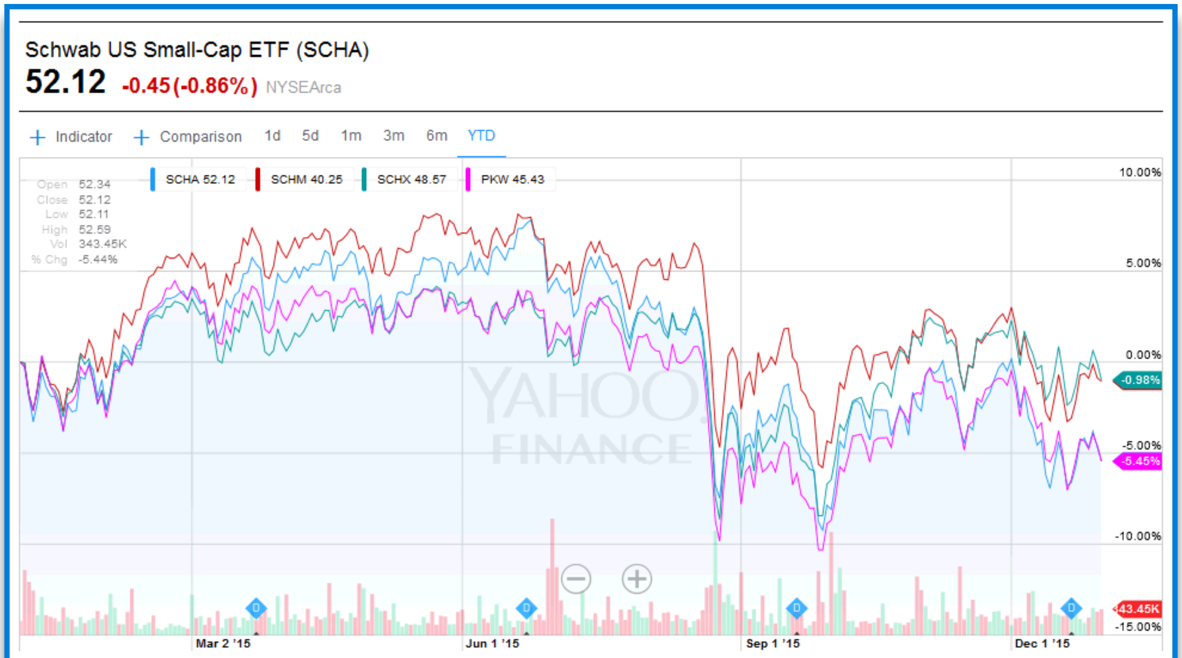
The top chart is an overview of the year and all the different indicators. Let's dive right in. The first chart after that is the US Dollar Index. As you can see, it was up 9% in 2015, which is quite a dramatic performance after being up 12%

from the summer of 2014 to the end of the year. In 18 months it went approximately 22%.

Index	12/31/14	12/31/15	% YTD Change
S&P 500	2,058.90	2,043.94	-0.73%
DJIA	17,823.07	17,425.03	-2.23%
Russell 2000 (IWM)	117.90	112.62	-4.48%
MSCI EAFE (EFA)	59.31	58.72	-0.99%
MSCI Emerg. Mkts (EEM)	38.40	32.19	-16.17%
Barclays Agg Bond (AGG)	107.49	108.01	0.48%
DAX (^GDAXI - Euros)	9,805.55	10,743.01	9.56%
iShares China Large-Cap (FXI)	40.52	35.29	-12.91%
PowerShares India ETF (PIN)	20.87	19.52	-6.47%
Gold (oz.)	1,206.00	1,060.00	-12.11%
iShares 20+ Year Treasury Bond (TLT)	122.78	120.58	-1.79%
US Dollar Index	90.28	98.69	9.32%
Commodities-Reuters/Jeffries CRB Index ($CRB)	229.96	176.27	-23.35%
Baltic Dry Index	782.00	478.00	-38.87%
iShares 7-10 Year Treasury Bond (IEF)	104.02	105.59	1.51%



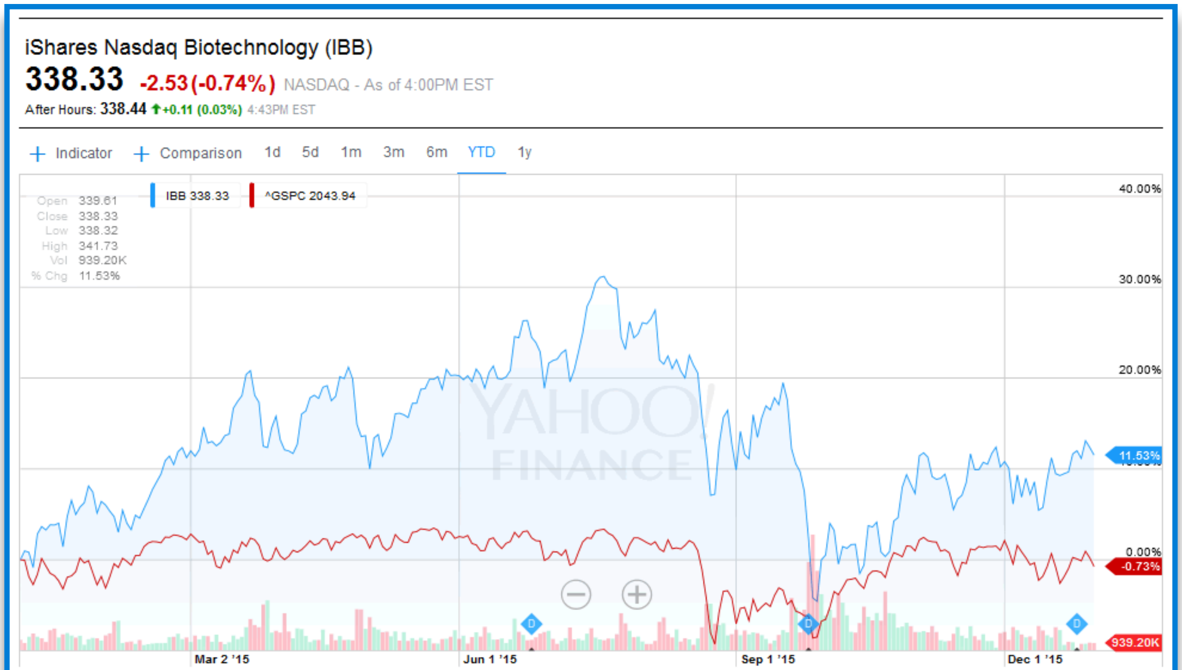
The next chart takes a look at the US equity markets and shows that essentially the US small cap, mid-caps, and large caps operated together. The mid-caps and large caps are doing better, as you would expect as risk tolerance gets lower.

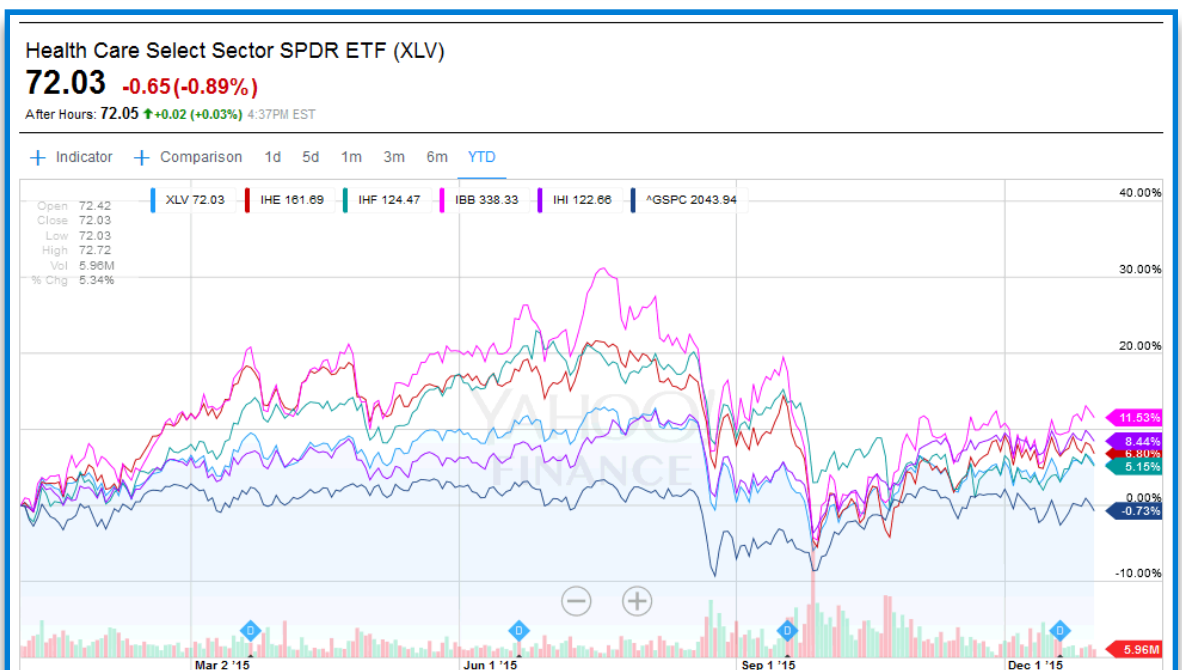


The next chart shows a sector performance, and it's unbelievable the extent to which the US consumer really led the way in terms of supporting corporate earnings and the equity markets.

Morningstar Stock Indexes	As of Date	1 Year	3 Year	5 Year
Cyclical	12/31/2015	1.37	15.27	12.07
— Basic Materials	12/31/2015	-8.97	4.67	2.78
— Consumer Cyclical	12/31/2015	6.29	18.13	16.4
— Financial Services	12/31/2015	-0.26	16.72	11.37
— Real Estate	12/31/2015	1.58	9.97	11.02
Defensive	12/31/2015	5.08	19.57	16.99
— Consumer Defensive	12/31/2015	5.57	16.41	14.51
— Healthcare	12/31/2015	7.13	24.38	20.77
— Utilities	12/31/2015	-4.62	11.58	10.96
Sensitive	12/31/2015	-2.7	11.61	9.75
— Communication Services	12/31/2015	5.68	12.05	13.4
— Energy	12/31/2015	-22.69	-3.54	-0.33
— Industrials	12/31/2015	-2.78	14.7	11.55
— Technology	12/31/2015	4.01	16.71	12.4

Healthcare continued to do well, and a lot of that is Obamacare. So Obamacare has been critical to supporting the US stock market over the last three years, which means if the Republicans get back into the White House, we could really see that part of the market go through some changes.

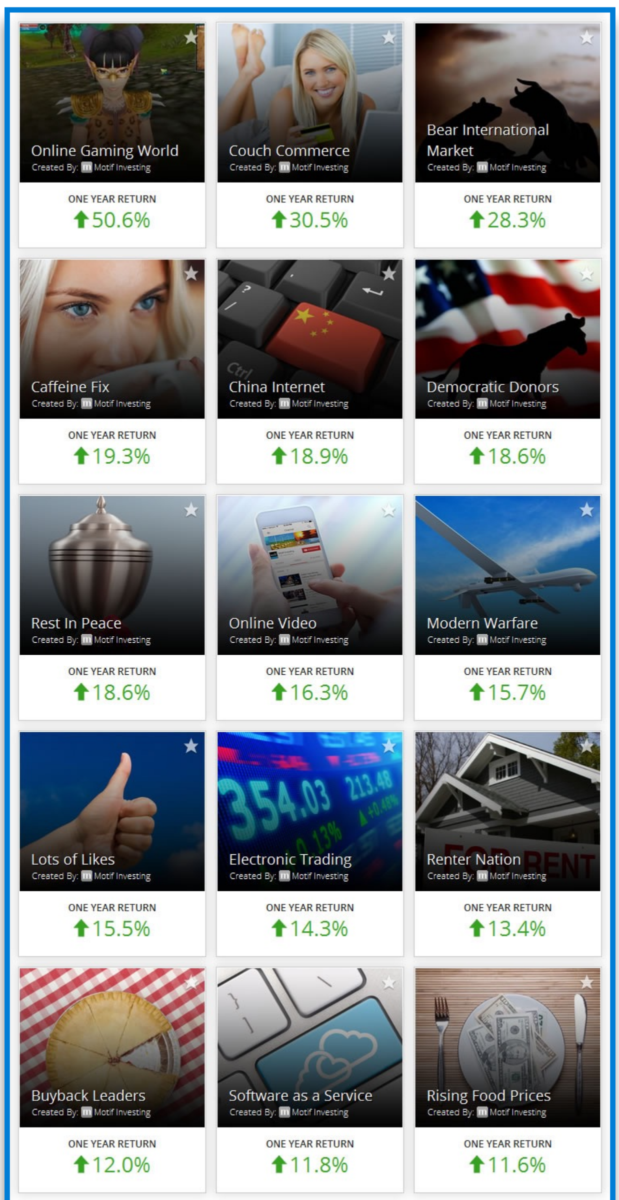




The next chart is biotech, which continued to be strong, up 11% relative to the general S&P market that was down 0.75%. So S&P basically flat for the year if you had a good dividend paying stock. Assume 2-3% and you're giving up a piece of your dividend, but you're basically flat for the year.

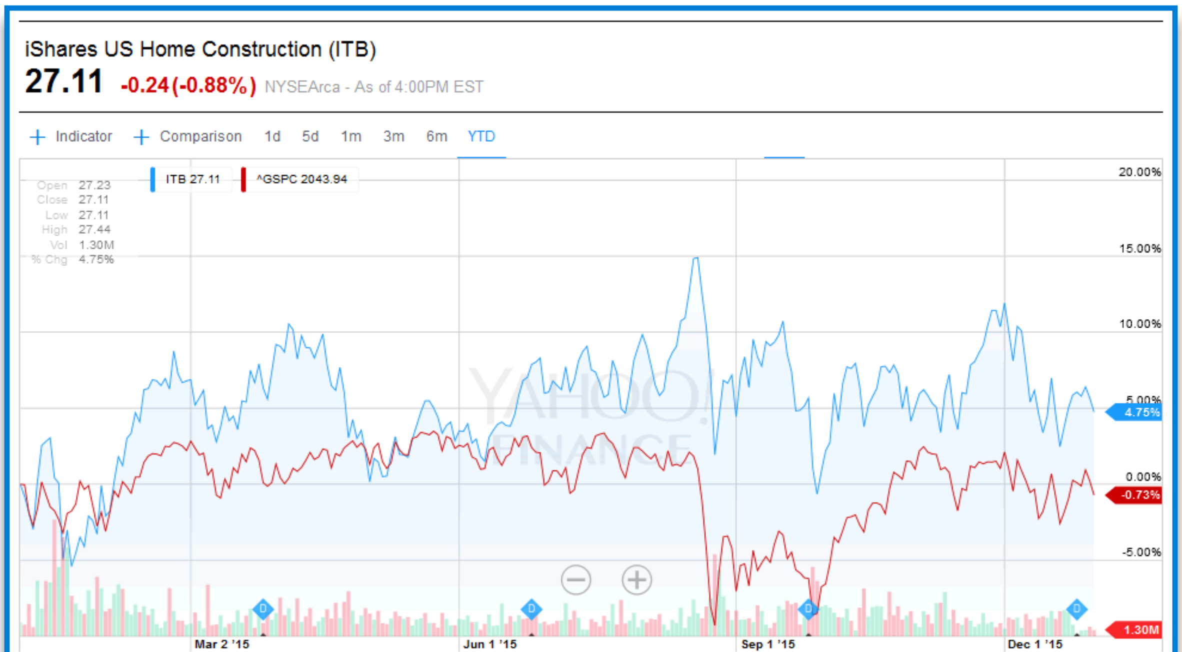
Then, again, I show various healthcare ETFs. The healthcare is going from 5% to 11.5% for the year, so it's outperforming.

I always like to go check in with Motif Investing. It's a Silicon Valley brokerage firm that offers exchange-traded funds organized around different motifs. To me it's an interesting way of looking at the market. I think it's clever.



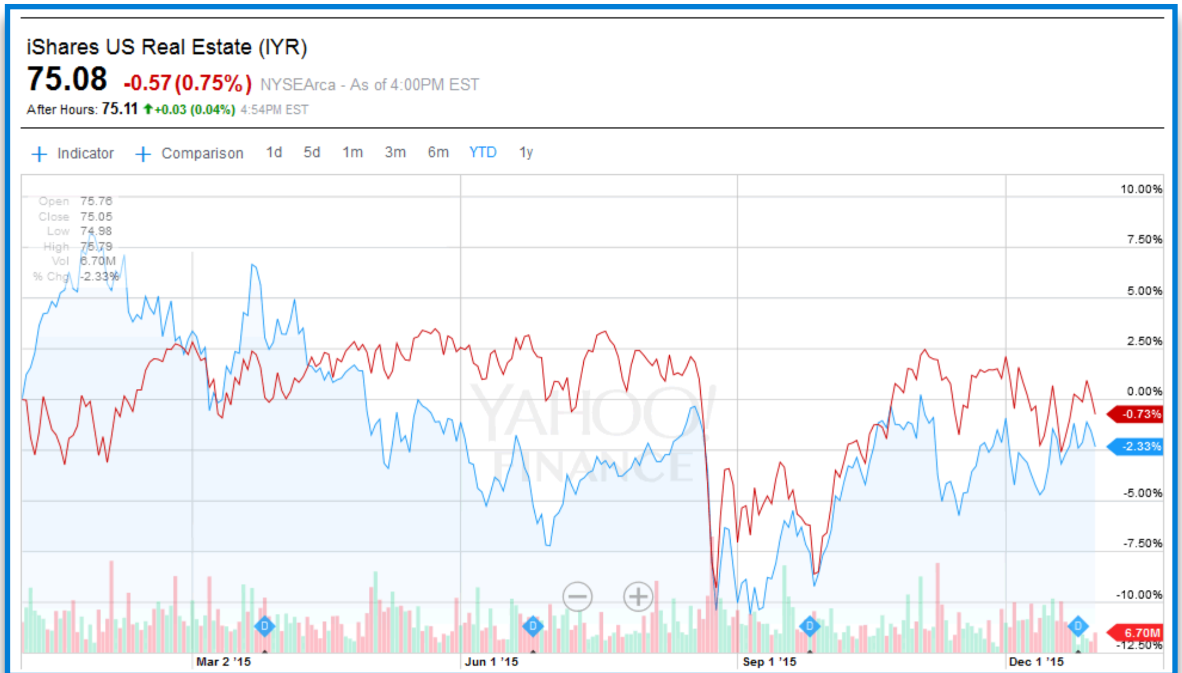
If you go to Motif Investing, there's an old saying that there's always a bull market someplace, and when you take a look at their one-year or one-month returns, you can see who's doing well. For the Wrap Ups I always try to put up a snapshot of where Motif Investing was. It's pretty depressing. It's online gaming, bear markets, funeral homes, war, and it sort of looks like a deflation.

Coming into a presidential election, homebuilding usually does well. It's always bipartisan, but the Democrats are very aggressive about turning on that housing spigot. As I've described during 2015, they've certainly been doing lots of things to do that. So it's not surprising that the homebuilders outperform the market of home construction. ETF was up almost 5% relative to an S&P that was down slightly.

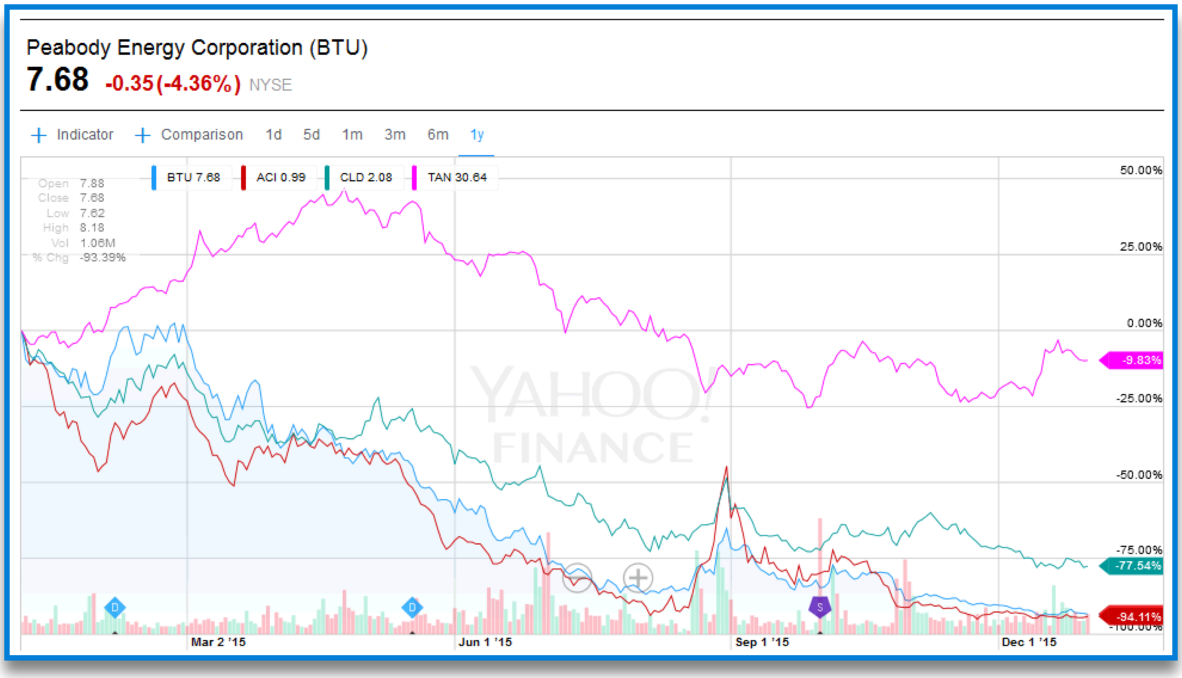


Then real estate struggled with the concerns about higher interest rates, although if you look at what's happened in the first week and a half of the year, it's the 20-year treasury that's flying. Can you believe it? It's up over 2% for the year, and that's only a week and a half.

As I said, oil is reeling down 50% - the oil ETN. Then I showed the charts for the coal producers.



When you get these big switches in technology, this is what you see. Now on one hand, it's good news because we're talking about moving to much cleaner fuel sources and much greater efficiency. But if you're the legacy company, it doesn't feel so great. You can imagine being Chairman of Peabody Energy was not so wonderful this year.



Interestingly enough in the next chart I always like to look at how Russia is doing in their Russian ETF versus oil. It's surprising. Russia kind of held its own this year despite an enormous headwind with oil coming down that hard.

The DAX did very well at the beginning of the year. It was up almost 26. That was the German top 30 stocks. It was up almost 30% at the beginning of the year, and then it came down with a big correction in August and ended up being up 10% when priced in euros, but translated against the dollar it was down in dollar terms.

The China large caps were down 15%. China had a rough year. It was up almost 20-30%, depending on which ETF or market you're looking at in the first half, but, again, it turned down in August.

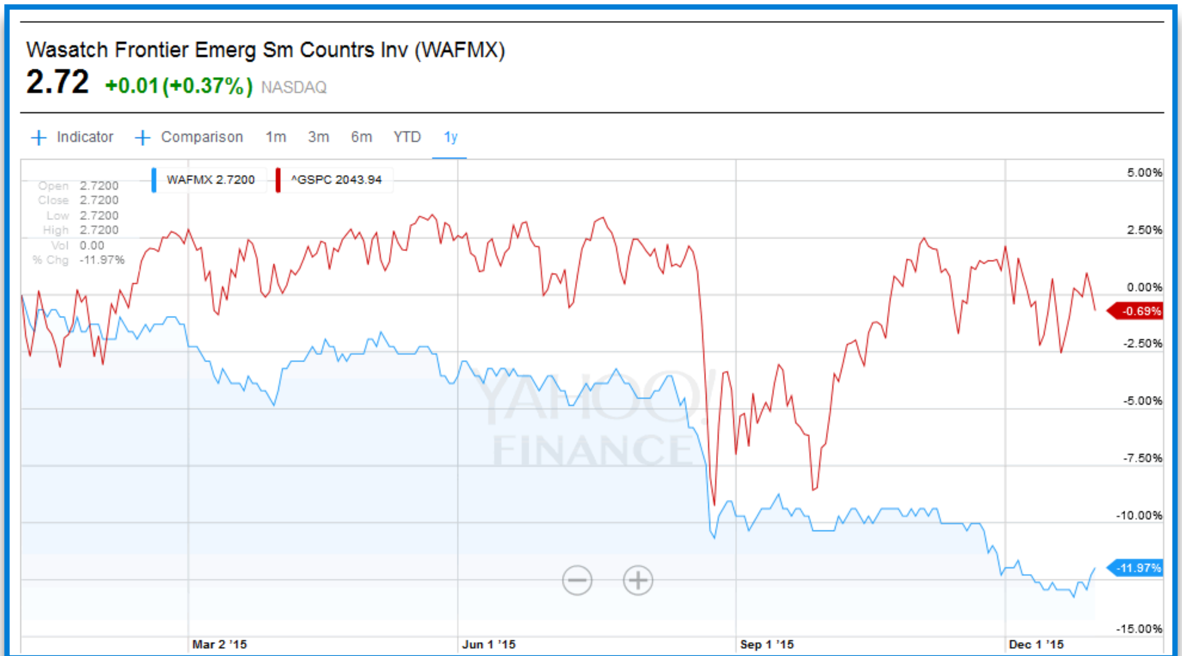
India had a softer landing than China. It closed down 7% for the year. Emerging markets were really struggling. They were down 18%. Again, this is very much the commodities story, and the losing commodity business and lower prices are going to cost you.

The EFA is the developed market ETF. That's the developed markets outside of North America. They were down 3.5% for the year.

The frontier markets, not surprisingly, outperformed the emerging markets. They were down almost 12%.

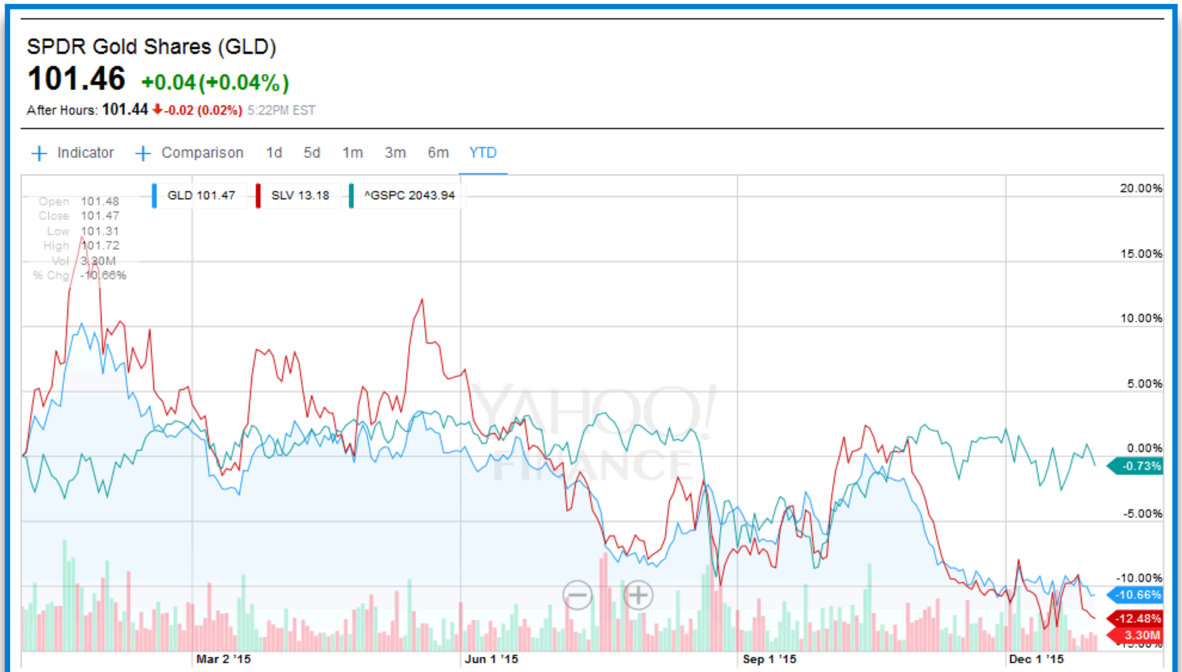

iShares MSCI Emerging Markets (EEM)
32.19 -0.10 (0.31%) NYSEArca - As of 4:00PM EST
After Hours: 32.25 +0.06 (0.19%) 5:37PM EST
Indicator
Comparison
1d 5d 1m 3m 6m YTD 1y
Open 32.29
Close 32.20
Low 32.18
High 32.42
Vol 36.91M
% Chg -18.05%
EEM 32.20
^GSPC 2043.94
15.00%
10.00%
5.00%
0.00%
-0.73%
-5.00%
-10.00%
-15.00%
-18.05%
-20.00%
36.91M
Mar 2 '15
Jun 1 '15
Sep 1 '15
Dec 1 '15


iShares MSCI EAFE (EFA)
58.72 -0.80 (1.34%) NYSEArca - As of 4:00PM EST
After Hours: 58.75 +0.03 (0.05%) 4:32PM EST
Indicator
Comparison
1d 5d 1m 3m 6m YTD 1y
Open 59.13
Close 58.72
Low 58.72
High 59.20
Vol 26.81M
% Chg -3.48%
EFA 58.72
^GSPC 2043.94
15.00%
10.00%
5.00%
0.00%
-0.73%
-3.48%
-5.00%
26.81M
-10.00%
Mar 2 '15
Jun 1 '15
Sep 1 '15
Dec 1 '15

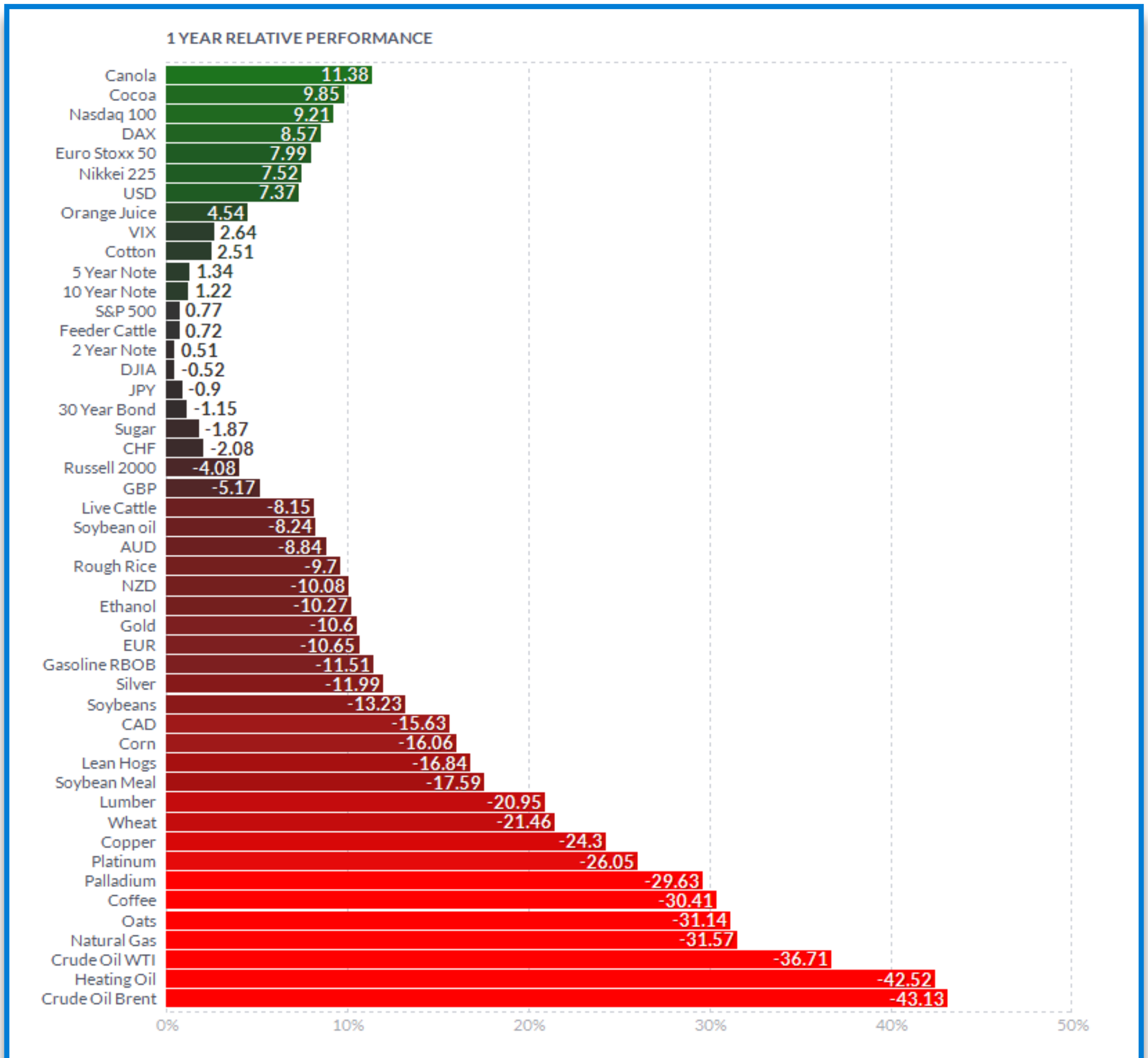


Fixed income certainly didn't shine, but it didn't look so bad. The best asset class last year was very high quality short-term and intermediate-term sovereign bonds. As you can see from the next chart, the corporate aggregate bond was down about 2%. In the positive zone was the intermediate treasuries. The long

treasuries had a tough year. They came back at the end of the year, but they ended up down 4.24%. They've gained about half of that back in the first week and a half of the year.



The following are the commodities charts which we talked about. Gold and silver are down 11% and 12%. The commodities index is down 24%. Then I laid out from Finviz, which is a great site to look at different ways of looking at the market, the different commodities so you can see them across the board.



Finally, the Baltic Dry Index, which is a shipping index, started to move up in August and has since come back down.

Every sign is flashing, "Deflation, deflation, deflation!" So last year was a year where you could spend a lot of time looking for opportunity and thinking you

had it figured out, and then turning around and losing money no matter what you did. It was a lot of work, basically, to end up flat or down.

Literally everything is down except for the US dollar and selected motifs. So clearly the market has jitters. So let's take a look at how we've opened for this year.

2016

I'm counting from 12/31. The S&P is down 6%. Gold is up 1.5%. Silver is flat. Oil is down 12% - again, more, and we're seeing various concern that oil is going to head down and bottom somewhere in the low 20's. The DAX is down 8.8% (in euros). The Chinese large cap is down 11.5%. The developed world is down 5.9%. Emerging markets are down 8%. We see the bond aggregate up 0.14%. Then, as I said, the long treasuries are up 2.7%. The commodity index fell 7.8%. The junk is down another 2.3% - remember it was down 12% last year. So the junk market is really feeling the concerns of the commodities producers as they can't get more capital and there are real credit issues.

The US dollar index is up slightly. It's trading early this evening at about 99. It's slightly up, but essentially flat.

So, there are jitters. Commodities plunge. I think part of it is life without QE and how much that plus the commodities plunge is going to cause people to have to pull in their reigns and fight to cover debt.

I think the other thing that's caused me a lot of jitters is to see the extent of the dirty fighting. In an economy – as one of my colleagues would say – "You can either bake pies or you can try to steal each other's pies." If you watch some of the things that have really destroyed equity that I use, you get the real concern that the gloves are coming off.

One example is what's happened to Volkswagen this year. I believe that it would never have happened if some of Volkswagen's competitors weren't doing a lot of what they did to turn the story into something pretty big. My suspicion is it's probably GM who is facing litigation right now regarding ignition switches. Lots of people died. So having Volkswagen have a huge scandal about their emission software, nothing would be more perfect. Not to say that the problem isn't a real one, but it's been blown up in a way and with an effort that smacks of somebody putting a lot of time and resources into making that happen.

The other thing is we're watching a pattern of E. coli outbreaks and food safety issues in Chipotle, and I, for one, am extremely suspicious of the pattern. If you look at Chipotle, they've made quite a big to-do about not doing GMO and other food issues and buying local instead of centralizing. They've taken on one of the most powerful and dangerous constituencies in the world when they do that.

I think investors see this, and their concern is the deflation accelerates if the gloves are going to come off in terms of how companies compete. Is it going to be dangerous?

It contributes to the feeling that politics in Washington are not under adult supervision, but it contributes to the sense that companies are not under adult supervision, and the boundaries of the law are not preserving market competition that stays within the boundaries.

I would say that there is a very serious leadership problem, and there's no doubt it's going to get worse in 2017 when we face the issues related to the Federal budget.

Let's look ahead at 2016. In the Annual Wrap Up we have a section called Get Ready, Get Ready where I share the scenarios I have for 2016. I just wanted to go back and look. Let's go back in time.

In 2013 I said the probability of a slow burn continuing in 2014 was 80%, and of course, we know that's what happened. Last year I decided to divide the slow burn into two scenarios. One was a Volatile & Violent slow burn, and the other was North American Renaissance slow burn. North American Renaissance slow burn really matched a little bit of the Fed's expectations that America would come out of recession and lead the global economy in staying out of slowing too much, as well as my concept of reinvestment in Global 3.0.

I had awarded probabilities to Volatile & Violent 50%, and then 40% to North American Renaissance slow burn. So a total of 90% chance of slow burn. Of course, that's what happened in 2015. We did have a slow burn.

I think the North American Renaissance was certainly happening in pockets, particularly in the high-tech areas, but it certainly felt – watching the media – more like a Volatile & Violent slow burn.

The other two or three scenarios I had for 2015 were a 2008 redux, which was a repeat of 2008. I had given that a 1% likelihood, and we got a correction in August. But if you look at it percentage-wise, it was certainly extreme in China but not extreme in the rest of the market. So that did not happen.

I gave an 8% likelihood to World War III or an environmental disaster. I think if we're starting into a real meltdown, my concern is not that we'll get the meltdown; it's that we'll get the war.

Then I gave a 1% possibility of transformation. I would like to see that percentage grow, but it hasn't yet.

So let's look at what I'm going to do for 2016, and you can see it in the Wrap Up. Again, I used the same scenarios this year. I said Volatile & Violent slow burn would go up from 50% to 70%. I continue to believe that the North American Renaissance is going to be happening in places that are getting big 3.0 investment, but I also think we saw enough violence and another covert action on North American soil last year. I was pretty disappointed to see the extent to which we had it. So I'm going to take my Volatile & Violent up to 70% and then I'm saying for North American Renaissance 10%, and that's a combination of 80%. So I'm taking it down from what was 90% last year, but giving a much bigger allocation to Violent and Volatile. In that sense, it's not good news or good expectations for 2016.

So I pulled 10% out of the slow burn, and I increased the repeat of 2008. So the 2008 redux has gone from 1% to 7%. I still don't think there's much of a chance of repeating the last financial crisis. If you look at why we had a financial crisis and who wanted the financial crisis, the fact pattern now is very, very different. It's something that I suspect the young guys at the Royal Bank of Scotland don't particularly understand.

I increased the chances of World War III or environmental disaster to 12%. As you move into a multi-polar world, you have a lot more risk and a lot more difficulty managing that risk. I continue to be concerned about Fukushima and all sorts of issues related to nuclear and other big risk management issues.

Finally, I continue to give my 1% to transformation because you know me – I never give up hope. I think it's possible.

Anyway, I keep getting questions from subscribers, "What about collapse?"

I don't see collapse happening now. I certainly see collapse happening in selected 2.0 areas, so I'm not saying that if you live in an area that is in that fact pattern that it's not going to feel like a collapse, and I certainly think that the middle class continues to get squeezed and it's going to get worse in 2016. Although, remember that commodities deflation is going to help many, many people with lower oil and energy prices. It may not help on food prices, but it will certainly keep the rises at bay.

So let's turn and look at the different markets. I think we're clearly in a correction in the equity markets. I can't believe it's over. I think there is a 100% chance that we're going to get a 5-15% correction because we're there already. I think it could go to 10-15%. I wouldn't be surprised.

I think it's highly unlikely that Mr. Global wants more. I don't think there is a concerted effort by anyone to trash the markets, even though the pundits out there – to a certain extent – are fighting the last battle or fighting the last war. So I give 100% chance of a 5-15% correction. As I said, it could easily go to 15%.

I think the chances of a 15-25% correction is much smaller, so I would give that a 30% chance. To a certain extent, I think QE'ing by the Fed and other central banks may get turned on beyond 15%. I think the chances of this turning to a bear yet is small, at 10%.

"I think we have a correction, but I don't think it will turn into a panic for many reasons."

I think we have a correction, but I don't think it will turn into a panic for many reasons. As I said, if you look at what was going on in 2008, our situation is very, very different.

Now, I say that, and I'm very concerned about the leadership problems as well as other people feeling the same way. I think my concern is that if you look at all the negative things that are going on from the point of sensible people – and I think our subscribers very much fall into the category of 'sensible people' – there's a point at which you just say, "That's it. I have no confidence in the system." You could get some very wild card type of behavior. I think that's the thing that concerns me more than anything. We could get some very big shifts. The problem is: if retail does that, of course institutions are going to take advantage, and the big capital in this country is pension funds, and they're deeply committed. They're certainly not going to time the market.

Again, let me just give you these numbers: I say 100% chance that we're in a 5-15% correction. If you look at the size of the correction we got last summer, it was remarkably small. We've gone through the last four or five years without a major correction, and we're long overdue for one.

There is a 30% chance we get a 15-25% correction, and I think the chances that this turns to a bear in 2016 – or certainly the first half of 2016 – is 10% or less. I just don't think collapse is on the table. Again, my big concern is things get violent.

So what does that mean to you? Well, let me just hammer a couple of words home. One is balance, one is diversification, and one is quality, quality, quality. You've got to stick with quality.

So let me go through some of the details of what that means. First of all, if you have any opportunity to pay off debt, I would not leave money in risk assets. When you get into a deflation, you want to pay off debt. Why take risk in any kind of asset when you've got debt sitting on your balance sheet that you could extinguish?

Every person is unique and every person is different, but I generally recommend in an environment like this to get rid of that debt. It's not going to work for you, and it could work against you.

The second thing is: We're in an environment – and this is all part of moving to a multi-polar world – where things could look very, very different day to day. It's important to remember that you want to have a balance of assets for different kinds of purposes. Market timing generally will get you killed. You want to be very careful about doing that.
-chart-
I put up a chart. It's on The Solari Report at www.Solari.com called 'The Diversification Illustrated in Exquisite Quilt'. It's a chart from *Market Watch*. It shows you that over the years you get remarkable swings in performance up and down, but if you stay balanced and you stay diversified, it makes a lot more sense than it does year to year, particularly if you're trying to time it.

I do think there are going to be opportunities to buy into high quality emerging market stocks and funds during this year if we get a bottom, and I do think there are going to be opportunities as well in Europe. There will be some in the US, but remember that the US was very, very richly priced. You're going to have to be prepared to buy when there's mud in the water, and I think it's going to be incredibly volatile and hard to predict because the politics are uglier and uglier. So I would be careful.

The way to manage your assets in this environment is to manage through allocations. You have an allocation to equity, you have an allocation to cash.

Commodities, I think, is a place to stay away from for now except for your core position in precious metals as we talked about. For fixed income, again, I would be very, very careful and stick with quality. I would not go long for obvious reasons. In terms of credit, I would stick with very strong quality.

I think whether it's your custodian or whether it's the kind of security you're in, you're going to have to really have to want to stick with quality.

If you're interested in what's going on in the market, I think Motif Investing is a great place to check and see what's doing well.

A few other comments: Increasingly I'm now turning to individual bonds instead of bond funds. I think that my concern in this market is if you get funds in a position where they need to do redemptions, they have to sell, and sell at the wrong time. I prefer, if you can, to go to individual bonds. That's for people who are pretty confident that they're going to hold on.

Ask Catherine

We have an enormous number of questions, so let me run through those. First of all, let me say that you all are sending great links and article ideas. I really appreciate that. You've sent in some excellent articles.

The first question is:

"Are there any resources that you recommend for subscribers for protection from some of the more targeted options aside from attending church and strong faith?"

When it comes to targeting, there are an enormous number of fact patterns, and it depends on who and what your situation is. I would say that the most helpful materials either came from professionals – the people who run security firms and are professionals at dealing with this – or from people who have been targeted and have written books.

There's one book I love called *The Professional Paranoid*. I also did a book review on Marc Rich's books. He was targeted, and he's done a whole series of books.

Next we have a long, lovely letter from a subscriber in Australia telling me about a reverend in Michigan who's run into the system. I thank you for that. I will check it out and see if I can't learn more. It looks like a complicated situation.

"Hi, Catherine. Before the invasion of Iraq, its currency was valued near that of its neighbor, Kuwait, near $3.15 dinar. It's been worth around .1107 to $1 dinar since. Why is it that you do not expect Iraq's currency to eventually return to its near former rate? How can Iraq ever function fully in the international trading market with its currency unaccepted by banks and its rates so far below what it was when it was acceptable to the other nations in the world previously? Why is what seems to be an inevitable return to its former value considered a scam?"

That currency value reflected a functioning country and an economy. Despite the brutality of the sanctions then in existence, it was very different than it is today. Essentially Iraq is a war zone, and its former value is destroyed and sliced up.

If a company stock is trading at $100 and a raider buys it, strip mines it, turns over its producing assets to its allies for cheap, I don't expect the stock to return to its former price. But, I also think that the politics of what happens to the dinar are very much tied up with what the politics are that happens to Iraq. I would really emphasize to people that if you're going to speculate with the Iraqi dinar, do not put more money in it than you are prepared to lose 100% because that's my expectation of what could easily happen.

"Dear Catherine, in one of your Solari Reports with Clifford Carnicom, he mentioned his monitoring of the earth's electromagnetic field. In light of this, I found the following article interesting."

They sent an article on the Schumann Resonance. I really appreciate that. I have really tried to find reliable information about what's happening to the earth's electro-magnetic field and why. I think this is a critically important topic, and I would encourage anybody who has recommendations in that area to send them. I would very much appreciate them.

The next question is:

"What is your take with Eric Sprott and James Turk forming BitGold with George Soros? Is this union a true reflection of their character?"

Actually, that's not what happened. Roy Sebag founded BitGold in a reverse merger and then bought GoldMoney. Turk and Sprott were legacy investments in GoldMoney, and then my understanding from Roy is that he brought in the Soros money.

So what you're looking at is amalgamation of Roy's networks, and that's what it reflects. Turk has stayed in for a small amount.

"What you're looking at is amalgamation of Roy's networks, and that's what it reflects."

I would note that when that change of control happened that we withdrew our recommendation of GoldMoney. So, again, if you want to play around or speculate in something like BitGold or Bitcoin, you need to be prepared to lose 100%.

"Hi, Catherine. Have you seen the movie *The Big Short*? It's something like The Solari Report writ large, appealing to the visual senses. In Technicolor it comprehensively covers all the greed and tentacles of today's culture. Oh, well. Come home, meditate, and go out to battle again."

I haven't seen it. Frankly I'm interested in seeing it, but to me it's kind of a modified hang-out. I've spent the last couple of weeks entirely focused on what's going on in space, and during 2015 I read a lot of books on space and watched a lot of movies on space. In fact, the housing fraud, I believe, was very much driven by the black budget and space. That's the real story.

If you've read the Annual Wrap Up, I've come to believe that literally the organizing principle of our economy is being run and everything is organized around a national security state which lives in a state of secrecy, which generates enormous privileges and demands a huge amount of money. It's the big, invisible 800-pound gorilla in the room that is driving everything.

To me, if there is one thing we can do to reduce the insanity on planet Earth, it's to bring transparency to what is going on in space and what we're doing about it and why. I think that's the real story.

In fact, I haven't been watching *The Big Short*, but I'm sure it's clever and I will go see it.

I then got a wonderful, long note from a wonderful subscriber couple who has been dealing with social security disability. They wanted to know if I thought it was appropriate to share their story.

My advice, having been in a very long squabble over the Federal government, is that it would not be appropriate for me to read the details. But I really commend you for your endurance. I'll just read one thing:

"Recently I saw Maria Bartiromo," (who I think is on *Bloomberg* and is a very well-known newscaster in the financial markets), "on a news program talking about how many billions of dollars have been wasted on overpayments to people on social security disability. She's a wealthy person. I ask myself, 'Does she not have any other wealthy people to pick on?' How sickening is it to see a wealthy coiffed wife of a rich guy double down on disabled people whom she casts in the same light as criminals and tax cheats? It made me want to tell our story."

Bravo for you! Anyway, just because of the unique facts of your situation and what it's like to get into a situation like this with the Federal government, I'm not going to tell the whole story. I would let quietude occur.

The next question is:

"Dear Catherine, Thank you for a great job that you're doing. Please keep it coming. I live in London, UK," (Oh, how wonderful!), "and I was wondering what would be the best resources to find out about the intricate geopolitical and globalist plans and games for UK and Europe? Although I see a lot of similar themes that you've covered in the US, it seems that there are some significant differences and complications this side of the Atlantic. I would be grateful if you could point to some trustworthy sources please."

That's a great question, and I'm looking. I was in Europe for several months last year looking, and I'm going to be back for several months this year looking. I will keep on looking.

I found lots of sources, but none that I want to recommend. That is the problem.

Now we have a series of questions on cash. From these questions, what I can tell is that you certainly have the pundits out there beating the drum that cash is dangerous and that the banks are dangerous.

There is nothing that Mr. Global would love more than to talk everybody out of deposit-insured bank deposits and into Bitcoin because then they have no responsibility for deposit insurance, and then no government has to take responsibility or no Federal Reserve has to take responsibility.

You're going from a world which at a well-run bank provides you with great security and safety into a world where you can get slaughtered very easily and well. So it's all very convenient to make the banks out bad.

One of the things that has subscribers concerned is the possibility of bailouts. Well, here's the thing. If you have a policy that says, "We don't want to bail out banks," then the reality is that if the bank goes under, you're going to have to nick the creditors and the uninsured depositors. It's just simple math.

During the bailouts we were all screaming, "No more bailouts! No more bailouts!" Well, now we're screaming, "Oh, no. They might have bail-ins." Well, that's the flip side of no bailouts.

One very safe way to handle your cash is to make sure that you spread your deposits around and make sure that they're FDIC insured. Certainly in many brokerage firms you can buy CDs from FDIC-insured banks and, depending on how you do it, you can run your insured up much more than you could if you were just at one bank. So you can do it through the banks or you can do it through the brokerage systems.

Do I think the FDIC system will not be able to cover deposit insurance? As a practical matter, I think they will be able to cover deposit insurance because there's no reason in a system where you can just print money to let the FDIC go down because obviously it would call into question the fundamentals of the whole system.

Is it in theory possible that we could get a situation where you get a real run, even on FDIC-owned treasuries? That's sort-of the collapse scenario theory, but I don't think that is going to happen – certainly in 2016. As I said, in that situation my concern is not about collapse; my concern is about war.

Anyway, so here's the thing. If you are concerned about a bail-in, the only reason to be concerned about a bail-in is if you are an uninsured depositor. The only way to solve that is to become an insured depositor, which by spreading your money around in brokerage and banks you should be able to make sure that you are. That's number one.

Number two, you shouldn't be banking at a bank that you expect to have a bailout. It is a relatively simple task to identify what banks are very well-managed and what banks have very strong balance sheets. If you don't feel competent to do it, there are all sorts of professionals who can help you do it.

I think it's very important. I said before when we talked about equities and bonds: quality, quality, quality. You do not want to bank at a bank that is not well-governed and that does not have a strong balance sheet and a strong financial statement. Make sure you're at a very well-capitalized, very well-managed bank, and then make sure that you have deposit insurance as well, and you really shouldn't have a concern. Obviously there are many other things you can do with cash.

One is that you can put money in very high-quality sovereign or municipal bonds. Obviously you have to beware of currency risk, but there are sovereign governments around the world that are unbelievably solvent. I don't know how many times Norway's wealth fund has many multiples of whatever their outstanding debt is. You run currents and you risk there, but there are clearly governments that have extraordinary credit quality based on fundamentals. Municipalities as well. You can go to bonds. My preference is to do individual bonds, certainly not bond funds.

You can always take money out and put it in a depository or in a safe deposit box or in a safe at home, although I'd be very careful about how much you had at home. There are very high-quality short- and intermediate-fixed income and there's cash at home.

You want to always be careful, whether it's a bank or a brokerage to really pay attention to the quality of your custodian. So if you have done all these things, I really don't see any reason to be worried. It depends on what the volume of your assets is, but if you have enough money, I do believe in using Swiss or European custodians. I think diversification globally is a good idea.

"You want to always be careful, whether it's a bank or a brokerage to really pay attention to the quality of your custodian."

"Dear Catherine, Do you believe that Donald Trump could actually get the Republican Party's nomination to run for President?"

I would say that it depends on the people who control the entrainment technology. If you turn off the entrainment technology, I think Trump would be out in a month. If they keep it on, he could win.

So then the subscriber follows up with, "Or do you believe that the powers that be will make sure that doesn't happen?"

I think Trump is a creation of the powers that be. Let's look at how this worked. Las Vegas was created, in my opinion, to help launder the money for Area 51. I think one of the reasons why the CIA and the bankers and Wall Street were so irritated that we didn't get Cuba under Kennedy is because of the casinos in Havana that were scheduled to launder on the East Coast, and that put them very dependent on the West Coast and Las Vegas. The solution to that was to then create Atlantic City, and that was Donald Trump. So what do you think was going on? It's all very legal when it's done behind the protection of national security.

If you look at the patterns of Trump, both the casino business as well as riding down debt and filing for bankruptcy many times, you're talking about somebody who is very much a creature of the powers that be. The idea that

Donald Trump is an outsider is a bunch of hooey.

Next question:

"Even though it seems like they want to take away everyone's right to possess guns here in the US, imposing laws requiring more background checks before buying guns is still a long way from making them happen. With this in mind, how do you think they might really try to do it?"

Actually, I know a lot of ways that they really could try to do it. Or, if they know what I know on the ground ways to do it. But, I'm going to say that this is one area that I know a lot about, and I have no intention of helping anybody with my ideas. This is one thing that I don't want to see happen; I don't want to see gun control really succeed.

"Hello, Catherine. I'm a current subscriber. I've gravitated to your website as other alternative thinkers and reporters have proven over time not to deliver. You, my fair and very smart lady, have proven over time. I believe you generally do what you do because it's the right thing and you truly wish to improve the human condition unselfishly."

Thank you for those nice words.

"This article was on Zero Hedge today, 'Nothing Is Moving, Baltic Dry Crashes as Insiders Warn. Commerce Has Come to a Halt.' I would like your opinion on what this means, if anything. I watched the BDI roller coaster then fall into the current abyss. What really does it measure in our current phase of rebalancing? How could trade actually stop this article? It can't, right? The components being measured must not include product material flowing that is keeping things moving."

It's not what I'm seeing. I'm seeing definitely a major slowdown. And, of course, you've got a terrible glut in oil. But I'm seeing plenty of trade and commerce go back and forth.

What we are seeing, though, is a pullback. North America, in my opinion, is getting ready to be much more self-sufficient. I think that's what the enormous build-up of the oil and gas supply is.

If you look at North America, it has incredible geographic advantages, both in terms of food and energy and other resources. I think you're seeing the Russians doing the same thing. Their response to the sanction is saying, "Great! We'll do more internally. We'll buy less from Europe and do more internally."

If you look at how global and interdependent we are, I'm not saying that we're all going to pull back and be self-sufficient, but I think the oil and gas very much was built up just for this purpose – just to make sure that North America could pull back behind the oceans and continue to be reasonably prosperous despite what was going on in the world. So they're prepared to deal in a hostile world and basically send out satellites and drones. Not a pretty picture. I'd love to go back to a much more collaborative world.

"First of all, I wish you Merry Christmas and all the best in 2016."

I guess it's never too late for best wishes.

"I just wanted to bring your attention to this article from the professional publication, *Cosmetics Design*. 'Artificial intelligence is fueling disruptive innovation in the personal care industry.'"

Truly insightful pick, and we have posted it up in 'Top Picks'.

"I work in the cosmetics industry, and this aspect of AI entering in this way seems very chilling to me. As usual, it is reported on as something very cool. I guess that you were right about the reach AI is having and will have in all aspects of economy, industry, health, and education. Basically it's in every aspect of your life. Thank you for your excellent work, and please do stay the way you are."

That is very nice. I couldn't agree more. One of the things that Joseph and I talk about in our review of the Wrap Up that we'll publish next week is how AI is just moving in and having an astonishing impact. So I thank you for that. We're going to see that in almost every industry.

Let's Go to the Movies

I wanted to point out to you *Bridge of Spies*, which is a movie that I never expected to like. It's Tom Hanks playing James Donovan, an attorney who is asked to defend a Russian spy and then negotiate the trade of that Russian Spy for Gary Powers, the pilot who got shot down with a U-2 plane. He brokers the deal through East Germany.

It's a very interesting movie, and the reason why I wanted to see it is because there's a scene towards the end. I don't want to give the whole plot away, but it is a remarkable comment on what the law is. There is a thing called 'law' or 'the law' and it's very, very important. It can only exist and be real if it is part of the character of the people who institute and practice the law, and it shows you what can happen when people believe in the law and trust each other to believe in the law versus what happens with people who don't believe in the law and what can be destroyed.

You really see how much value can be created when people believe in the law and practice it and trust each other, and when they don't. There's a remarkable scene on the bridge between a lawyer and a professional spy who believe in the law and a CIA who doesn't understand the law and doesn't believe in it. It is frankly a priceless representation of the problem in America.

We had a wonderful playwright on The Solari Report, and he had a scene in a play about a banker who was given a cake to give to his daughter, and instead of giving the cake to his daughter, he proceeds to start eating the cake as he's negotiating a workout on a defaulted mortgage. So you have this image of the banker eating the gifts that were supposed to be given to the next generation, and it's a marvelous metaphor.

Anyway, the scene on the bridge is a marvelous metaphor of the problem in America, and I encourage you to take it in.

Well, coming up next week we have the Space-Based Economy and 2016 with Joseph Farrell. What we did is we walked through the sections in the Wrap Up on the Space-Based Economy and then through the news and stories and trends, and then I tickled out of Joseph his thoughts about what's coming up in

2016. It's a long conversation, but absolutely fascinating and I recommend it to you.

Then the following week is a great time. We have Rambus with another written interview, and it's a perfect time in the markets to have Rambus helping us look at the charts.

Then the following week we have a wonderful treat. Vineyard Saker is a blogger – one of the most popular blogs covering the Russian situation. He covers what's happening in Russia and the squabble-dogging between the United States and Russia. He is going to be joining us, and I'm enthusiastic about that.

Following that is Precious Metals Market Report with Franklin Sanders. So we have just an amazing line-up, and I hope in closing that I see some of you here at the Architects of the New Paradigm conference in California this weekend coming up.

That's it. So until next week with Dr. Joseph Farrell on the Space-Based Economy in 2016, please remember: Don't worry about whether or not there is a conspiracy. If you're not in a conspiracy, then this new year of 2016 will be a good time to start one. Ladies and gentlemen, good night and good luck.