

BUILDING WEALTH IN CHANGING TIMES



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# The Solari Report

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MARCH 31, 2016

**Commodities &  
Negative Interest Rates**  
with Don Coxe





# Commodities & Negative Interest Rates

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**C. AUSTIN FITTS:** Ladies and gentlemen, it is my pleasure to welcome to The Solari Report Don Cox, who has joined us several times before. He's the CEO of Coxe Advisor, LLC and Strategist to the Coxe Commodity Strategy Fund and Coxe Global Aggregate Business Income Fund in Canada.

He is often described as a renaissance man, and that's appropriate because his understanding of the financial system and the entire economy is phenomenal. He can speak at a global level and take you right down to harvesting a crop at a farm and back up to the global financial system. There's really nobody I know who really understand the whole politics and the economics and can also take you back in history.

So, Don, thank you very much for taking time out of what has been a very busy schedule to join us at The Solari Report.

**DON COXE:** My pleasure.

**C. AUSTIN FITTS:** Negative interest rates. We've been watching markets' interest rates go negative around the world, and of course the question is: Are they going to come to the United States?

I'd love to hear what you have to say about what's happening and where you think it's going.

**DON COXE:** We talked about them the last time that you and I were chatting, and I took the view that this was a sign that the central bankers were running out of games to play to try to get the economy moving, and that this was a truly radical step. When you create negative yields, the old argument against bonds used to be that you lose out on inflation with



them, or they have very low yields so you need to be investing in stocks to avoid the fact that you get low returns on bonds. But it never occurred to anybody that governments could issue negative yield bonds in which you put down your money and deliberately plan to lose money on it.

When we talked before, there was \$2 trillion of negative yield bonds outstanding, and I was expressing scorn about this and saying that this was going to be a sign that there was going to be trouble ahead with the bond market. Well, we're up to \$9 trillion now in negative yield bonds in the world – government bonds – and now we've even had the Vice Chairman of the Federal Reserve expressing admiration for what he calls the “success” in Europe of the negative yielding bonds.

So all I can say about the negative yielding bonds is that people who really had to take charge of saving the world when we had the Wall Street crash are obviously scared about global economy. They are trying to drive yields down to a level that is irresistible for people to take risks, and the fact that they've gone to negative yields is a sign of how worried they are about the economies of their own countries. Mostly this is in the euro zone, but the fact that the Fed even suggests the possibility of negative yields helps explain why it is that the Fed shocked most people this week by announcing that instead of having four increases in rates this year, that we may have only two, and even that is no longer a certainty.

In other words, since the time that people were putting the ornaments on their Christmas trees in December, the outlook has become much more of concern to the people at the Feds so that only one member of the open market committee voted for doing what everybody had told us before was almost inevitable.

**C. AUSTIN FITTS:** I should tell you that we voted Esther George the hero of the week on The Solari Report last night.

**DON COXE:** Good for Esther George. I had the same attitude, which is that she is a smart, sensible lady. Smart sensible ladies don't tend to get overwhelmed by abstract theories from PhD economists of things that



have never existed before, and therefore saying, “Well, if they never existed before, why don’t we try using them now?”

If you’re trying to save a patient with a new drug, that’s one thing. You could say, “Well, we haven’t tried this drug before; we’re going to try it now.”

But to suggest that you’re going to have financial instruments where the buyer automatically is there to lose money on the transaction and say that this benefits the old economy, that’s quite a cess. So Esther George was basically saying, “I’m a nice, Midwest lady. I’ve grown up here. I know something about two and two making four, and I am sticking with the program.”

I think we can put paid to that and maybe get onto another topic which might be of more interest than the abstract question and negative yields. We can talk about what’s happening to oil prices.

**C. AUSTIN FITTS:** I would love to. Yes, that was the initial impetus. We’ve had quite a drop at the beginning of this year – on top of last year and the year before. Now oil’s come back a bit. Please tell us what you think has been going on and where you think this goes.

**DON COXE:** Since you’ve been following our work, you know that in October 2014 we told our listeners and followers that the Saudis and their allies were going to drive oil prices down because the US government was discussing the idea of letting Iran come in from the cold, and that Iran would be allowed to get on track to produce a nuclear weapon.

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What I explained then and have repeated, perhaps ad nauseam, is a conversation that I participated in six years ago with the Prince Turki, who was at that time an ambassador. He became head of security in



Riyadh. The reason I was able to talk about it was because it had been a gathering of only six gentlemen. It was his last night in the US, and this was arranged by a mutual friend.

I was sworn to secrecy about that conversation, but he had done an interview on US television, which attracted almost no attention, saying that this was exactly what they were going to have to do, that the only mechanism they had was to drive down oil prices because Iran has the second or third largest reserves of oil in the world, and they hadn't been making much money off of it because they hadn't been able to get the technology and access to the markets. They were going to be able to get all this plus the right to develop a nuclear bomb if Obama went along with this.

So they said the only thing they could do was to drive down oil prices, and that's exactly what they've done. It's cost them and their allies about a quarter of a trillion dollars to date. But at the dinner when we were discussing the Mideast situation – and this was six years ago – the subject of Israel came up. What the Prince said was, “Yes, that is a problem in the Middle East, but that's not the big problem; the big problem is that Iran may be able to get the bomb. That must not happen.”

Then he slammed his fist on the table. “That must not happen! If Iran gets the bomb, given the radical regime that they have, then all the other major states in the Middle East will have to get the bomb. Given the fragility of Middle East politics, that means there will be a nuclear war.”

The only way that can be prevented is if the United States refuses to let Iran participate in the global economy and must foreswear any idea of getting the nuclear bomb.

So it's no surprise then that after that, Benjamin Netanyahu came and spoke to Congress, for which he was denounced by the President, and he basically outlined the same theory. By that time, it was becoming quite apparent that Saudi Arabia and the Emirates and the Israeli government were becoming very friendly indeed for the first time in history because both of them feared Iran more than anything else in the world.





What we've seen is that they've stuck to this. They've just kept on pumping out more oil. Now the question is: All of a sudden, oil prices are rallying. So the question before us is: Have the Saudis and the Emirates and their allies taken so much pain and with no results that they will decide that they're going to have to reign in their production? There's no question that their economies have been devastated by this. There's no question that their OPEC allies have been devastated.

You may say, "Wait a minute. All that was done to attack American frackers. What's this about Iran getting the bomb?"

That was what they said they were thinking about trying to do when they were talking to countries like Venezuela and Nigeria who weren't the least bit interested in worrying about a Mideast war. So that was the excuse that they used, which was that American frackers were driving down the price of oil. Obviously they would be pleased to be able to drive a lot of the American frackers out of business, but what you're talking about is the difference between what you think would be a nice, pleasant market circumstance and what you believe is absolute survival for your civilization.

**C. AUSTIN FITTS:** Right.

**DON COXE:** And remember there was once again troubles at the Mecca last year. This time Iran said, "We demand the right to share the control of Mecca with the Saudis because we believe our Shia penitents were badly treated compared with the Sunnites."

This is the core of what gives Saudi Arabia its legitimacy; they control Mecca and Medina. They have that as their sacred cause, and when they talk about what their priorities are as rulers, that's at the top of the list. "We are the custodians of the sacred shrines."

So what the problem is, suddenly now it looks as if oil prices have bottomed out and are coming back. Does this mean that they've decided that the pain is too great for themselves, and therefore they're going to let oil prices go back up? If you look at the charts, what you see is since



October 2014 oil prices have fallen from \$120 down to as low as \$29. Devastating, but it shows you what's possible when the supply and demand are in close balance. So therefore the fact that their all-out production of 10-11 million barrels a day was enough to drive oil prices down.

So have they given up on this? If they have, are they going to cut their production by a million and a half barrels a day? If they do that, we'll see \$60-70 oil again.

**C. AUSTIN FITTS:** Right.

**DON COXE:** So the answer to that is, "I don't know." But all the discussion that you're seeing out there tends to talk about how much is being done by frackers, and if there are missing barrels of oil here and there. All of that is of interest only to those who are short-term traders.

So for your clients, all they need to think about is: Have the Sunnis decided they have to cave in on Iran?

**C. AUSTIN FITTS:** Here's my question, Don. Why did Obama and Kerry – or the US government because I don't believe they're in control – do the deal?

**DON COXE:** Because Mr. Obama was of a view that the only way there was going to be peace in the Middle East was to make Iran part of the solution. Mr. Obama has made it clear with his interview with *The Atlantic* that we now have US politics with the two biggest egotists. One is the President who is retiring, and one is the man who wants to be President. What Obama has made clear in his interviews with *The Atlantic* is that he's always been the smartest man in the room, and he's always been given bad advice by the so-called experts, and that is why things went wrong. The deal with Iran is his way of making sure that there will eventually be peace in the Middle East because bringing Iran into the solution of the problem is the only way to eventually solve the problem.



That's why he was prepared to go to the lengths that he did. He believes that he knows the correct answer to what the problems of peace are in the Middle East. So he has been very frank about that, and he's backed it up with his interview in *The Atlantic*.

At all times he was of the view that there would be no chance of peace in the Middle East as long as Iran was isolated, and Iran had to be given this opportunity. He believed that Iran would not go ahead with the bomb then.

Then when they proceeded to set off three ICBM's – which were specifically forbidden in all the discussions – and when the Republicans in the Senate said, “Well, in that case we undo the deal,” they said, “Oh, no. That was never part of the deal. There was only a side agreement that they would not go to work on creating ICBM's.”

So they said, “What we've done is we've moved to the UN Security Council, and we've got a resolution condemning them for having done this.” That's probably the 112<sup>th</sup> resolution of the UN Security Council condemning Iran for bad behavior.

So the answer is that what we have is a President absolutely committed to having Iran able to stand up. One of the reasons he feels that way is because he can see that these radical groups that are killing people at the moment are nearly all Sunni groups. Whether they're one group or another, they're Sunnis. The only radical Shia group is the one that operates in Syria. They're the ones who blew up the US Marine base back when Reagan was President.

So President Obama's viewpoint can be justified on the basis of saying that ISIS and Al Qaeda radical groups are Sunnis, and one way or the other the Saudis have managed to either back them or help spawn them. So what we need in order to control this is to bring in a new group of

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tough guys, Shias, who we think are very smart, and maybe they can finally bring peace to the Middle East.

It's a good theory. A lot is riding on it.

**C. AUSTIN FITTS:** Right. Let's talk about some of the other commodities. You know a lot about the agricultural commodities. One of the things we see across the United States, we're seeing in two areas. One is coal, but one in agriculture. These prices are devastating the coal industry but also the agricultural commodities. They're wiping out a lot of the small and mid-sized farmers.

So it's a big question in those sectors what is going to happen next.

**DON COXE:** The coal industry has never had a chance once you got the United Nations passing that resolution that says the biggest threat to the world's survival is global warming through carbon dioxide. It was only a matter of time before the coal industry in the United States would be virtually shut down.

When President Obama made this his number one foreign policy objective, it was quite obvious that the environmental protection administration was going to create rules for the use of coal burning to generate energy which would be impossible for utilities once we got low prices for natural gas. So the irony is that the extreme success of fracking for natural gas gave the Obama Administration the opening it wanted to improve.

As a matter of fact, the United States has had the best progress in lowering carbon output in the last four years of any of the signatories to that, and that's because of shutting down coal-burning plants.

This is widely supported unless you live in Kentucky and places like that. You say, "I don't want dirty energy." So that's why there was never any plot in this. That was their policy right through it, and it's devastating.

The idea that Peabody Coal, which is already in bankruptcy and may be



shut down for good, was a gigantic company long before either you or I were born, and it was a worldwide respected company. It's amazing to think that it's going to disappear.

**C. AUSTIN FITTS:** I think it was in 2015 when we literally saw those stocks come down 70-90% in one year of the top four coal companies.

**DON COXE:** I remember attending a board meeting for the second biggest coal company, and it went into bankruptcy last year. At that time, stock prices were about \$65 a share. That board meeting was about six years ago.

In other words, we're talking about very recent history where these companies were gigantic companies, and they're gone. So that is the biggest effect of the priority of this government on fighting global warming. In this case, there's just not much chance of the Republicans doing anything to protect them because of the success of fracking.

Remember at the time of Katrina gas prices got up to \$14 for 1,000 cubic feet. Now they're infinitesimally small. They're cheaper than coal, and of course, you don't have to build massive scrubbers to deal with them. So this is a case in which the success of fracking backed up already a government policy. Meanwhile the coal industry in the rest of the world is doing just fine, thank you, because they're worrying about we're decades ahead. They don't have all that cheap gas.

**C. AUSTIN FITTS:** Agriculture. Can we touch on that?

**DON COXE:** Yes. What we've got here is a situation where, once again, nothing succeeds like success. When you get to the stage where more than 90% of the corn that was being produced was genetically modified, which meant that therefore the output per acre would keep expanding year to year, and that they would be able to deal with any climate changes that occurred because they could build it right into the seeds, I remember being chairman of a meeting of the Toronto Society of Financial Analysts back in 1978, and the US Secretary of Agriculture at that time, Jimmy Carter's secretary, was the Speaker. He brought me in



because I was the General Manager of the Interior Federation of Agriculture and General Counsel of the Canadian Federation of Agriculture.

So I sat next to him, and he gave a really fine speech. At that time, remember, grain prices had gone through the roof and we were worried about global starvation. So I said, “Look. Thank heavens for all those US grain surpluses that we built up in the 1960’s!”

We didn’t have global starvation, but what are we going to do if we have another bad year from an El Nino like we had in 1973 and 1974? That’s what doubled the price of corn.

He said, “Well, we’ve had the best experts looking at it, and they’ve concluded that this might be the first stage sign of global cooling coming after we’ve had a century of strong sunspot activity and strong solar activity, in which case we might be headed in for global cooling.”

He said, “There have already been a couple of books published about global cooling. That would be disastrous for food. What we’re doing is we’re helping to fund research and genetically modified seeds to deal with this.”

I said, “What’s a genetically modified seed? Please explain.”

He said, “We’re working with a company called Monsanto to develop seeds which will allow the farmers to plant earlier and to keep the crop on the field later because we’re protecting them against frost.”

I said, “You can actually do that?”

He said, “Oh, yes.”

The amazing thing about it is the GM seeds which were developed were developed originally to deal with global cooling. But, of course, once Monsanto got going on this, they added all those other features in. So what we did was improve the crop yields. Talk about a mistake that lead



to an amazing outcome.

So we don't have starvation in the world. Remember that when the Friends of the Earth were founded back in the 1960's, they were dealing with the question of global starvation. That was their first thing. Global warming came after they'd solved that one.

So the long answer to your question is that science, in this case, and not bad governments, has given us a situation where starvation for the first time in human history is not the fate of a large percentage of the world's population.

**“Science, in this case, and not bad governments, has given us a situation where starvation for the first time in human history is not the fate of a large percentage of the world's population.”**

**C. AUSTIN FITTS:** I have to confess to you, Don, that I'm a GMO skeptic just because of the research of what it does to the human body and what it can do.

**DON COXE:** That study has to be pursued on its own because it has done the job it was designed to do to produce more food. So if it does have any negative effects, that's up to another group of scientists who have to work on it. If that happens, then indeed we're going to have \$8 corn again. That's for sure.

**C. AUSTIN FITTS:** Right. So what about prices? Why have the agricultural prices come down as much? Do you think it's because of the GMO yields?

**DON COXE:** Oh, yes. It's because the output of corn per acre in all parts of the world where they use GMO seeds has been rising year after year after year – even years in which the weather wasn't all that good. I mean, there's no doubt about it that the GMOs did exactly what they were designed to do. As to whether or not they have negative effects on human beings, that's a totally separate question. But they did exactly what they were designed to do.



As long as you've got that, then there's the incentive for small farmers to sell out. Fortunately, what we still have left is a situation where the livestock industry is still one that can be profitable for farmers. I don't see anything on the horizon which is going to lower meat prices to a level that a good pork producer or beef producer can't make a living.

One of the reasons, of course, is simply because the grain prices are so low because of GM seeds.

**C. AUSTIN FITTS:** So one of the questions I've been dying to ask you – because you're very familiar with the pension fund industry – is one of the things that most concerns me about what's been happening in the fixed income markets and in a variety of different markets is: How in the world are the pension funds going to adjust to a low interest or negative interest yield world, and how are they making this adjustment? What are they doing, and what does it mean for the pension fund industry – both in Canada and in the United States?

**DON COXE:** Well, I spent six years on the Canada Pension Plan and Advisory Committee and helped to rewrite the rules for that plan, which is the equivalent of social security, and it's far better funded than social security. But even that plan now has had to change its investment policies because of the low interest rates that we have.

So the answer is that the pension funds are collectively in a state of crisis. I'm, of course, sitting in Illinois, which is the ground zero – ranking dead last among all 50 states in terms of its public finances. It's because of the public employee pension funds.

I was talking to a group of experts on this, and they were talking about which of the big state pension funds is likely to go bankrupt first. They said, "The one that is actually in the worst shape in Chicago is the police fund. They have \$1.3 billion in assets and \$8 billion in liabilities, except that the \$8 billion in liabilities assume a very high interest rate of return."

They said that that is one that is likely to go bankrupt, but the teachers'



funds are the basic ones that have Illinois about \$100 billion in underfunding of their public plan.

So this is something that is going to be spread right across the nation. I believe it will become the biggest issue for the next Administration of this country, assuming that it doesn't get involved in any terrible wars and we don't actually have Iran getting a nuclear weapon or something transcendental like that.

You're absolutely right, but the idea of having long-term bonds yielding two and two and a half percent, you cannot actuarially construct given the mortality rates we have now because it's a double whammy. People are living longer, and the interest rates are a small fraction of what they were even 20 years ago.

What they needed to do was start increasing the contribution rates dramatically as soon as they saw that the interest rates were falling and likely to stay low. No political party was prepared to level with the taxpayers on that. It's not a question of Democrats and Republicans. In Illinois it's one party's rules, so you can blame the Democrats, but the Republicans didn't exactly cover themselves with glory by coming out and saying, "You realize how much money we have to put into it to get these plans funded?" They weren't prepared to do that either.

**C. AUSTIN FITTS:** Right.

**DON COXE:** So you've got your finger on what is the biggest single public policy challenge for the next decade.

**C. AUSTIN FITTS:** The other thing the Administration is going to face is the reengineering of the Federal budget. Those two are related, and they're going to have to happen at the same time. It's almost like restructuring the economy from the ground up when you do it.

**DON COXE:** Exactly. First of all, what you have to do is say that you can't do what they do in Illinois, which is members who do the negotiating for the teachers and who haven't been in a classroom for decades, one week





before they retire from the bargaining committee they go into a classroom for one week. Then they get allowed to get a full teacher's pension plus the union pension.

Those kinds of things have got to be taken away, but that's only at the edges. Remember that women live longer than men, and this is the profession with the highest percentage of females.

We're now talking that the fastest population segment is the over-90's. Wow! So that's going to dwarf all these other debates. You will have to be prepared to join into and explain to your supporters how it is that they can protect themselves against the inevitable increase in state and local taxes.

**C. AUSTIN FITTS:** One way to understand this is to look at the bond market. So we've had this enormous run in the bond market with interest rates coming down and debt growing, growing, growing – not just here but around the world.

One guy at the G20 meeting sort-of screamed in frustration, "The debt growth model is over."

With the way we've solved our political problems in this country – and it's at Federal, state, and local levels – is we've said, "Okay, everybody can have what they want and we're going to increase the debt."

Now that game is up and we've hit the limits on how much debt we can create. That's what we're saying in our conversation about negative interest rates. So now we're going to have to turn at the state, local, and Federal level and say, "Okay, everybody can't get what they want. And you know something? All these promises we made – that's a problem, too. We're going to have to reshuffle the deck."

That is something that hasn't been heard politically in this country for 30 years.

**DON COXE:** That's right. We're certainly not hearing it from candidates who



are campaigning right now at the national level. None of them are talking about these gigantic problems. They're all suggesting, "Well, if we can cut down the waste in Washington, we can cut taxes."

Meanwhile, the Republicans now control most of the state governments. At those state and local levels now, they're finally starting to realize that the problems are gigantic.

**"The Republicans now control most of the state governments. At those state and local levels now, they're finally starting to realize that the problems are gigantic."**

**C. AUSTIN FITTS:** So now I have to give you another compliment. You made the single most intelligent comment on the US presidential campaign so far. I have used your quote again and again and again.

I just have to tell you what it is. "The Presidency of the United States is not an entry level position." How did you ever come up with that?

**DON COXE:** It came to me a year ago. It's now spread out there, but it's because we've all had experience with having to do this.

**C. AUSTIN FITTS:** You run a company; you know what it's like.

**DON COXE:** Therefore, you just say, "How is it that the biggest job in the world is an entry level position?"

We've seen it with Obama because basically he never really had a job anywhere. No doubt about it he's charming and attractive, and he dealt with what had been the biggest single moral sore in the nation's record which was the race question. So he was the right man to be elected at that time. But for him, it was ascribed to him a level of intelligence and experience which was almost inhuman.

**C. AUSTIN FITTS:** And which he didn't have.

**DON COXE:** Now that we see the fact, I remember when Paul Volcker met him, and he was asked what was impressive about him. He said, "Well,



he's intelligent."

I thought, "Well, of course. He's the President of the United States. He's intelligent."

And yet the funny part about it was that it's almost as if saying, "Isn't that a bit of a surprise?"

Not that George W. Bush was regarded as a genius, but nobody was suggesting that he was stupid. So what happened with Mr. Obama was that everybody agreed that he was intelligent, but then the first book about him came out and said that he always believes he's the smartest man in the room – period. He's never believed that he wasn't the smartest. I thought, "That's not good." There's no way that that means you can participate properly in discussions of trade-offs if you always think you're the smartest.

In any gathering, what he should not have done was gone into politics; he should have become a professional poker player because if he's always the smartest player at every table, he would become a multi-multi-millionaire.

**C. AUSTIN FITTS:** Here's the question that I've been dying to ask you.

Starting in November I started to become very concerned about how the market globally would respond to what was going on in the Presidential campaign. You would literally see particularly the Sovereign Wealth Funds saying, "Maybe it's time to start shifting our allocations out of the United States," in part because the US market is high and the emerging market is low. So it's not a bad idea to do that from an economic standpoint.

When you watch what's going on in the campaign, you literally get the feeling that the US government is not under adult supervision.

**DON COXE:** Well, it is worrisome. I think the people who are probably most concerned about this are the Europeans because they're the ones under direct threat from Putin, and they have the refugee crisis. They have not



been spending their allotted allocations in the budget to deal with NATO. They've been living on a free ride.

The idea was that once the cold war was over, we didn't need NATO. Now they are in a situation where not one of them was paying – and that's one of the reasons why Obama was so annoyed at the Europeans. The United States was continuing to spend a lot of money on having its troops in Europe, and none of the members of the European Union were paying their budget allotments except the British and a couple of others. The others were not paying their defense-up costs, and we're saying, "Why should we protect you from Putin if you won't put up the money yourself?"

So if they believe that the next President of the United States is going to be somebody who is saying, "We're sick and tired of having propped up the world, and we've got our own problems now," that's something they're really scared of. They've all got budget problems, and they've been protected by American taxpayers since Harry Truman's time. The American people collectively have been willing to do that with very little complaints.

The first President to come along and say, "I'm sick and tired of doing it," is Mr. Obama, for which he should be praised. He called it like it was. He said, "You're always talking about how we don't understand policies well, but we are the ones who have the actual commitment – the only NATO commitment that is really protecting you."

So these other countries now think that the United States is turning in on itself in this election. They have to be very worried. They've had a free ride.

**C. AUSTIN FITTS:** Part of this is the natural gas story. If we can pull back behind the Atlantic and Pacific and let the world become chaotic while we stay secure here in North America, things are going to look very different.

**DON COXE:** Well, with Iran getting a nuclear bomb, we can't afford to pull



back. Iran will have a nuclear bomb pretty soon. The fact that they already have ICBMs is amazing. Think about it. They fire off their first ICBM within eight days of being told that the deal was a lock.

**C. AUSTIN FITTS:** Had we transferred the cash then?

**DON COXE:** Oh, yes. It's all being done because, as the Obama Administration pointed out, this was never part of the treaty. It was a side agreement, and the only remedy open to us in a side agreement is to have a resolution of the UN Security Council condemning them. But, of course, neither Russia nor China would join in that.

So Iran is going flat-out to developing ICBMs. We're told they will just be ordinary ones with non-nuclear warheads, but it's amazing that this was done.

**C. AUSTIN FITTS:** Right.

**DON COXE:** So the answer is: We cannot go back to the idea which was the attitude back in 1929 when the United States didn't join the Kellogg-Briand Pact because it said, "We've got two oceans to protect us."

**C. AUSTIN FITTS:** So that brings us to our old friend, precious metals. So we can end on a positive note because I know you've said recently that things look different this time. The question for all of us is: Has the bottom finally been put in on precious metals?

**DON COXE:** I'm going to be publishing a book on this topic, and I can tell you that I believe that the number of things that have gone wrong – which almost nobody could have predicted – against the one thing that you cannot expand the supply of. We seem to be able to expand the supply of everything else, including dumb politics.

So what we have is the supply of gold and of silver increases minutely. Therefore, the answer is that to the extent that individuals say, "Well how do I protect myself? I'm worried that nobody in power seems to either have the answers or is prepared to say, "I have the answer," which



means that we have to make the following sacrifices.

In that kind of environment, you have to look after yourself. Then you have to say, “Well, it used to be that the thing you protected yourself with was a couple of bonds.” But in the United States in the next recession now we can expect the government bond yield to go negative because of the fact that they’re talking about it at the Fed.

The answer is that when everything else fails, then you have to go back to the asset that was there before all those other asset classes were. In that sense, it’s a pretty simple answer, isn’t it?

**“When everything else fails, then you have to go back to the asset that was there before all those other asset classes were.”**

**C. AUSTIN FITTS:** Right, although I confess I always have a debate. Franklin Sanders of *The Moneychangers* joins us on The Solari Report a lot. He’s very opposed to the stock market, and yet I’m always teasing him. I say, “You drive a Honda and you shop at Kroger, and you stop at Cracker Barrel. You have an iPhone and a laptop, and you stop at Starbucks. If we don’t keep financing all of those things and we put all our capital in precious metals, that stuff won’t be there.”

To me it’s a balance, but you’ve got to put your money in things that make fundamental sense. I do believe, Don, that the bull market in bonds is over. I’m not saying you can’t part money in fixed income, particularly in the short and intermediate term, but I just think we’re going to have to find a way to make the equity of the planet make sense and stop bubbling it up with government money. We have to get back to fundamentals. I don’t see any other way around it.

**DON COXE:** It’s certainly true that the negative yielding bonds were a full-frontal attack on what was the basic way in which we measured risk and how we saved for it, which was the Capital Asset Pricing Model.

**C. AUSTIN FITTS:** Right.





**DON COXE:** The Capital Asset Pricing Model is behind every serious pension fund that you know of. This is a full front attack on the Capital Asset Pricing Model because when you once have negative yielding bonds, then the rest of the model doesn't work. The actuaries who have been around for centuries, God Bless them, are now confronted with an asset class which is supposedly the one risk-free asset class from which everything else is priced, namely government bonds.

Now we're told that government bonds will have negative yields. So what does that do to what you have to do then with the rest of the construction of your models? I don't have an answer for the actuaries on that, nor do you. But what I do know is that when the actuaries no longer construct a model, we have problems.

**C. AUSTIN FITTS:** Right. It's another way of saying that we're coming into a pretty large reinvention of everything. If you have to reinvent the US budget and you have to reinvent the pension funds, one of my concerns in that is if you look at how much governmental entities are buying in terms of equities and bonds, if the central banks keep doing what they're doing we're going to end up with the Sovereign Wealth Funds, a variety of different governmentally-controlled pension funds, and the central banks essentially having bought up the world by printing money.

**DON COXE:** It's a melancholy thought. So rather than do that, I think that you must retain the point that at some point what will happen is that the governments will not just do something wrong, but they'll actually do it right. Along the way, they'll also find a way of injecting humor into the solutions.

**C. AUSTIN FITTS:** Right. In the 1990's my company in Washington was making software tools that both as a portfolio strategist and then for communities would allow us to look at the Federal budget by place. What we discovered – and we were working with a wonderful, fabulous group of pension fund leaders – was if you said, “Okay, we're just going to reengineer Federal credit and appropriations and other investment, and we're going to optimize return to taxpayers as opposed to political considerations,” you could get enormous explosion in wealth.



The sub-optimization was so severe. Then if you add in all the new technology that's happened, there's explosive wealth creation that could happen. So I'm not a pessimist; it's just we're going to have to start allocating resources according to economic fundamentals as opposed to politics. Essentially if you look at the US Federal budget, what we've been trying to do is centralize control and layer on enormous amounts of complex regulation, which create enormous and unnecessary labor.

Between the unnecessary complexity and the centralization, you're doing a lot to the Federal budget to destroy the economy.

I once had the senior service executives at Hudson say, "What could we do to help the economy the most?"

I said, "Shut the agency down."

If you shut the agency down, the economies would blossom.

**DON COXE:** There's no question about it. I mean, when Dodd-Frank gets to 32,000 pages of regulations, think about it. When the head of the largest bank says that they have hired 750 experts whose only job is to go through the regulations on Dodd-Frank and see that JP Morgan doesn't violate them, admittedly the performance of JP Morgan and the Wall Street banks leading up to the crash was terrible. But the point is that now what they're doing is basically expanding this, and they're expanding it to regional banks even – not the kind that caused the crash because Elizabeth Warren said that bankers are bad.

So we've gone from saying that a few big Wall Street banks were bad to saying that bankers are bad, and the only protection against us is to have civil servants in Washington who will keep drafting new regulations.

I mean, in that sense, it bears comparison with the pyramids. The only difference with the pyramids was that they lasted. But the amount of effort was off the scale.

**C. AUSTIN FITTS:** I will say this. I live in Tennessee. If you look at the farms,



the farms were put out of business by food safety rules in government regulation, just the same as the coal industry. They weren't put out of business by the market. Even at these commodity prices, they could be making money.

Literally the food safety rules, the regulations, and the laws have put them out of business. So this was a regulatory decision to centralize a political decision to centralize; it had nothing to do with the market.

**DON COXE:** Well, it is sad. The thing about it is we're not dealing with evil people. Those civil servants who come to work are told that they're doing national public policy, and that what they are doing is a good thing. So to say that the best hope you have of them is that they will be lazy, feckless, and not do their jobs, that is pointing out where the real blame is. The real blame is with the politicians who have drafted out these regulations and told their people to do these kinds of things.

**C. AUSTIN FITTS:** I would say it this way. I think you can make it pretty simple. The Western world for 500 years has been on a central banking warfare model. James Turk originally called it the central banking warfare model, and I've poached that.

You have a dynamic where for a variety of reasons related to the financial system in globalization, we've been centralizing, centralizing, centralizing. The Federal budget has contributed to that. Now we're going to have to shift it because we have to dramatically increase productivity.

I think one of the chief causes of the deflation we're dealing with is that productivity has flat-lined. All the things we've been talking about today contribute to that. I believe if we could only allow markets to happen, as an American I say let the Soviet Union run the war because we've gone to centralized economies here in the United States and I don't think it's working. That's my prejudice.

**DON COXE:** I don't think it's a prejudice. All we can do is try to protect ourselves and our families, and also give good advice to those who believe



that we have something useful to say. That's the only opportunity safe to us at a time when so many things are going wrong.

**C. AUSTIN FITTS:** I'm very excited that you're writing a book. Before we close, tell us how we can sign up to be notified that that book is ready. I can't wait!

**DON COXE:** I've just started working on it because I've concluded that the time has come for a discussion of gold against all these new kinds of challenges. So you can say that there are tons of books on gold that are out there. Well, I've been going over the ones that are there, and frankly they deal with the world where the challenges were different than the ones we're facing now.

**“I've been going over the ones that are there, and frankly they deal with the world where the challenges were different than the ones we're facing now.”**

I expect that this will therefore be the one that will provide the most help to people for the world that you and I have just been discussing. Remember, it's a world unlike any one that we have lived through.

**C. AUSTIN FITTS:** Right. Tell us, Don, how we can access your website and your podcasts.

**DON COXE:** Our website is [www.CoxeAdvisors.com](http://www.CoxeAdvisors.com), and we would be glad to have communication with clients of yours because obviously you and I are simpatico creatures. It doesn't mean that we agree on everything; that would be boring. On the other hand, what we have is a proper respect for the threats that are out there.

**C. AUSTIN FITTS:** Yes.

**DON COXE:** The people most dangerous are those who refuse to admit the seriousness of the challenges. You are a serious person with a sense of humor. It helps. But you have the serious first.

What we now have are politicians who are unserious. That's dangerous.



On that note, what I'll tell you is that we will see that you are in full notification when the book is ready for publication. That's one that would probably delight a significant percentage of your followers.

**C. AUSTIN FITTS:** Oh yes. The Solari network is going to love your book.

**DON COXE:** I wish there were more like you in the world.

**C. AUSTIN FITTS:** From what I've seen – from what we're doing – it's growing. More and more people really want to know what's going on and to make sense of it. I don't know if you want to work hard for another 20 years, but you're going to have the opportunity.

**DON COXE:** Bless you.

**C. AUSTIN FITTS:** Don Coxe, thank you for joining us on a Solari Report. You have a marvelous day.

**DON COXE:** Thank you.

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Nothing on The Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.