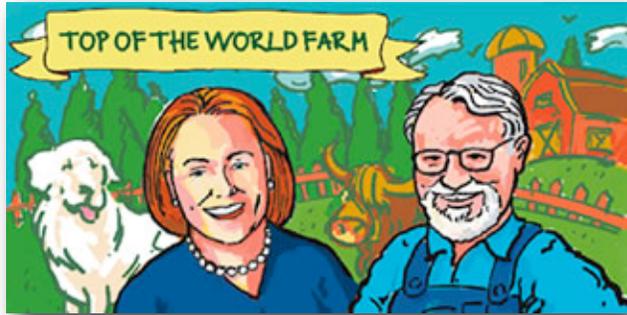


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*Catherine:* We have a couple of great questions for *Ask Catherine*, but of course, they're precious metals questions. So I'm going to defer them for our conversation with Franklin. We've had a lot of activity in the precious metals market over the last month, so we have a lot to talk about, and I can tell you I'm over at Franklin's abode this evening, and it's wonderful to be back in Tennessee, and it's wonderful to be back, Franklin, with you and Susan.



*Franklin:* Well, thank you.

*Catherine:* So tell us – catch us up on the markets. Tell us about the last month.

*Franklin:* Well, the last month has been painful in the extreme. As the month has gone on, the – it's become more and more evident that the eurozone did nothing more with Greece than paper over their problems because now Spain is in trouble. This week the fourth largest bank in Spain went down. The Spanish government announced they'd spend \$13.8 billion, 10 billion euros, to – or \$13 billion, 10 billion euros – to bail 'em out, and it just gets worse and worse, and what's happening is that fear is driving people into safety – into what they think is safety, and it gives you a real picture of what an insane world we live in that those investors think that U.S. government desk of treasuries means safety, but that's what the perception is, and that's the place that they go. So that has sucked money out of stocks.

That's sucked money out of the silver and gold markets, and so it's – we've had – the last ten days have been just almost unrelenting declines. The euro – the dollar has advanced. The euro has dropped, and the dollar, really, I think is key for a while to the situation because the perception – not the reality, but the perception – is that there's not going to be any more gross inflation like QE1 and QE2, although you and I both know – and by now, all your listeners know – that that's a joke, that they have to continue to inflate, but the dollar went down and it made a double bottom with the April low, and it's been in a trading range, but it – and in that trading range, it's formed an even-sided triangle, and this week it broke out to the upside of that triangle. So what you have to look at is that the dollar could rally to – from 80, where it is now, all the way up to 89, and –

*Catherine:* You think it could go that high?

*Franklin:* Well, let me just – let me talk about what – the things that are against it. From a technical standpoint, yes, it could go that high, but it's by no means certain yet that it actually will go on and move on up, and there're political factors that militate against that, and one of those political factors is this is an election year, and the way things are working right now, if the dollar

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goes up, U.S. stocks go down. That's just – that's been the – that's the mood of the market. That's the way it trades right now, and so if the Fed, which generally is known to accommodate the sitting president with monetary conditions that will help him be reelected, and that's – they do that for republicans or democrats now. Why, I don't know, but apparently they do.

So if they try to accommodate him with a lower dollar, then they might be able to manipulate stocks higher, but how much lower can they let the dollar go? If it breaks roughly 76 and a half, then it's looking – you're looking at 70 and all kinds of other problems. On the other hand, if they let it go up, you're looking at the S&P at 1,000 and the dollar index at 89 and the economy in complete shreds because, at that rate, exporters will find it much harder to – U.S. exporters will find it much harder to export, and so you put pressure on U.S. manufacturers, and everybody in the world is trying to depreciate his own currency protectively against everybody else to protect their share of the export market. So it's not clear which way the dollar's going to go.

Let's just say that it is, right now, at a crossroads, and if it can get up above, say, 82 and a half, then the likelihood is very much increased that it's going to go – oh, you know, to 87 and a half, 88, 89, something like that, and that, of course, puts a headwind up against gold and silver, but that's not really such a surprising thing because gold and silver, after a big rise like they've had, can take as many as – as much as a year and a half to recover, and by recover, I don't mean simply that they come up off a bottom. I mean that they go to a level higher than the last peak before the contraction or the correction started. So the last peak was at 1,927 on an inter-day basis, back in August or September, and so you're looking at the amount of time that it takes to correct from that high until it gets to a level higher than 1,927.

So that could very well be a year or 18 months, which even at a year, brings you do the fall, and that would be – that would kind of work out with a six-month advance in the dollar. I think the dollar – I think that gold and silver, though, have probably put in their lows for this move and –

*Catherine:* Well, I think you're an optimist.

*Franklin:* Well, I may be. I may be, and gold may go down to 15 and a quarter, and silver may go down to, oh, 27 and a half. That certainly is a possibility, but you're going to see that before the end of May. You're probably going to see it before the middle of May expires. The action in the market I described today to you, when we were having supper, was very, very positive, and both silver and gold, as well as the stock markets, have put in on the 5-day chart a kind of an upside-down head and shoulders, which often is a reversal formation. So – not necessarily reversal formation. Sometimes it's just a continuation, but often it's a reversal formation.

So we ought to get a little rally here anyway. Looking at a longer term chart, both silver and gold have this falling wedge, which is what normally is a bullish formation, that is it normally resolves

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by breaking out to the upside. Both of them have moved to the lower boundary of that formation and almost of the point of it. So they're either going to go a good bit lower than where they are now, say 2 percent or so, or they're going to turn around from right here, and I have no way of telling which they're going to do. I just say that it looks very, very – they look very, very positive today.

The RSI for gold is way down at the low range where it normally starts turning up again, and other indicators – some that I look at for silver especially – indicate that silver's very, very close to a bottom. So even if you get a bottom, though, the thing to remember is that we're still laboring through this correction, and so whatever advance gold and silver make from here probably will not be sudden, unless of course the euro falls apart or European banks fall apart, there's another crisis that breaks out in Europe, and then you can't really tell what will happen because you don't know where the fear will send those people looking for safety. They might go to dollars. You presume they'll go to dollars, but they might go to gold, too.

*Catherine:* Well, you know, we keep – I've seen more than a few reports – including from people I know – that Europe is – the Europe refiners are busy as all get out, but that's not what we're seeing here. We're not seeing a lot of activity in the physical market.

*Franklin:* Oh, gosh, it's been the deadest that I can remember it, almost in the last – the last month has been one of the deadest periods in the last ten years, and when I say dead, I mean the phone does not ring. It's been very, very unusual, and yet, this week – see – we had a long, flat market. We had a long period when markets stayed at the same – roughly the same level in the same range, and it always happens that when markets don't go anywhere that nobody is changing his mind. When you get a break like we've had in the last week to new lows, then all of a sudden the bears come out of the woodwork, and so that's what we've seen with last week and the week before. I'd go over to the wall and unplug the phone and then plug it back in to make sure it was still operating, call the repair service to see if our phone is working, but now, this week, it's just been incredibly busy. So all that was necessary was to get to a level where those people who were waiting to buy were convinced that this is the time to do it and –

*Catherine:* I wanted to mention my notion of the gross revenue pledge. When I was on Wall Street, the New York City subway and bus system was – needed to make a significant capital investment, and nine investment banks told them that they'd never be able to sell bonds, and our company decided that they could. They told them they could. So we got the assignment, and so the guy who got the assignment for us came in and he said, "Look, they've got four bonds they have to do. One's a no-brainer, so if we fail on the other three, we get the one. So I figured it was worth saying we could do it. So since you're a new, young VP, you get the three done, and when it fails you'll take the blame, and then I can do the other bond."

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So – but it turned out we did get the three done. It was a huge – it was the only time an investment grade rating award had gotten a front-page *New York Times* story. The way we did it was as follows. When you go into the subway system in New York, you put your money – now it's a card, but in those days you'd put your money into the booth – all that change would get sucked up, and no bank was set up to handle that volume of change. So the money would go over to the Federal Reserve, and the first thing that would happen is the debt service would get taken out there, before it went into the transit authority bank account, and it was called a gross revenue pledge, and to a certain extent, my feeling is that gold has a gross revenue pledge on the derivative positions.

If you look at the derivative's position – so I just mentioned the derivative's info graphic that I linked to on the blog because it just shows you why there is this constant sucking sound up to the banks of every sort of available ounce of free cash is getting sucked up to support that leverage in the banking system, and my feeling is as long as the banks command that sucking sound, then that cash, by definition, which is debasing, has to then drive gold up, and it's almost like gold had a gross revenue pledge on the derivative cash flows.

*Franklin:* Well, just to buttress what you're saying, one of the problems for people who live in the U.S. is they don't really know yet how bad things can get and how quickly they can go bad. I have a acquaintance in Greece who – real clever fella, really, really bright – and I've been corresponding with him about the Greek situation, and he can give you so many reasons to buy gold that I keep thinking maybe he ought to be writing my daily commentary instead of me, but the fact is, he has experienced the sharp edge of bank failure, bank insolvency, and governments acting to save the banks, and he understands that the only thing that would do the Greeks any good and the Greek government is to just declare bankruptcy and –

*Catherine:* Do it again.

*Franklin:* Do it again, yeah, start again, and learn to live within your means, which they're not going to do until they're, of course, forced to it, but the point is he has no doubt. He's not worried about gold being – gold going down. He doesn't have that problem, and so he has the big picture, and the big picture really, Catherine, is what all of us need to grab. I'm not dexterous enough. I'm sure there are people who think about it all the time and stay up nights studying it who can pick tops and bottoms in markets, but most people can't do that, and not even the experts that I follow can do it with enough consistency to make me want to do it.

So you have to look at the big picture and say, okay, where is the world going, and how do I reign? The fact is that the central banks were created as a tool for the banks to try and keep the banks solvent and to give the banks control of the economy, and they're going to continue to print money to help those banks. It's just – there's no question about it. So given that reality, you can't argue about the primary trend. In addition, from a technical standpoint, you can look at the peaks

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that we had in silver and the peak we had in gold back in August, and you compare those to 1980 and it becomes very – it becomes evident immediately those are not comparable moves. So we haven't seen that blow-off top, and I continue to say we're maybe – we've made it maybe a third of the way, in terms of price, through the gold bull market.

*Catherine:* Okay, so let me take the opposite position because one of my favorite expressions my Sea Lane partner, Chuck Gibson, is always saying, “what if we're wrong?” What if we're wrong? What if we're wrong? So we always try to come up with the scenarios of what if we're wrong, and here's what I think. If you look at the things that could tip the global economy into a serious deflation, and in a serious deflation gold and silver are still invaluable things to have, but their price in dollars is going to go down, or their price in whatever fiat currency is backed up by the most – the best military and the most force. So in that scenario, I don't see a way of managing deflation without war. In other words, when you get into that scenario, your problem is not that your gold and silver is down; the problem is there's a thermonuclear device going off down the road.

So here's the question. Is there a way you can foresee a serious long-term deflation, and is there a way you can foresee it without war?

*Franklin:* Well, the answer to that second question is no. I can't foresee it without war, and I think – and one of the things that you need to remember is that periods of economic cooperation, harmony, and prosperity are generally followed by the opposite. About 1911, 1913, world international trade and the U.S. participation in international trade peaked, and it didn't come back to that until recently. It didn't come back to those levels until recently. Well, what happened after 1911, 1913? World War I and then World War II. So you had a period of forty – thirty years war, and of course, it didn't start with a deflationary trend.

It started with stability and economic harmony, but it certainly – it set up the world for this enormous burst of inflation. The German currency was ruined. The French currency was ruined. The dollar was severely damaged. The pound was ruined. Everybody in the world went off the gold standard and so forth. So I think – this is the thing that I find hard to communicate to people is the nature of a system. Inflation is to the present monetary, governmental, and financial system the same way oxygen is to your body.

Your body can't live without oxygen. So if you begin to be starved for oxygen, you're going to start gasping for air. In the same way, they can't live without inflation, and so if their body goes in – threatens to go into a deflation – that is to be without oxygen – they will inflate.

*Catherine:* Right and another way to think about it is if I can't print money to hand out as pet treat and bribes, I can't stay in control.

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*Franklin:* Absolutely.

*Catherine:* So one of the things I've always believe – because I think part of this – the way I look at things is geopolitically. I've always believed that gold and silver – gold in particular – was essential to shifting out of the old model and into the new model, and the people leading this see gold as a very important meta currency to engineer that. So I've always believed that they wanted a managed rise. What they don't want is they don't want a rise that's going up too fast – vis-à-vis stocks and bonds – so that those markets unravel.

They're trying to keep it in balance, and what's very interesting there've been a couple of polls that have absolutely floored me. I've put them both up on the blog, but one was – I forget when it was, couple months ago – showing that 34 percent of Americans said that gold was their – was the best investment, way ahead of the stock market.

*Franklin:* What?

*Catherine:* Way ahead of – no, it was unbelievable. It was on all the mainstream press, and you could've – I was floored, and then a new Gallup poll has come out, and it shows that gold is down from 34 to 28%, and I said, well, it's working. The strategy of keeping the price down is working 'cause they're getting it more in line with the stock market. Remember, if your goal is to keep corporate costs to capital at rock bottom relative to government, that's what you've gotta do.

So to me, I've always believed that this is going to be – I think we might get a short-term rally, but I always thought this was going to be a very, very rough summer for gold and – because if you look at the politics, they need to keep this under tight wraps, particularly coming into the election. They need to get that 28 down much closer to the stock market, is what I believe.

*Franklin:* Well, but – well, let me just bring up another little technical point that seasonally the gold market often bottoms in May. You get highs – you often get highs in the first part of the year, but there's a kind of alternation that sometimes puts lows in May, as well. So it – seasonally we're entering into a time for a low. Right along here anytime we could see a low, and then that market could go – then gold and silver could go basically flat to a little higher over the summer and begin – then resume their seasonal pattern, where they start rising in late August or September and rise into the end of the year. So –

*Catherine:* It's funny; I'm on an e-mail list with a group including Jim Sinclair. So I wrote that I thought this summer was going to be – somebody was saying the gold price was going to take off, and they have to – once Operation Twist is up in June 30, there's every reason to believe in election year that they're going to pump some more. So I could understand why they would argue

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that, and so I jumped in, and I said, “It’s going to be long, hot summer,” and Jim Sinclair wrote back and said, “Good luck on your shorts.” I said, “I’m not short. I’m long and holding.”

I’m looking down the pipe to next year, Franklin, and whether it’s the tax rates or interest rates, there’s so much potential for bad news that I think all investors are looking at all their holdings across the board and saying “is anything safe?”, That’s part of the psychology that we’re all dealing with.

*Franklin:* Are you asking me if anything’s safe?

*Catherine:* I don't know why every time we start talking about this I think of you telling me I needed to buy extra brooms ‘cause there’re times when you can’t trade gold and silver but you can trade brooms. Anyway, so we’ve got a couple of great questions. Let me just put some of them to you. One is how is TPP going to affect farmers in this country? I’ve noticed palladium has been holding fairly steady compared to other metals. What’s TPP?

*Franklin:* I don't know.

*Catherine:* I don't know, either.

*Franklin:* PTT or TPP?

*Catherine:* TPP.

*Franklin:* I don't know. I’m sorry.

*Catherine:* Okay. Another question is the impact of the CME margin requirements on price.

*Franklin:* Well, they raised them again. They raise them; they lower them, and they raised speculative margins, and that –

*Catherine:* What day did they raise ‘em?

*Franklin:* The day we got a \$19 drop, and that’s something that you – that’s something frequently seen, I think, when the establishment – a.k.a. The Federal Reserve – wants to drive down the price of gold, they raise those margins. Now, you don’t – you can look at the other way and say that, well, they do that when the markets are hot and they’re trying to cool them off, but gold has not been hot. So why raise the speculative margins? By speculative margins I mean the margins that they charge speculators.

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*Catherine:* Okay, next question. We're going to have fun with this one. Praying there is a total change in The President of the United States, and therefore all positions in Congress, too, will that change the rising value we have expected on metals, or are metals still the best security because no matter who does what the dollar is going down to nearly nothing?

*Franklin:* Well, does anybody really think that electing Mitt – Mr. Boring – Romney will make any difference? His policies won't be any different to Obama's, and if you think they will, then you need to go back and check what Bush's policies were and see where change brought us.

*Catherine:* Oh, I think the tax policies will be different. I do. I think there'll be a significant difference in tax policies, but that's –

*Franklin:* In what respect?

*Catherine:* In terms of what gets raised, income taxes versus elimination of deductions versus capital gains tax. So I think there's a much greater chance the republicans will protect the capital gains rate than the democrats. So I think, either way, you're going to have major budget and deficit problems, but I think the republicans are much more likely to protect investors than the democrats.

*Franklin:* All right. How is that going to clean up the banks? How is that –?

*Catherine:* It's not going to make any difference at all because the biggest problem I think we have in the economy, Franklin, is lawlessness, and so one variation of lawlessness versus the other variation of lawlessness is not going to solve the fundamental problem. Do you know what I mean?

*Franklin:* No, but every four years the country goes into a transfer – about six months – thinking that it will.

*Catherine:* [Laughs]

*Franklin:* Well, isn't that the truth? I mean –

*Catherine:* Well, but here's the thing. I don't understand why anybody thinks it'll make a difference. I've started to get e-mails from people on sort of the democrat or republican side, and they're absolutely convinced that this is somehow going to be very important. Now, if you're an adult, you know each group – the democrats and the republicans have each people who get the pet treats. So if you're in line to get democratic pet treats versus you're in line to get republican pet

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treats it matters a lot to you, in terms of your cash flow, but otherwise, it's complete – because – well, because the tapeworm has to give the pet treats to whoever plays the game.

*Franklin:* I understand that you understand, and I wish other people understood. It won't make any difference in terms of gross policies, and even – other than at the margins of some policies, it won't make any difference which one gets elected because they're going to carry out the same policies that have been carried out. So what are those policies? If you look at those – I come back to my assertion the system needs inflation like a human body needs oxygen, and they're going to inflate, and they're in desperate straits now. They're low on oxygen, and they're going to inflate. They don't – they can't figure out any other way out.

*Catherine:* Well, I would describe it as a game of musical chairs, and let's switch to the wrap up now because our number – Franklin and I were talking before we came on about what we think some of the key trends are, and that the number – it took us a little while to decide exactly how to title this. **The number one trend is the hysteria of global economics.** *[Laughs]* I would describe it as a game of musical chairs, where people are competing desperately for cash flows in a highly leveraged system.

So the incentives to get that cash flow are off the charts because if you don't in a highly leveraged system, you're going to have a mess. So the competition for the cash flows is getting more and more aggressive, uglier and uglier, and the problem is the competition is getting sufficiently ugly to destroy the total pot of cash available. That gets us back to the lawlessness. So you break down trust, you break down markets, on and on and on, and so it – the nature of the competition is destroying the very cash flow that everybody's competing for, and it reminds me of a quote I've used many times in the Solari Report when I was in the Bush Administration. One of the principal staff said to me 'cause the competition, the politics, internally was the ugliest you've ever seen, and he said to me, "This is nuts. It's like people on a life raft going – on a rubber life raft going at each other with razor blades," but that's what we're watching, and that's what the currency wars are.

So I think, to me, the last four months has really been marked by not just enormous hysteria in terms of what the problems are in Spain, in Greece, in here and there, or is China going to stop growing? What's that going to do to America? But real hysteria in terms of people's panic that everything could go to zero tomorrow, whatever everything is –

*Catherine:* But think about this, Catherine. Think – that's a near-term phenomenon. That's a new phenomenon. Think about the whole risk-on, risk-off trade. If you watch markets every day the way I do, it is hysterical. It's the course of a person in hysterics, not the course of a person who has reason and vision and some kind of steadfast judgment about where he's going. One day stocks are up – it's schizophrenic. One day stocks are manically happy and shooting up and

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everybody's ebullient, and the next day they're all down in the dumps and stocks are down 200 points. Markets don't work that – they shouldn't work that way, but that's that hysteria working itself out.

*Franklin:* Well, and part of it is you have enormous program trading and leverage trading. So the flow – if you look at the equity markets, the flow is way, way down from – the amount of institutional and retail investors versus program trading is at this point tiny and the amount of short interest – and so pumping and dumping. I was visiting with a company in Portugal – they're one of the few big companies in Portugal. So if you want to short Portugal, they get hammered. 26 percent of the interest in their stock is short interest. I felt like I was talking to the mining stocks back in 2005, and you almost – makes you wonder what the naked short interest is and what those gains are.

So I think – the one thing I do think, and it was a wonderful interview we had with Jim Norman where he said, "It's not important to be strong. It's just important to be a little bit stronger than everybody else at the table," I've been talking about this for the last couple months - American Renaissance: Fact or Fiction? Because if you look at what's happening in energy and natural gas, there's been an explosion since 2005 in domestic drilling, particularly by the small guys and the independents, and if you look at our reserves, they're exploding, and the natural gas price – somebody said to me two weeks ago the price for natural gas is \$15 in China, \$7 in Europe, and \$2 in the United States, and Norman pointed out that 40 percent of manufacturing costs in the United States are energy.

So that's an incredible competitive advantage, and there's – you're seeing a lot now in the American business community to promote this idea of an American Renaissance, one, because of our position in agriculture but, two, because of our now incredibly growing position in domestic energy and what that can mean to manufacturing, and let me just add there was a great, great, 14-page special in *The Economist* two weeks ago called "The Third Industrial Revolution" arguing that the latest technology in robotics and 3D printing, et cetera, could start to bring a lot of manufacturing back into the first world, which I believe is absolutely possible. So one of the things I've been telling all the subscribers is American Renaissance: Fact or Fiction? And I don't know, but needless to say, the Americans right now are a little bit stronger than everybody else at the table.

*Franklin:* Well, they always have been, but there's been a move from the inside to transfer American technology and American industry overseas.

*Catherine:* Yep.

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*Franklin:* But the position of strength that the United States has had is so overwhelming, in terms of size of the economy and internal market. Most Americans don't realize it. It's astounding.



That's – but then if you look back at the history of the United States, that's what it's been built on.

*Catherine:* Well, but here's what's interesting. The subscriber who asked the question about the election, she says no matter who does what the dollar's going down to nearly nothing. I don't agree with that at all. I think – if you look at the relative positions, there is a reasonably strong scenario. I think that the U.S. can keep the dollar going for quite some time, particularly given what they've accomplished so far in energy in the last five years. Now, that's not what a lot of people want to hear, but this – I hate to say this. This really comes down to a military question.

*Franklin:* Okay. But I don't – kind of – working at the same time as what you're talking about and not at all against it, I really think that the system that we have is

winding, and I think that you see the future of it in Greece and Spain, where the presupposition has been that you can build a fat nest at government expense for yourself forever. Everybody can do it, and clearly there's a point where that can't be done. So now what you're seeing is the real economy is beginning to emerge again. Those people who are not looking for a government handout or a sweet nest but who are entrepreneurs and who look to make their fortune by serving other people.

*Catherine:* Right, just like the two young people I talked to when I got the car. There were two guys I bought my car from, and they wanted to talk about what their entrepreneurial contribution was going to be. It was quite extraordinary. Well, I think the people who run the dollar system agree with you, which is why I think they've stockpiled gold and are using this opportunity to stockpile even more at your expense, and 'cause their big question is how do you get the money from here to there. How do we take the capital out of the old model 'cause the old model can't last? It obviously can't last, and I think they know that, and I think that's why they started to shift

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money out of North America and Europe as aggressively as they did in the 90s, whether you or like how they did it and what they did.

Anyway, so second trend – so first trend hysteria of global economics. **The second one is weird weather.** The weather is so weird *[laughs]* everywhere you go – in California, in Portugal – everywhere I've been this – in the first four months of this year, it's just everybody's saying the weather is so strange, and I think – if you're not a farmer, weather's not on your mind as much it is maybe for us folks who live in rural areas, Franklin, I think we don't appreciate how much impact weird weather has on our psychology.

*Franklin:* Well, I think it does. We were observing today that it's about – I guess tonight's it about 50 degrees or something like that. This is the 8th of May. It ought to be 20 degrees higher. It's just astonishing, and yet, in March, it got up to 80 degrees, which shouldn't happen either. So it is weird, and then you've got widespread drought in various areas, too, and it just doesn't seem to go together. It doesn't make any sense.

*Catherine:* I was at a water symposium for a couple days on restoring the land with water and had time to spend time with Sepp Holzer, who's arguably one of the top permaculturists in the world, We're going to do more about water in the Solari Report because water is coming to the fore of everybody's consciousness and the importance of living in harmony with water and preserving the water and using it well on your land.

Okay, next thing. **Trend number three is the increased awareness of the explosive growth of prisons in the US.**

I don't know if you got it, but something came around, and of course, I got many copies of it. It was a story purporting to be an anonymous description of a meeting that an entertainment executive had had in the 90s. Some spooky guy showed up and sort of ordered everybody to turn from rap music very reasonably pleasant to something very gangster and criminal oriented.

The reason being they said were going to – they were introducing all the private prison company, which is in fact when that happened, and they needed to significantly increase arrests, so they needed to make it much more politically palatable to do that, and so having rap music and Hollywood basically promote the idea that all sort of poor, black teenagers were gangsters and criminals would be very, very helpful, and so this guy intimates that this was pretty scary. When some people tried to object, they were thrown out with security guards with guns, and consequently, he became discouraged and left the entertainment industry. Anyway, I never posted the story up on the blog because who knows if it's true or not.

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I do think the gist of it is true, and if you've ever read the Dillon Read book that wrote, *Dillon Read and the Aristocracy of Stock Profits*, which is up on the internet, essentially what happened in the 90s – it was very interesting, Franklin, because what happened was in the beginning of the 90s – and it started in the Clinton Administration, oddly enough – lot of the laws got put in place during the Bush Administration, but the Clintons really got it going. What they were doing is they would take multi-agency teams, jurisdictional teams, including HUD – that's how I bumped into it – and they would drop these teams into neighborhoods. So they were doing it in D.C., and they'd basically round up the kids. So they just drop a S.W.A.T team in the neighborhood. 200 enforcement agents with guns, drop in a neighborhood with helicopters and just round up all the available kids and then put them into jail, and of course, this was great for the prison stocks, and the Department of Justice started a company called UNICOR, which would market the prison labor to the defense contractors. In the meantime, they shut off the appropriations to the public defender's office in D.C. So there were no lawyers to defend the kids. So the kids were basically forced to cop a plea and ended up in prison. Now, if you look at what was really happening, what we were doing is we were sending stormtroopers into communities, rounding up kids, throwing them in prison in labor camps, where they provided cheap labor for the military.

Okay? So if you look at what the Nazis did and you look at what we were doing, it was the same, exact thing. The difference was a great deal of time and money had been spent in engineering the whole system to look reputable. So the kids were drug dealers, and they got convicted in a court of law where they had a jury of their peers, except they never had a jury trial 'cause they all had to cop a plea. On and on and on and on and a great process was put in place to make this all look legitimate so everybody could think that something was happening, other than just rounding up all these kids and using them as slave labor for the military.

Now, the *Let's Go to the Movie* this week is a movie that was made for HBO. It's called *Conspiracy*, and it's a film that dramatizes a 1942 conference by the Nazis, and it talks – the whole movie is on the details of how they can accelerate the shipment of the Jews into slave labor camps and to genocide them. The amazing thing about this movie – it's the kind of movie nobody would ever want to see on a Friday or Saturday night, but the amazing thing about this movie is it gets into the need. If you're going to implement something this evil, the need to layer it up with complex process and procedures. One of my theories is that a lot was learned from the Nazi experience that was then used to create the drugs trafficking models and the war on drugs, which would basically give you the ability to do exactly what the Nazis did, in terms of slave labor, but do it on a for-profit basis.

So whereas the sort of Nazi Holocaust was a very expensive thing to do, doing the same thing with the war on drugs and the narcotics trafficking is a very profitable way to essentially accomplish the same thing. I wanted to bring that to your attention because one of the greatest frustrations I have sometimes is with the denial on this topic, and the fascinating thing for me, Franklin, was watching

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this entertainment executive story bounce around, and people coming back and saying, you know, we have real incentive problem. We've engineered an economy where people are making money on the failure of other humans, and I think this is very important because if you're going to talk about the old model's failing, which I believe it is, and you believe it is, the most important thing to me in a new model is what are the incentives? Are the incentives we make money on helping each other succeed, or the incentive's we make money helping each other fail? And I think it's extremely important to think about that because each one of us – and the great theory that the way we're going to create the new financial system is one person and one family at a time. Each one of needs to look at our own lives and say, "Am I making money on helping other people succeed, or am I making money from helping other people fail?"

*Franklin:* Well, just as a footnote to what you're saying, the entire prison system – the so-called justice system – is an enormous industry, and it's not just companies like UNICOR or Corrections Corporation of America, who runs private prisons, but it's the companies that furnish probation services, and if you look at the system – and people who are criminal lawyers will agree with me that the system is designed to make people fail. It makes more money when people fail, and by the time they get through with that, they're hopeless, and I'm not saying – this is not some theoretical thing with me. You know and I know that I deal with prison inmates every week, or at least every other week, very closely and intensely, and so I know something about what they go through.

They get them on probation, they jerk their chain for six, eight, ten years, they get 'em back, they revoke their probation, they go back in, and there's an enormous industry that includes prisons, prison guards, lawyers, probation officers, courts, all the employees of the courts, and it's this gigantic industry that's built on making sure that people fail and stay failed.

*Catherine:* Right. It's quite extraordinary, and what's interesting is it depends on a sea of government money. In 1996, if you took all federal, state, and local prisons and prisoners and added up total expenses, including capital expenses and divided by the number of prisons, you know how much it cost per prisoner, per year, according to the general accounting office?

*Franklin:* No.

*Catherine:* \$154,500.

*Franklin:* Oh my goodness.

*Catherine:* One five four –

*Franklin:* Well, we could buy 'em off cheaper than that. Why don't we get them all \$150,000.00 and say go out there and be good.

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*Catherine:* So if you look at – at the time that they did that statistic, the average American – somebody making \$35,000 a year and spent their entire life paying federal taxes of say \$100,000 that were insufficient to pay for one prisoner for one year. So this model is financed by debasing the currency. It depends on a sea of government money, and I think one of the reasons that that entertainment executive e-mail, whether it was true or disinformation, got so much interest going is people are beginning to realize as they look around at the government budgets and people saying there's no money – they're saying, "Why are we spending billions and billions in this state to house people in prisons who are guilty of non-violent crimes who could be out doing something productive?" That's a very good question.

*Franklin:* Well, by the way, one of the points is to take them out of the labor force, right?

*Catherine:* Right and to provide them to corporations for cheap. One of the reasons I'd recommend you take a look at the *Conspiracy* movie is sometimes when I try to explain to people the extent to which certain things are engineered proactively, it's hard to believe, for most decent people, that a group of people could sit around and plan these things out, but it's a perfect example of the fact that it does happen.

**Okay, next trend. New technology.** The reports of new technology – and I've done a pretty faithful job of putting up some of the new videos and some of the stories about technology on the blog. We have a science and technology section. Some of the new reports are just dazzling.

As I have said before, there's a split in the economy. We have a new economy being born and an old one dying. The creative destruction is shocking, and part of the problem is the old economy. The leadership keeps running into Washington begging Congress to pass more laws to protect their cash flows. I've talked a lot about the Hollywood trying to stop the Internet from creative destruction of Hollywood's business. Expect that to accelerate. It's very important, when you do look at the stock market and the economy, to realize that there's not one economy. You really have a bifurcation.

Very quickly, another important trend in the 1st quarter is that the **"Hit" on the Swiss by the US continues**. I continue to watch – and I think the first quarter was very important – the hit on the Swiss continues with the Department of Justice proceeding, criminally, against the Zurich Canton Bank, which is – that's a big gulp. Another article up this week about foreign accounts, and I think the fight over controlling foreign accounts and the fight by the Americans to maintain their leadership with the British of 50 percent of the financial transactions is what that is all about. I expect that to get more fractious after the election.

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**Another trend I want to talk about is protecting the third rail.**

If you look at a transit system, there're two tracks that the wheels of the trolley or the subway car run on, and then there's a third rail where the energy, the electricity, runs, and the train gets its juice from the third rail. What we're watching in society is a – and this was – you could really see this in the first quarter in 2012. It got very intense. What you see is there's an unwritten rule that says you're not allowed to touch the third rail. Now, if you do touch the third rail, then you get slurred by some word that says that you are not safe to associate with or you're an unacceptable person.

So the slur is socialist. The slur is communist. The slur is capitalist. The slur is terrorist. The slur is conspiracy theorist. We've seen a big investment over the last four months in targeting people as conspiracy theorists. It's come up a lot, and the debates around the documentary Thrive, but conspiracy theorist is really a euphemism for somebody who dares to touch the third rail. Now, let me tell you why this is important. In a court of law, it's essential that you're innocent until proven guilty, but in a world of managing your family and your personal risk, you need to assume that people are guilty until proven innocent.

So if you look at what's going on in this world, there are millions and millions of conspiracies. As you know, I keep trying to encourage you to start your own. Be very wary of people who try and stop you from accessing the information you need to protect yourself by using any of these slurs. You need to understand where the third rail is. You need to understand who's manipulating the third rail, and you need to not fall into the trap of believing any of these slurs. I didn't know if you wanted to comment on that, Franklin, but –

*Franklin:* Well, I think what the Thrive people ran into was that they didn't – they were not dealing in the standard left-right dichotomy that's used to mislead people from looking at the important things, and that's touching the third rail. Whenever you step outside that whole outline that you're supposed to look at the world in, then you're touching the third rail.

*Catherine:* Right. If you – when you invite people in the right and left to integrate into something that can really break through, that's when you take the strongest. That's when you really get socked in the jaw.

A couple of other things I mentioned. **The violence of the food war** has got even tougher during the first quarter. We're seeing unbelievable efforts at the federal and state level to control the food supply. It's very, very important to not let that scare you off from making sure that you find ways locally of providing a fresh food supply for you, hopefully independent of the grocery stores and the corporate chain.

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It's ever more important. **Another trend is the search for new models.** I keep saying it, and I'll say it again – keep asking yourself “is it decentralizing and is it wealth building” because it needs to be both. When I was over in Portugal, everybody kept asking me for the picture of the new model. I said models, plural. We need thousands and thousands of new models. Okay, well, that's it for the wrap-up. Anything I forgot, Franklin?

*Franklin:* Nope. I think you covered it all.

*Catherine:* Okay. Okay, well, we're going to be very interested to see what happen in precious metals over the next month. I predict whatever happens it's going to be wild. So –

*Franklin:* Well, hang on.

*Catherine:* I know. Let's buckle our seatbelt, shall we?