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The Solari Report

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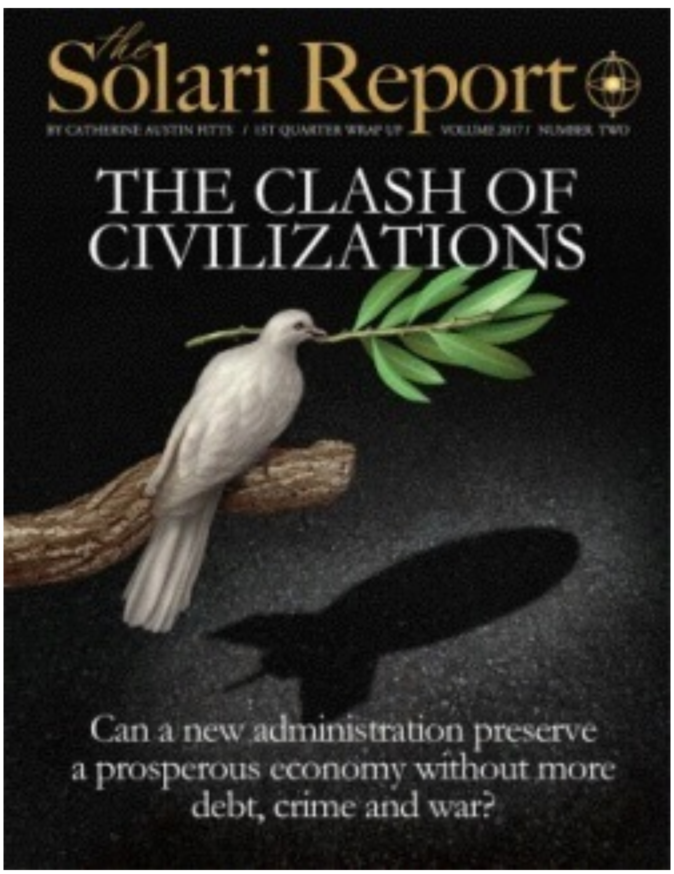
1st Quarter Wrap Up– Equity Overview



1st Quarter Wrap Up
Equity Overview
with
Catherine Austin Fitts
April 20, 2017

C. Austin Fitts: Good evening and welcome to The Solari Report. I am Catherine Austin Fitts. Today is April 20, 2017. This is the 3rd part of the 1st Quarter Wrap Up, the Equity Overview. The last two weeks we've done our big theme and the News Trends & Stories.

If you look at the cover of this 1st Quarter Wrap Up, it's called *The Clash of Civilizations: Can a new administration preserve a prosperous economy without more debt, crime and war?*

It would appear that if we finalized the question today that the answer is a resounding 'no', unfortunately. We've seen remarkable U-turns in the Trump Administration, and it probably has something to do with the extraordinary dependence of the financial markets on the war machine.

We have for the 1st Quarter presentation a web presentation with all of the charts, and I would encourage you to log on the web presentation and follow on the charts. There is a big summary chart we've put at the top, and I'm going to use that to walk through how the markets did.

I'm going to use a bring-down to April 20th because that is when we're talking about. So I will be working with year-to-date performance using the 4/20 close.

First, let's start with the fixed income markets. The US dollar ended April 20th year-to-date down to a bit more than 2.5%. It has tried to take that run up to 106 or 110 that we thought it might do, but it really hasn't made it even half the way up. But it has the $100 line and it closed today at $99.68. So we're a little below the 100 line.

I think the chances at this point of the big rally are very small unless we get a serious war condition. I think the big bear trap prowling around the dollar looks further and further away, particularly as the Trump Administration revs up the war machine.

Corporate bonds and the bond market has come back. To return to the election, we saw equities surge after the Trump victory and the Republican victory and the bond market just get whacked. It has finally come back now with the drumbeats of war.

We see the corporate bonds up almost 2% for the year. The long Treasury is up 4.35% and the Intermediate Treasury ETF up 2.4%. So Treasury and market finally ended up relatively strong. But believe me, during these first three and a half months it has looked very strong and the bond market really got hit after the election. It's just beginning to come back.

The S&P is now up 5.23%, the Dow up 4.1%, and the Russel up 2.27%. On top of all the gains and the drop-off in earnings, you've never seen PE's this high; they are really at the top of the range.

The defense ETF is strong at 7.4%. Consumer discretionary and consumer staples trading between 7 and 9%. So the consumer is continuing to carry, although we're seeing more and more being carried by the inelastic demand.

The industrial sector was stronger when Trump was talking manufacturing, but it is now up a little less than the S&P at 5.5%. The homebuilders have been relatively strong as well.

Coming out of the election, we saw the financials doing really well. As the interest rates got bumped up by the Fed, that helped the financials, but they have backed off a bit.

Europe significantly outperformed the US. The German DAX was down a little today, so it is up 5% for the year. The Vanguard Europe was up 8%. Generally for the year – because the US market was so outperformed for the last couple of years – Europe is starting to come up and do better, but still has a lot to catch up. It's going to be very interesting to see how the European elections affect that, particularly the French election this weekend.

The developed market is strong at 7% and the emerging markets surprised us at 12%. We were really worried if the dollar was strong because the emerging markets could have gotten whacked.

China continues to do well and is up 9.71% on the large caps and up 11% on the small caps.

India ETF is up 18%. The Indian growth continues to be stronger than Chinese growth.

Gold is up 11% and silver is up a little more than 13%. Commodities are not doing well. Commodities are down 4.92%, and oil is still in the basement.

The Baltic Dry Index is perking up at almost 30% for the year.

If you step back and look at these markets, the real concern, of course, is low yields. That is now what we've seen since the Trump win with the bond market coming back. I think the question in everybody's mind is: How can the market continue to stay so high? I continue to tell you that we are seriously overdue for a 25% correction, and we are going into the summer. The old adage in the US markets, "Sell in May and go away," is still operative. 95% of the gains in the S&P happen between October and June. So going into summer you don't expect it to be strong.

You see constant indications that the Trump surge is now over. It's interesting. One of the big discussions this year is: What would the Fed do with their swollen balance sheet? Would they continue to raise interest rates, and how would the market react to interest rates?

I'm a great believer that the equity markets can cope with a 100-150 basis point increase in a year. I would be surprised to see us get that. I think there is real pressure to bump those interest rates if they can because the pension funds and insurance companies need it.

In the conversation we have with Rob Kirby on interest rate swaps, we talk about what a terrible hit it is on the economy to subsidize government with very low interest rates. It's very hard on capital allocations.

Anyway, I have not been concerned about interest rates. I'm a lot more concerned about what happens if we can't make a turn – both from a unipolar world to a multipolar world – and if we can't make a turn in the Federal budget.

I said when the election happened that we had a competition between the people who wanted to rebuild North America versus the people who wanted to get the empire going. In reviewing what the Trump Administration has done so far, if anything, it is trying to give both teams what they want. Of course, that all falls apart when you hit the budget.

This really has profound implications for what is coming in terms of the Federal budget and the debt limit and the health care debates, which is one of the pigs moving through the snake of the budget.

I did scenarios in the Annual Wrap Up, and I want to take a look at those scenarios in terms of the markets and investment opportunities and investment strategies.

I recommend that you pull up the Annual Wrap Up and the web presentation and look at the *Get Ready, Get Ready, Get Ready* section for the four scenarios. The way we do scenario design is straight out of the scenario design taught by Eric Best and some of the groups he has worked for. We had a great Solari Report with him this year called 'Scenario Thinking' and I recommend it to you.

Essentially you pick out two variables which you consider to be the driving forces, and the two variables we chose for our scenarios this year were: *Political and Economic Alignment: Unipolar or Multipolar*. In other words, would America try to keep the empire going, or would it adjust to a more collaborative multipolar world?

The second one was: *Return on Investment to Taxpayers in the Federal Budget: Positive vs. Negative*. This is not just a US issue. In fact, the entire global financial system at this point really does run off and is very affected by the Federal budget and the Federal securities and Treasury operation.

If you lay those two variables: unipolar or multipolar, and then positive versus negative return on investment to taxpayer, you get four quadrants, which is somewhat four different views of the world.

One thing I keep stressing is how important it is for your strategy of your investment of your time or your money – whether it's for yourself or your business or practice or whatever it is you do in terms of a professional career or income generation –it is extremely important in allocating your investment of time and money that you consider the fact that it is impossible to predict the future. If anything, we need to get into the business of investing the future.

What you need to do is be prepared to bob and weave – to navigate any scenario. Ideally the more resources you have, the more you can allocate to make sure you are fine in all scenarios.

I think it is very helpful to understand the possible scenarios. Then if you have a plan to deal with them that is going to give you much more power to navigate the environment.

Let me talk about the four that I used in the Annual Wrap Up, and let's talk a little about your investment strategy.

In Scenario #1, which was the *Popsicle Index Rising*, we are in a multipolar world and have a positive return on investment. I gave this a 30% chance.

One of the big, big variables behind these two variables I've chosen are: Are we going to be in a human or inhuman civilization? I have to tell you that in my opinion, this is the most important issue. I am clearly on the side where I'm only interested in being part of a human civilization. Obviously the *Popsicle Index Rising* is where we get the human thing right, and we're definitely moving in a human situation.

When you look at opportunities in that world, that is a world in which decentralization really works. So there are going to be many opportunities at the local level.

I think it's important in all cases to track the changes that are coming in tax policies. The US administration is working on sweeping tax reform, and they seem to be very optimistic. Whether that optimism is appropriate, given the squabbles they are going to have on debt limit or on healthcare, I can't say. Certainly I think it's very likely that they will be able to repatriate much the cash abroad and give the corporations a free pass to bring that money back without taxation or normal taxation. So keep an eye on tax reform. That is going to have – at least in the short run – a very big impact.

I would say that in a multipolar environment where we manage to turn the investment to a positive return on investment there is going to be a great deal of opportunity on a decentralized basis and a local basis, but also there is going to be plenty of trading globally, but it will be local-to-local. It will be small guy to small guy – not as much through big corporations.

In this kind of world, we will be dealing with extraordinary volatility, and that is why it is very important when you think about investment that you are prepared. Don't put money in something unless you're prepared to live through the volatility. And don't put money in things you don't think can live through that volatility.

In this environment, I will tell you what I'm going to say in all scenarios, and that is your best investment is your own education, your health, and your career.

One thing I'm going to stress again and again is in all of these scenarios, given the uncertainty and the volatility, you need to have a clear mind and a strong body. That is going to be exceptionally hard to do in this environment, and you need to proactively invest in it.

In the *Popsicle Index Rising* scenario, corporate stocks – particularly ones that have a positive return and can function in many different political environments because they do have a positive return to both investors and the general economy – will be very good investments. Dividends are going to matter substantially.

Also in this environment, because Asia is converging in terms of per capita income, riding the wave of the growth of the Asian consumer – and that convergence, including the importance of the Asian space program. One thing that I am doing is spending a fair amount of time looking for opportunities in space. I think that is going to be a major investment, both in the developed countries and in Asia.

I say the same thing that I say on all of the scenarios: The best short-term investment opportunity is, in fact; there is no way to know. We are dealing with a very wide range of possibilities and different scenarios. That is why you have to be prepared for significant volatility.

For example, if we are in the domestic US equity markets, we have to go down more than 25% to know if we are out of a bull market and into a bear market.. 25% is a perfectly normal, healthy consolidation. It would be great for this market to do a 20-25% consolidation. The problem with how high we are now is that we have to go down 30% before we know we're in a bear market and to get out. That is one of the reasons in the last year and a half so much of my recommendations on equity have switched into hedged equity where the hedges protect you in the drop. They drag your investment yields down, so if we had not been hedged, we would have done better over the last year and a half.

There is no way to know when that consolidation hits, so right now I feel very, very conservative. We are levitating at very high valuations.

Scenario #2 is *Global Musical Chairs*, and that is where we go to a multipolar world, but we stick with a negative return on investment to taxpayers. That is very tough because it means that the squeeze on the middle class is going to continue to be extremely significant. That is where you want to make sure you're in a very good place.

One thing I said in the bullet points is, "Geography matters." So you want to make sure you're in a place – both the general health of the place, and your relationship to your network and your community – where you are safe and there is economic opportunities. Even in this environment there is going to be a good deal of economic opportunities in Global 3.0 with new technology, and you must pay attention. Anything you can do to get yourself positioned in 3.0 is important. The question is finding a place in 3.0 that is both human and you are comfortable with it.

In this scenario, it's extremely important to retire debt and maintain a low overhead. If you can, avoid all dependency on any kind of government money because government money can get pulled.

As I do in most of these scenarios, I stress that it is important to have a core position in precious metals. If you don't know what I mean by that, please read my commentary on the website called *What Percentage of My Assets Should I Hold in Precious Metals?* It's several years old now, but is just as relevant now as it was when I wrote it. It's a question I get a lot, and I think it is an appropriate time to have your core position if you don't already have it. Now is a good time to get it.

Then I said 'Maintain resources in multiple jurisdictions.' If you have sufficient resources to do so, in this scenario it's definitely an advantage to have your feet in more than one place.

I believe prepping makes sense. The danger in any of these scenarios is having a disaster, a dip in the economy, or something that hiccups the supply chain. If you have a good disaster recovery kit, if you have cash and food for anywhere from one to six months, you don't have to worry about it; you're prepared.

You certainly have to worry about whether the people around you are prepared or not, which is why it is always good if there is a wider community effort. I think in this scenario it's unbelievably important to have a cash reserve and liquidity.

In this scenario, the global equities may not do as well. You're going to want to stick more with a developed world. A developed world will probably be much stronger. One thing we'll see this year is, if we do repatriate a lot of cash, how the emerging markets perform in the face of that. I say the same thing with *Global Musical Chairs*: It's hard to predict in the short run what is going to be attractive, so stick to disciplined allocations, stick to balance, stick to diversification.

Scenario #3 is *Mind Control*. It's a unipolar world with a positive return on investment to taxpayers, but it has heavy, heavy mind control. One of my biggest concerns is the rollout of 5G. I talked about it tonight in Money & Markets. I'm concerned about 5G because of EMF radiation. I'm concerned about 5G because it will allow hologram technology that I believe could be used for things like false flags and engineered events. I'm worried about 5G because it's going to make it easier to do ubiquitous entrainment and subliminal programming. And I'm worried about 5G because I think they could literally weaponized the population with *Kingsman* kind of events – the kind where we've been seeing brawls in malls and the Chuck E Cheese brawls.

I'm very, very concerned about what that is going to do to people's minds. This scenario is one in which people have material comfort but their mind is not their own. It's to some extent zombie slavery.

Anyway, it's not a world I want to live in. This is one where you really want to get as far away from empire as you can. So self-sufficient living far from the urban centers is very, very desirable. This is really where you want to spend your money – getting out of Dodge and you must stick to very disciplined allocations.

Finally, Scenario #4 is called *The War Machine*, and it very much looks like the one we're in right now, which is the unipolar world and the negative return on investment to taxpayers. This is one where you want to maintain as low an overhead as possible. All the other things apply. In this scenario corporate bonds of high quality will look much better. The other thing that is going to look relatively good is agricultural land and operations and income-producing real estate.

This one is a tough world because it appears like that's where we're going right now. If the military budget claims more and more of what is left of the budget, the squeeze on the middle class is going to be strong, and the currency debasement is going to be strong.

Let me walk you through a couple of issues that I want to talk about that really apply this year. The first thing is fixed income versus equities. We've had a long-term bull market and bonds. It's coming to an end, and we're shifting to a bull in equities. That means that what you're going to want are strong companies with good dividends and strong debt that is more secure.

Think of this as a shift from government being an attractive investment and government bonds and securities being attractive investments to companies. Many of those companies are teamed up with government and highly dependent on government. So, to a certain extent, we're putting a new face on an old credit, but we are shifting from a debt model to an equity model. The question is: Will we do it nice or rough?

What that means is that in many respects you're much better off with a higher allocation of equities than traditionally as long as its companies that have endurance for this environment and can produce a reasonable dividend. Because food companies have an inelastic demand was one of the reasons I took such a close look at the publicly traded food companies in the Annual Wrap Up.

So think of this as a real shift from having your money and fixed income markets to equity markets. If I could get in 1990, 8% on a bank CD, why go into the equity markets and take the risk and volatility? Now we're getting very, very little on fixed income, and the risk is going up tremendously in fixed income, particularly if rates should start to rise in a meaningful way – although I don't expect very meaningful increases.

What that means is that, to a certain extent, equities are safer, but you do have to live with the volatility. So think of this as a giant shift from government to companies and from fixed income to equities, and in your securities portfolios adopt a more equity-oriented strategy.

If I'm right about currency debasement as a result of financing the military budget, we run the risk of real asset inflation, and we're certainly seeing it in the equity markets and in the real estate markets throughout the G7 world. That's what I'm seeing, although it is spotty in some places.

Clearly we have balance sheet inflation and asset inflation. So all of that argues for equity markets.

A second issue that affects investment strategy now is: Should you get an active manager, or should you use the index funds? One thing that has been happening in the equity markets is that so much of the performance is coming from a very few number of stocks and it's extremely hard – with some exceptions – to predict what will get the gains. So, year to date, 50% of the gains in the S&P have come from ten stocks. That is very, very lopsided. What it means is that in many ways it is safer to simply invest in the index.

In my opinion, the problem with the index managers is: First, I'm putting money into companies I don't want money in and secondly, essentially you can't hedge. I feel it's important to hedge with valuations this high. I care about which stocks I'm in, and I care about my ability to protect on the down side.

Other than those two reasons, there is no doubt that the way to get financial performance in the current market is to go with an index fund and significantly lower your fees. You want to focus on something that has low fees.

The third issue I wanted to mention to you, of course, is hedged or not. At this point I think the US markets are so high and the chances for a major correction are so great that I prefer to give up a bit of the yield on the upside and stay hedged. So hedged equity, in my judgment, in this environment is often the the way to go.

The fourth issue is a big problem. Right now there is a compelling argument to say that you should put all your money in a few areas. One is called FANG, which stands for Facebook, Amazon, Netflix, and Google. You have a couple of technology companies that have been leading the market. Everybody is interested as to whether or not Amazon will be the first $1 trillion capitalization stock. The capital gains in existing Amazon positions are incredible, and I think they will probably continue.

So there is a temptation to put everything in a few tech companies that are rolling the markets. The other is what I call the 'Richard Maybury' strategy. Richard Maybury has a newsletter that I get and very much enjoy. His strategy is basically, "Look, everything is going to go to a unipolar model on force. Take these five defense stocks, and between gold and these five defense stocks you will get great dividends and you will survive the asset inflation and make a lot of money because everything is going to be war."

If you look at the charts, if you look at performance for the last 10-20 years, if you look at the way the world is going, it makes financial sense. The only reality is that I have no interest in financing an inhuman civilization. I'm not interested, so I personally don't want to be on the Maybury Plan. My compromise is: If you look at the companies focused on space, there is a great deal of crossover between space and defense, but if you just limit yourself to companies that are more space than defense, you still end up with a group of stocks that – in my back testing – significantly outperform the S&P. I think that reflects the fact that there is a major push into space.

As you know, I believe globalization was engineered actually to create the capacity that we needed as a society to go into space in a big way. So I think the demand for space is even more inelastic than food. I continue to work on building our list of space companies because I think that is going to be one way to get out performance.

In my opinion, you want to invest in a primary trend, and I think that space is one of the big, deep, long primary trend that is going to drive economics.

Interestingly enough, if you look across my experience as an investment advisor, consistently the best financial opportunities I see – and it's always a unique to the individual – are ones that come in their own private company. Next, it's a private equity opportunity through a very old and known network or it's a real estate opportunity, particularly an income-producing opportunity. But these are all coming from conservative sources; people with proven track records that they can trust; and it's not something that you and I could find on the internet or look up; it's very hard to find, and it really comes through networks of trust.

I continue to see that whether it's a private company that you own and operate or private equity or private real estate, those absolutely provide the best yields when you have those opportunities.

Moving on to the next issue: one question I get asked often is: Should I own or rent? It's hard to answer that one generically because it depends on where you are and what your situation is.

I think that if owning can help you significantly reduce your overhead and, anything you can do to reduce your overhead, you want to do. At the same time, we're seeing areas around the country and around the world where you're getting tremendous bubbles. Some of those bubbles could collapse, so it depends on where you are.

Every indication is that the London upscale real estate market is collapsing with Brexit. But generally, I think that we're in for serious currency debasement much greater than we've seen so far, and potential for significant asset inflation is part of what is holding up the equity markets.

It is unique to you in your situation. If you're in a place where things are very bubbled, and if selling and moving to a lower cost area is going to help you, then now is the time to consider that.

The next issue: Investment versus overhead. I can't tell you how important it is when you are looking in the face of potentially significant inflation to get your overhead down.

In 2006, I settled a litigation and received a large amount of money. Instead of using that money to buy an expensive piece of real estate, I bought a tiny country house in about the lowest cost area in America. I have three properties – two one-acre residential properties, and a small commercial property. My combined county and city property taxes are $500 a year.

People who live in big cities who pay $25,000 or $40,000 a year always faint when I tell them that, but I figured, "They can double my property taxes, and it will only be $1,000 a year."

One of the reasons I did it is because I had an in-depth understanding at what was coming in the Federal budget and state budgets, and I wanted to be in a place where, when the big increases came through, those increases wouldn't really roll me. I've seen people all over the country struggling with enormous increases in property taxes or the potential for enormous increases that could be unbearable and dramatically impact their real estate value.

So the other thing is, I wanted a property with my own well. I didn't want to contemplate a rising water bill.

I recently saw an article, which we posted on the website, describing the fact that you now have families around the country who literally can't afford water. They have to go to the well or to a central area and carry it. They actually don't live with running water anymore.

So I wanted a well and I didn't want to have to grapple with a water bill. If I could have found a way with my neighbors to put together an energy capacity so I didn't have to pay an energy utility bill, I would have done it, but I could never get enough neighbors interested in doing our own energy program.

This is one of the reasons I suggest you pay off your mortgage. I know all the arguments of why you want the tax deduction and why you can take the money and put it in market and get a higher yield. I wouldn't do it; I would get out of debt and get that overhead down.

I'm a person that had a highly successful business with a very profitable and rich cash flow and had plenty of assets and money in the bank. I had a mortgage on my property just because it didn't make sense to take the money out of the market and put it into real estate. I wish now that I had not even bothered to have a mortgage! When trouble came, it was a real headache to get it extinguished.

I would say that anything you could do to invest money so that you can permanently reduce your overhead as opposed to keeping it in the securities markets, you should absolutely do it.

I'm not going to cover cash. We had a great 1st Quarter Wrap Up last year called *Where to Stash your Cash*. It's as relevant today as it was then, so if you're interested or thinking about how to manage your cash, I strongly recommend you read the 1st Quarter Wrap Up 2016, *Where to Stash your Cash*.

We also did a great interview with Dan Perkins of Hidden Safes who talks about how to manage safes, how to put a safe in your house, etc. So I would take advantage of those two.

The next item is: Invest in yourself. In this environment, it is so important concerning education and skills to keep learning, to keep growing, to keep changing. Secondly, it is so important to invest in your health, particularly because our number one risk – I believe – is not financial; it's environmental pollution. There is a great deal that we can do proactively in terms of spending money on healthcare and on high quality food, etc.

You really want to proactively invest in yourself and also, invest in your network. You have heard me tell many stories if you've been a Solari Report subscriber for any period of time of when I got attacked by the entire Federal establishment. I had given or lent $250,000 to friends and family, and over the next eleven years that $250,000 trickled back. Moreover, I had wealthy people in my family who said, "Well, she always helped everybody else, so I'm going to help her."

If I hadn't done that, I truly would never have made it. So I have to tell you that with generosity, what goes around comes around.

It's very important to be generous with people who are deserving and worthy of generosity. I have seen many clients over the last 10-15 years try to help people and their family only to be stiffed or badly treated. So you have to be extremely careful. But where and when should you invest in other people? It always saddens me to see somebody sitting on a large pile of cash making nothing while their kids are paying 5% on their mortgage. You think, "Wait, you could keep all of this in the family. Refinance your kids out."

So in a very discerning way, invest in your network. Your network is the people who are going to be there for you, particularly kids and grandkids.

Always have a core position in gold. My favorite quote on gold is, "Always have enough gold to bribe the border guards." So this is insurance against the worst case. Yes, if they manage to get complete central control; everybody in the central banking system; they cancel cash and go to digital currencies and we're all chipped; your gold will probably not be worth much, but it will be worth a lot to them; they will want it.

I think gold is a great central bank insurance. If we're in danger of asset inflation, I think the bull market in gold is going to reassert. If you look around the world, what are the Russians and the Chinese buying? They're buying gold.

Finally, prepare for significant volatility. I've said this several times tonight, and I'm going to keep saying it. I have never in my life been in a situation where the variability of possible scenarios is as wide, and that means that you need to be prepared for multiple scenarios, but you also need to be very broadly diversified in terms of where you have your money, in terms of custodians, jurisdictions, and types of investments.

Every person is different, and how much diversification you have depends on how much total assets you have in your own unique situation. I find that there is tremendous variability in what I would advise one person versus another. I think you want to make sure that everything that you invest – whether it's cash, whether it's securities, whether it's real estate – you have confidence that that company or that place has real resilience and endurance, and you are prepared to leave the money in for the long run.

There are certain stocks where, if they take a dive – down 25% - I'm not worried because things go up and down. Markets go up and down. Even rigged political systems go up and down.

Don't put your money in anything that doesn't have the kind of endurance that you're satisfied to live with during a down patch, because the way you're going to lose money in this environment, is get scared and pull it out when things are down, and that's what you want to avoid doing.

The real message of the last five years is: Anybody who kept their money invested – who kept earning the dividends and interest – came out ahead of anybody who was sitting in cash and just getting debased on down.

If asset inflation is upon us, I think the clear message is that it is, and it could get greater. The last thing you want to do is be sitting in zero percent earning. The question is: How do you keep it earning without being very, very concerned? As I said in the Equity Markets, the way I've done it increasingly is to go with an active manager who does hedge portfolios.

I wanted to talk a little about family risk. I've been talking through with several families about risk issues, and I thought it would help if I made a list of the risk issues that are worth considering.

I put a post on the website on the home page. It has a small chart with a red 'Risk' in the middle of it with the title *Family Risk*.

Please look at it while I walk you through it. The assumptions were that it was a family of four with two children, and they lived in a densely populated area. That is what I was focused on. I have several requests from people saying, "Hey, would you do that for single people?" Yes, I will do that for single people, although there is tremendous crossover.

If you look down this list, my number one concern is for people who live in densely populated areas. What I see is a series of trends converging at the same time on people in a place, and it's going to create tremendous stress.

Earlier I talked about 5G. You have the United States population in a state of deep denial about what might come through the budgets – both the state budgets and the Federal budget. So we have a day of reckoning, and it's here. We're going to have to change.

If you consider any issue like healthcare for example, you have the pharmaceutical companies not willing to function by the market; you have the insurance companies who want to have a business but you don't need them to get healthcare because people need healthcare; they don't need insurance. By putting the insurance industry in the middle, you create a whole layer of intermediaries and costs.

Then you have the general population who are eating food from a very industrialized agricultural industry. To get health, you need to reinvent and reorganize how you do agriculture, which would be great for the economy in many respects, having much more happen in the local markets. So that has a big impact on agriculture.

Then we have a general population where, if you look at our lifestyle and our eating habits, we need to change. So in combination, you're talking about whether a corporate infrastructure or a governmental infrastructure or a financial infrastructure and a general population who have to change. If you look at where we are versus what will be economic, you're talking about a really big change.

So whether it's healthcare or many other different industries, we have a general population which has evolved habits and has evolved economics based on massive amounts of debt growth. That debt growth is no longer there to support this kind of cheap allocation of capital.

So capital is now going to get expensive, which means we have to go into radical change. The population has not faced that and doesn't understand that. In the middle of this, instead of having meaningful feedback loops that would help, all of us take a look at what is going on and figure out how to change.

We have a feedback loop in the form of a media that is trying to keep us from understanding what is going on in a way that we could actually do something about it. It keeps us going on a cycle that makes money for certain constituencies and special interests. What you have is an extreme mess.

Whatever comes down from the Federal budget or from state and local government budgets, particularly if you're in an area where there is serious lack of pension funding, big surprises are going to come down through those budgets. They are going to be hitting the population at the same time that we have an increase in the EMF radiation and, I believe, in all sorts of mind control manipulation. So we have enormous financial stresses that are going to continue to wipe out potentially entire sections of the middle class. At the same time you have manipulation of mind increasing, and continued environmental pollution.

I think, if you look at all of these stresses coming at the same time, you're talking about –from a psychic and emotional and cultural standpoint – a huge pig moving through the snake. What I see, particularly when I'm in the dense areas, is an inability to adapt and tremendous tension and violent behavior.

This has nothing to do with the stock market, this has nothing to do with the bond market, it has nothing to do with what bank you're in, but I think that the time has come to consider what is the humanity and what is the Popsicle Index of the place you live? Now is the time to get to a place where the Popsicle Index is high, or certainly where your Popsicle Index is high.

For different people that means very, very different things. But I am extremely concerned in areas where there is going to be substantial – Federal, local, or state – budget pressures combined with heavy rollout of 5G and the technology. I'm really concerned about inhuman environments. I think each of us has to say, "Is my environment human? And how do I get to a human environment? How do I get as far away from inhuman civilization and as deeply embroiled and embedded in human civilization?"

Think about that because, in my opinion, that is where your big risk is. I continue to believe that the number one risk that my clients and subscribers face is both the inability to have a clear, coherent mind, and a strong physical body. So I would absolutely encourage you to put that first.

Coming up, what to look for in the second quarter: First of all, we're going into the summer. We're approaching a slow part of the year, and also into the first budget of a new Administration, and we're going to hit a debt limit – all at the same time.

All of that could wreak havoc with the stock market and we are overdue for a 25% correction. I think that the chances are very, very good – even if we get a 25% correction – that we are in a long-term bull market for equities. So don't be surprised to get some very ugly corrections and lots of screaming and beating of drums by people who have been very spoiled by the market continually going up.

So be prepared for equity market corrections because they are most likely to come. That's number one. If we don't get them, then yours truly is going to be worried much more in the fall.

This Sunday is the runoff or the first round in the French election. We're going to have another round following that. If the French elections go in a manner that threatens the European Union and the EU, there is going to be a great deal of money running – even more than it has been – into the dollar. At the same time, we have a clear indication, within the last two weeks, of what the Trump Administration has been up to that we're seeing a significant military budget in the United States and a significant currency debasement to achieve those budgets.

We'll see what the President does in his May budget. We will also see what happens with tax reform. So much has yet to unfold, but what I would say is that inflation is something you want to be thinking about – both expense inflation and asset inflation. It's not going to be good for incomes whatsoever. It looks like the slow burn is going to get turbocharged by the Trump Administration, and we all have to be prepared for that.

Finally, the state budgets are being made to face their lack of funding – whether it's for healthcare or pensions. So if you are in a state with a high unfunded pension and debt liabilities, you want to be thinking about whether you want to stay in that state or how you are going to cope with what may be coming.

Federal and state budget changes are going to be rolling down on us. The Fed budget will not go final until October 1st, so those changes will start to roll out after that. If we get tax reform, that could certainly increase the GNP.

It's interesting. If you look at Kiplinger's latest newsletter, Kiplinger clearly expects an increase in GNP next year. So every indication is that they think the economy is going to be improving.

There is a very, very wide variability in how it could impact both equity markets and currencies. So if you study every asset class – fixed income, equities, and commodities – it is very difficult to tell which is going to be attractive and which way they're going to go. This is why I say to stay in very, very balanced allocations and, of course, dividends matter. You do want to keep getting those yields.

The biggest mistake I've made over the last ten years is keeping too much money in cash, and I keep regretting it. Also there is something to be said for having cash if you get a big consolidation. I always like to have cash if things go down.

So those are my comments for the 1st Quarter Equity Overview. I would really encourage you to go look at the charts on the web presentation and to revisit the scenarios. You don't have to use my scenarios; you can make your own scenarios, but I think it is very, very important to work through those scenarios.

Then I would pull out that Risk list, even if you don't have a family, even if you're single. I would sit down and review the different risks that you're managing in your life and your place. Think about how you can organize the allocation of your time and your money – both personally and professionally – so that you are as much as possible in a human society and working with excellent people who share your values. That is absolutely the way to go.

It was perplexing. When Dr. Farrell started to get me interested in preserving the culture, I actually didn't understand what he meant by it. Now I do. So it's going to be important.

Anyway, let me know your questions – anything on investment strategies or markets – and I'll make sure that we address them. Next week there is no Money & Market, but I will address them in the first week of May.

Ladies and gentlemen, it is always a pleasure. I hate to use that old Wall Street expression, "You have to be in it to win it." It's a wild environment, but ultimately if you look at the people who do the best, they are investing and building the future – whether it's in their own business or other people's businesses or real estate or land. I do think that the people who do well are the ones who build the future, and there are always opportunities no matter how crazy things are.

With that, I will be back for the 2nd Quarter Equity Overview in three months. We were going to team this up with Rambus' Chartology. He had surgery, and as soon as he is back on his feet and doing his charts, I'm going to have him do the Rambus Chartology for us. We will publish it as soon as it's available, so keep an eye out for that.

Ladies and gentlemen, have a great evening. Good night and good luck.

MODIFICATION

Transcripts are not always verbatim. Modifications are sometimes made to improve clarity, usefulness and readability, while staying true to the original intent.

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