BUILDING WEALTH IN CHANGING TIMES

The Solari Report

July 18, 2019

2nd Quarter Wrap Up – News Trends & Stories Part II: Equity Overview & Rambus Chartology

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C. Austin Fitts: Hello and welcome to The Solari Report. Today is July 18, 2019, and this is Catherine Austin Fitts. I am delighted that you could join me for the 2nd Quarter Wrap Up Equity Overview, which is the third part of the 2nd Quarter 2019 Wrap Up. The last two weeks we have been discussing News Trends & Stories with Dr. Farrell. We 'chewed' through the top trends and events, and now we will look at how these trends and events convert into the global financial markets with a particular focus on the equity markets.

Our outline for this is in four parts. The first is a review of **performance**. For **performance**, I hope you have accessed the 2nd Quarter Wrap Up web presentation. It has both the charts as of the end of the second quarter (June 30), as well as the Rambus Chartology. Rambus has once again done a great overview of the financial markets that he has just published, and we have that on the web presentation.

I will be using July 17th closing numbers.

Number one, we are going to go through **performance** using the materials at the 2nd Quarter Wrap Up web presentation. Second, I want to talk about, '**Can the bull trend in the equity markets hold, and in particular, can the Dow pass 30,000?'**

Third, I want to talk about **issues** worth discussing. There is a whole series of different issues that I want to bring to your attention. Then the fourth section is, 'What do you do? What does this mean to you?' We are going to recommend some **actions** and then **closing thoughts**.

Let's turn to our first section, **Performance**. The US equity markets have been at a rising trend since the bailout period in 2009, and we've been in a clear bull market from 2013 on. The US equity markets are up over 30% since President Trump was elected, and it's clear that Trump and his Administration see the stock market as a key performance metric. With the Dow at 27,000, I think that they are clearly aiming for a Dow of 30-35,000. So, that is up another 10-30%.

One of the most important questions we can all ask is: Is that possible? If so, how is it possible? That is one of the things that I am going to discuss tonight.

Last year was a year when everything was down. We had an 18-20% consolidation into December from an October high, and we are now in the US equity markets slightly above those October highs, so we have reached a higher high, if you will.

That was a nerve-wracking period for anyone tracking the equity markets. The hardest thing to call is when a bull market is over. Are we in a correction, or is the bull over? It is very hard to tell because 18-20% down is a significant correction.

One thing that is clear if you look at the history of the US market is that the winning strategy is a modified hold, which is that you hold through a bull, but as soon as you turn to a bear, you exit and go to cash. There is no doubt that a modified buy and hold on that model is more successful than a buy and hold. The question, of course, is: How do you know when you are in a bear? You have to go considerably far down; 18-20% is quite a significant correction.

The easiest way to get hurt as an investor is to bet against a bull trend. If you have any question about that, look at the motif investing summary in the charts at the web presentation. What you see is, of course, that the bear funds are getting absolutely slaughtered now that the market has come back and reached new highs.

I put a chart in the commentary for this Solari Report that shows the US markets versus the global equities and bonds, and it's clear that the US equity market has significantly outperformed global equities – both European and emerging markets and Asian markets – since the fiscal crisis. I tend to believe that it required 9/11 and the global war on terror to get that accomplished. The question is: What is going to keep it going?

As you can see from looking at the chart, that significant outperformance since the Trump election has continued and even widened –

– both with the general market if you look at the NASDAQ and the tech sector, they are clearly the strongest performers.

Rambus always does a good job of pointing out that we are in a bull trend, and he says this time the bottom line is that the trend is your friend until you see a confirmed reversal pattern, and that is what we haven't gotten. We have not gotten the confirmed reversal pattern.

It is interesting. Rambus has done an excellent job of affirming the bull in the face of many angry gold bugs who don't want to hear that the stock market is doing well and is expected to do well.

There are five sections to his chartology this time. The first is '**US Equities'**; the second is looking at the '**US Equity Market by Sector'**; then it's '**World Equities'**; fourth is '**Precious Metals'**, and last is '**Currency**'. Let's review each one of them.

Starting with **US Equities**, the S&P up now 22.24% for the year with the NASDAQ running about 400 basis points ahead of the S&P, and the Homebuilders is doing very well. The Homebuilders is up 31% benefitting from the central banks. They pivoted from their sound money policy last year. That sound money policy didn't last long.

Clearly, equity is significantly outperforming fixed income, although fixed income is also benefitting from the pivot to lower interest rates with prices up. The long Treasury ETF is up 10% - half of what the S&P is up. Then the intermediate is up 6.35%. The intermediate Treasury bond aggregate is up almost 6%, and junk is flying at 10.6%. Obviously, everybody feels risk-on with the central banks going so far to improve everything.

I put a quote in the commentary from Jeff Gundlach, who is the head of DoubleLine, "Gold is making money, bitcoin is making money, stocks are making money, and bonds are making money. I'd rather own gold than bitcoin."

If you look at the recent turn in bitcoin, it is not yet making money if you bought at the high. But certainly, everything else is. That's important because last year everything across the board at the end of the year had lost money. As I said, it's risk-on.

Let's turn to **US Equity by Sectors**. You can see that some of the sectors are really being hurt, including the banks being hurt by the change in Fed policies. They are getting less money, so rising interest rates are going to help bank profitability. Instead, the banks are working hard to lower the government cost of capital at the expense of their earnings.

If you look at how dependent they are on the Federal credit and government money, you can see why they would easily defer to keep the Treasury bond market going. But it is certainly making life difficult for the European banks because the European banks didn't get the extent of the bailouts that the US banks did.

Fundamentals. I wanted to point out that agriculture and transportation are clearly showing signs of a recession. There are many trucking companies reporting much slower volumes, and unquestionably the agriculture sector in the heartland is really reeling from the problems with flooding and the weather.

Challenges with the harvest can translate into much lower GNPs, but it's hard to tell how it translates into the corporate stock market. My big concern about the agriculture is that we are watching a lot of disaster capitalism where the big corporations are going to pick up quantities of land in the heartland for cheap, so it doesn't necessarily have to be bad for the stock markets. But as you can see by the sectors, there is pain. There is not as much pain as I think there is on Main Street because more and more of what we are watching is a giant sucking sound of GNP out of the smaller companies on Main Street into the big companies.

World Equities. The VGK, the European ETF, now is up 14.81% – not as good as the US markets, but undoubtedly far ahead of fixed income. Germany is up 11.45%; the developed markets are up almost 14%; China is only up 9%. The trade wars obviously cost China something. That's large caps. Small caps are up 12% and the emerging market is up 10.46%. One of the things that we see as a constant reminder is that Asia is converging with the developed world, but the emerging markets are not. So even though China is slowing, it's still Asia that is moving towards the convergence with the per capita incomes in the West. Of course, that makes the fight over the Silk Road that much more important.

Precious Metals are a real bright spot. Gold is now up 11% for the year, and silver is now in the black by almost 3% for the year. Rambus is evidently calling for the gold bull to return, and what he says is, "After almost eight years of corrective action in the precious metals complex, it looks like this sector is ready to resume. It's a 2000 bull market once more just by the size of the head and shoulder consolidation pattern the gold has built out since 2013. That alone tells us to expect a multi-year rally at a minimum."

Rambus is saying that it is very good news for gold. There is no doubt that gold appears to be one of the bright spots for 2019.

If you look at **Currencies**, the message is that most currencies are flat or down, and the US dollar continues in its upward trend. It's bad news for exporters in the United States, but the dollar continues to be strong. The US dollar index is only up 1.36% for the year.

I think that the most unnerving thing about global stock markets, particularly the US stock market, is when you realize the extent to which the stock market is the beneficiary of government fiscal largess and central bank monetary largess. Does it really take this much steroids to keep the stock market going?

When you add Federal FASAB 56 to the mix, it gets really alarming because the question when you look at US stock market is: How much of the increase and the outperformance of US stock market is simply largess through the government back door, whether it's money or assets or government contracts or servicing contracts for the banks?

There is a major support of the US government to help the US stock markets outperform. Another question is: What kind of 'steroids' do you need to keep that going?

It's one of the reasons I'm so worried about Federal asset stripping. Of course, the financial question is: If you're a pension fund, are your pension fund stocks benefitting from the offset of the assets disappearing from your government? I think that the questions moving forward are:

Are the assets being shifted away from the liabilities? Then what happens to the liabilities? There are going to be significant winners and losers in this process.

That is the overview of 2019: All of the assets classes are making money after 2018 with everything losing money. We seem to have recovered from the correction at the end of last year, and we are back in an upward trend in a bull market.

Let's turn to the second section: **Can the Dow pass 30,000**?

In the 2014 Annual Wrap Up I did a presentation called *Planet Equity* and I basically said, "We've had the bailouts and we've exploded the sovereign debt around the world. There are four things that we can do: We can write down the debt, we can write up the equity, we can go to war, or some combination of all three. But it didn't take much to ascertain that there would be a clear preference in the leadership for writing the equity up if at all possible.

Think of the planet as a house, and you have a mortgage, and the equity is under water. It doesn't take a genius to figure out that anything we can do to make the equity go up we will do. I think that part of the central bank's policy has been to print money and make sure that that money can channel into the stock market as opposed to channel into hyperinflation on Main Street.

Part of this process is securitizing everything. We are going through a period where at the turn of the century, essentially, the developed world had equity markets, but we are in the process of ———-

—— literally securitizing everything planet-wide and bringing it into the stock market. That is one of the reasons the stock market has grown significantly in terms of total market cap.

As I pointed out in the *Megacities* Wrap Up, we are also bringing in real estate globally to the publicly traded markets. So, whether you are bringing in equity globally or real estate globally and then, of course, developing far more venture in the emerging and frontier markets, you are giving much more importance to the equity markets, and you are growing the equity markets worldwide.

I see that trend as very deep and very important and continuing, and part of technocracy. This is all part of the technocracy that we discussed with Patrick Wood.

It's clear when you listen to Trump and the government officials that they see the stock market as being an unbelievably important performance metric, and they are talking about a Dow at 30,000 or 35,000.

It's interesting. If you look at Trump and his secretary of Treasury, they are uniquely qualified to do this. They are New Yorkers. Mnuchin's father played a critical role in building the Goldman equities desk. When I was on Wall Street, they were considered to be the most capable and able equities desk on the street. Mnuchin is also Yale and Skull & Bones. So, you have some very significant equity players in this Administration. Add Wilbur Ross, and you have a workout person and a private equity person very much in the Rothschild position.

So how do you achieve higher equity prices if your goal is to make a Dow of 30,000 to 35,000? It's very simple: You have to either increase earnings or you have to add more assets into the market at attractive PE's – your current PE or a higher PE – or you have to raise the price earnings ratio, which means to lower the cost of capital. That is why interest rates and low interest rates are so important and why you've seen Trump bashing Powell and feeling hit by the tough money policies of the Fed in 2018. Bashing the central banks and getting them to lower interest rates is important.

Unfortunately, I think that to make 30,000 to 35,000 you are going to need a lot of, what I would describe as visible and invisible violence, whether it's legal violence, financial violence, physical violence, war, or electromagnetic violence.

I made a list of the 13 factors that could be used to push the stock market higher, and I want to review them.

One of the most important, interestingly enough, is:

1. 5G. 5G creates the train tracks for much greater invisible and invasive high-speed access and communications that will combine AI, virtual reality, entrainment, and entertainment. It's the train tracks by which you do significant increases in the centralization of earnings into publicly-traded corporations and increase their share of global income. So, it's not only in the developed markets; it's globally. It's one of the reasons the war with Huawei and the Chinese over who is going to be supreme in 5G is so significant.

If you look at the Anglo-American Alliance, which is the Brits and the Commonwealth, the Israelis, and the US, this is the train tracks for scarfing up global income – whether it's making sure you control the Silk Road or making sure that you control the digital highway. This is a major, major power point, and I think that it is one of the reasons you see such a significant emphasis on this by the Administration. It's part and parcel of getting the Dow to 35,000. So, I think that number one is **5G**.

2. Continued Fiscal and Monetary Steroids. There is no doubt that the fiscal and monetary steroids so far in the Trump Administration have been very significant. We see both the ECB and the Fed policy of continued low interest rates and bond buying.

Federal FASAB 56 is the mother of all steroid creators. I think that you are seeing a combination of things because you are ramping down on much of the 'funny business'. When you close out groups like the Clinton Foundation and Epstein, you are closing out a lot of waste in the system. Federal FASAB 56 is going to be used to tighten up the system dramatically, but there is no doubt that it gives you the ability to move massive amounts of assets into the private side from the government, as well as relieve all sorts of requirements by related corporations for SEC compliance, etc.

Keeping gold prices lower than where they would be if you had a free market in gold is part of maintaining the fiscal and monetary steroids. You want to be able to print as much money through the central banks without giving away that the monetary policy is as liberal as it is.

If you listen to Rob Kirby's latest interviews with Greg Hunter, he talks a lot about using the $21 trillion and the missing money to launder money out into the economy without it being apparent that the monetary policy is as extraordinarily loose as it is.

Part of the steroids is running an enormous differential in the cost of capital between insiders and outsiders. So while you and I are here paying 24% on our credit card, the insiders are basically getting capital at zero percent, and even at negative rates at this point.

The negative interest rate policies are rather astonishing. We now have over $13 trillion of global sovereign bonds with negative yields. It's a direct reflection of the sub-zero short-term interest rates that we are seeing from the ECB and some of the other central banks, including in Europe as well as the Bank of Japan. It's one of the reasons Legarde, the new head of the ECB, is talking about a cashless society. It's just another way of harvesting us.

So, we are talking about an extraordinary fiscal and monetary policy on steroids. The question is: Can they keep the financial system liquid going, and how do they keep it going?

If you look at the current chart of the negative interest rate bonds, it is literally headed up in a straight line and you somewhat wonder how long this can last.

3. Visible and Invisible Military Force. I think there is much of what I would describe as 'disaster capitalism' and 'weather warfare' occurring.

I also think it's big investments in space that show up in earnings but don't necessarily get explained in the annual report. And, of course, the big fight here is control of the Silk Road. If you look at what has happened over the last month, I think there is a very significant new push to use economic sanctions and pressure in the oil markets.

We see more ships in the US and British navy now sailing into the Straits of Hormuz. There is an incredible push to basically collapse Iran without a land war. It shows you the importance of control on the Silk Road.

I'll talk a little more about this in Money & Markets this week. We have a new bill, the US-Israeli Cooperation Enhancement and Regional Security Act, which is very bad news because you see more and more push for combined military and cybersecurity effort with Israel. I think that sacrificing sovereignty to get more steroids is never a good plan.

4. IT Cyber Warfare and Surveillance Capitalism. The surveillance capitalism in the United States is off the charts, and 5G is only going to make it worse. But there is no doubt that it can create much more centralization of income into publicly traded corporations.

5. Deregulation. Lowering regulation lowers cost, increases all sorts of opportunities, and I think that the Trump Administration is undoubtedly committed to significant deregulation. Some of that I support because it's a reversal of technocracy.

6. Piratization. As I keep saying on every Solari Report during the last two years, as soon as they allocate the JEDI contract, which is said to be this month in August 2019, I think that the speed at which privatization can happen will accelerate. My concern is that it's not going to be privatization; it's going to be "piratization". The question is: How aggressive will the Trump Administration be because the potential to dramatically reduce government employment is real.

The questions are: What are the politics of significantly decreasing government employment, thereby potentially increasing unemployment? Will the private sector be able to pick those people up?

7. Global Securitization of Equity in Real Estate. There is no doubt that if you are the US market and are trading at a very high PE and can bring in a large amount of assets globally because you have such a low cost of capital, and you can bring them into those publicly-traded platforms, that is going to significantly expand your market cap.

8. Lowering Taxes. Of course, lower taxes has done plenty to support the US equity markets. We saw the 2018 tax changes. We see the President now trying to figure out whether or not he can index capital gains taxes for inflation. If that is instituted by regulation, I would be amazed if Congress allowed that to happen. But if it did, you are watching a very different treatment of the wealthy to protect them against inflation versus the middle class and the poor.

Opportunity zones is another example of lowering taxes. So lowering taxes is a big one, and the question is: How much more of that can occur globally in the face of very significant outstanding sovereign bonds?

There is no doubt that one of the pushes for lower and negative interest rates is to protect the government from having to dig deeper for taxes to keep their debt positions serviced.

9. New Technology. New technology continues to lead the market. If you look at the US markets, the NASDAQ is continuing to perform far ahead of the S&P. There is no doubt that one of the opportunities for many companies is: Can they bring new technology and use it to create new products or to lower expenses?

I think that one of the big wild cards– certainly not an issue in 2019, but it's coming – is when will we start to use breakthrough energy technology to significantly lower energy prices? As you can see, one of the sectors really trading down is shale. Take a look at the motif chart in the web presentation, and you can see that shale is just getting clobbered and the fossil fuel companies are getting clobbered in the equity mix. That is evidently a signal that the new energy technology is coming.

10. Adding Four Billion People to the Internet. There's nothing like adding four billion customers. If you look at 9/11, as of the date of 9/11 when the war on terror launched the global buyout by the unipolar model, we had 8-9% of the population on the internet. Today we have 50% on the internet, and it's growing to 100%. When it hits 100% we will have added between now and then another four billion people on the internet. It's one of the reasons 9/11 was such a watershed event.

11. Lower Transaction Costs. If the four billion that we are going to add have to pay the same kind of transaction costs that you and I are paying on PayPal or Visa, it isn't going to work. So, it's one of the reasons you see a push for cryptocurrencies – to find a way to significantly lower transaction costs. As those lower transaction costs combined with four billion people being added onto the internet, and you combine that with 5G and the internet of things, you are talking about explosive change and explosive opportunity for many, many economic players.

12. This is our old friend which we talked about in *The Rise of the Asian Consumer* in last year's 2nd Quarter Wrap Up, the **Per Capita Income of Asia Continues to Converge with the West**, and that is a very significant growth in consumer and other markets. It is one of the reasons control on the Silk Road is so important.

13. Keeping Inflation Rates Low. Can they continue to channel enormous fiscal and monetary largess into asset prices and the global stock markets in building out the global stock markets instead of letting hyperinflation happen on Main Street?

If you look at the Chapwood Index – and I encourage everybody who hasn't to please look at www.ChapwoodIndex.com – Main Street has experienced about a 50% increase in household good prices in the last five years. It's running at about from 8-13%, depending on where you are. Let's just pick an average of 10%. That's not hyperinflation, but it's very significant inflation if your income is flat or only going up 2%. It's the squeeze of the slow burn, and there is no doubt that it is accelerating.

If you can keep the largess of fiscal and monetary policy flowing into asset prices as opposed to hyperinflation, then you can continue to play this game. There are many different ways and strategies to keep the stock markets headed higher, and I don't underestimate the ability of the Trump Administration to take the lead on doing that.

What is the alternative scenario? Look at the Rambus charts, and you can see that the rise of the long-term trends up and the bull, particularly since 2013, very much relates to what happened after 9/11 – the buildout of a much more powerful national security state and a global war on terror. You move our armies globally and you have $17 trillion in missing money subsequent to that date. So, there is $21 trillion total missing. You have massive infusions to a variety of private players from the bailouts. So, between the bailouts delivering trillions, and the missing money delivering trillions, and the shift of armies globally and rendition centers globally, you are talking about massive steroids to build out the unipolar model.

The reality is that the unipolar model could unwind in some very ugly ways. No doubt about it, we are seeing a global slowdown in a variety of areas. So we could simply have a recession, but we could also have the unipolar model unwind in an ugly way. I think that is one of the reasons you are seeing such a ferocious push on Iran and the control of the Silk Road. But whether recession or an unwinding, we could see the equity markets really take a nose dive. That is part of the challenge of looking at this environment because you are talking about an enormous swing. Do we go up another 10-30% as the Trump Administration I believe is going to try to do, or do we go down 25-50% if recession or unwind of the unipolar model happens?

My handicap is about an 80/20 – an 80% chance that we make the 10-30% up very much driven by the advantages of new technology, or a 20% chance that we hit a 25-50% down in the markets and have a stagflation picture.

Here is the interesting thing: If you look at the kind of steroids that have to be brought to bear to get another 10-30%, I for one would prefer the 25-50% down. I just think that the level of violence and steroids that are going to happen on the 10-30% up I would rather do without, "Thank you very much".

I don't think that a strong stock market necessarily translates into a wonderful life for people. If anything, we are talking about more technocracy, more central control, more invasive AI and surveillance capitalism. So, I'm not necessarily looking forward to a higher stock market.

Rambus always says that this is the most hated bull market in history. I think that one of the reasons it's the most hated bull market in history is because, if you look at some of the things that are being done to make the earnings estimates, we are driving corporate earnings up in a way which is lowering the quality of the civilization and the quality of the overall economy.

Let's turn to some **issues** that I want to point out. It's numerous things that I think give you a better picture of what is happening.

If you look at the very big picture on investment, we are having a competition between our vision of peak resources and peak everything, and growing populations and environmental deterioration.

It's all the challenges that face us in terms of the sustainability of the model of: How we manage our resources on Planet Earth versus the blessings of new technology and human innovation and what they make possible.

The question is: Can we solve the problems before us, or will the problems overwhelm and outrace us?

It's interesting. Whenever I hear people talk about the end of the planet and, "The planet is dying," and, "This is going wrong and that is going wrong," one of the things that I always notice is, if you look at the top investors, they are working hard to print money and buy up everything. So, the 'bad guys' clearly believe in the future. Sometimes you wonder if all the negativity being pushed isn't to lower the prices so that they can scarf up everything.

I mentioned earlier that I want to underscore again to keep your eye on the extent of the negative interest rates because it really speaks to the extraordinary steroids that are being used to keep the economy pumping along.

Brexit is coming because Boris Johnson has won the election. We know what happened in the conservative party elections. Johnson won the tug-of-war, but can they do a hard Brexit? Brexit is coming, and that is a big event for the European Union to digest.

The trade war continues with China and I think it is going to continue to be one of tension. China is also struggling with high debt loads and an aging population. So, I continue to see that to be a situation that could spin out of control.

Iran is another hot spot. The Anglo-American alliance must dominate the Silk Road if they are going to keep their model together. If that model unwinds, watch markets go in a different direction in a big way.

Federal FASAB 56 is a very major issue because we are talking about the biggest securities issuer in the world and the biggest government in the world essentially leaving accounting behind.

So, the US government financial statements basically have become meaningless. Unfortunately, if you look at how Federal FASAB 56 combines with national security law, that means that all the large defense contractors and all the large banks have also left accounting behind, and their financial statements are meaningless. This means that the majority of the US securities market has gone dark.

We really are in 'Never-Neverland'. The question becomes: How do we discern economically what the real flow of resources are? It's something that I've written a great deal about. It was one of the reasons we made such an effort to get a major report in the *2018 Annual Wrap Up*. Those two volumes have been mailed to everybody who has ordered hard copies. I would strongly recommend you read Volume I because our coverage of the equity markets is now going to have to operate with very, very little accounting, and it's challenging.

I want to bring up Bayer, which purchased Monsanto. It's one of those stocks that shows you what a risky environment it is for even corporate management today. Bayer is now down more than 50% from its high in 2014. They can thank the purchase of Monsanto for that. It makes you wonder who is going to pick up all that land in the heartland.

Buybacks have been a major contributor to propping up the market. One of the ways that the corporate buyouts have occurred is corporations taking advantage of the low interest rates to borrow large amounts of money and then using that money to buy up their shares. It's levering up their balance sheet tremendously.

We are coming into a period where we have very significant corporate maturities next year or the year after. In combination with the fight in the sovereign bond market for liquidity, the questions are: How is corporate America going to handle those maturities? How are they going to get the refinancing done? And what is that going to mean to the stock market? It certainly means that they can't have the kind of buybacks that they have had to prop up the market. The corporate debt picture is potentially a very negative one for the stock market.

Pension funds. The pension fund crisis in the United States is coming to a head. There is no doubt that one of the reasons the Administration wants strong equity prices is to help prop up the pension funds. We are seeing a move to bail out the union plans and the multiple-employer plans. Don't be surprised if you see more proposals for bailing out the pension funds. Given the bailouts and the missing money, I don't see how the politicians can get out of that.

We are also watching new efforts to encourage more 401(k) funding – too little too late. Interestingly enough, there seems to be an effort to encourage place-based 401(k)s by small business. We will see if that is something that helps encourage local investment. More on that later.

When I was in Thailand in May, one thing that I saw was a remarkable development over the last 20 years in the managerial infrastructure in Asia. I'll never forget being in China in 1996. I was going to negotiate some database development deals with Chinese universities in Beijing and Shanghai. Basically, China had to import managers from Hong Kong and Singapore because they didn't have the managerial infrastructure. But if you see what they have accomplished in the last several decades, it is quite extraordinary.

We are now seeing in 25 years a wealth of entrepreneurial and managerial talent. As a result, you see throughout Asia the building of very significant companies that have the governance and management to really play on a global stage. It's very encouraging. It's one of the good things that is happening. I'm a great believer that the way to deal with investment in this environment is to focus on finding good companies wherever they are. We will discuss this later.

Bitcoin and cryptocurrencies continue, and I continue to see the cryptocurrency space to be a niche. If you look at the market capitalization at Bitcoin, it's about $200 billion. It has probably dropped through that with the recent price drops.

In the scheme of the financial markets, it's tiny. So, I see this market as continuing to prototype for the day when the central banks will essentially take it over, but it's a way now to help keep retail out of gold and keep the gold prices suppressed.

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I had thought that we were in a new pump on Bitcoin. It ran up to over $12,000, but it's now running back down below $8,000. So, we appear to be in a bit of a dump. The question is: Will they continue to pump it up this fall? Given the rise in the gold price, I expect to see a lot more pump on Bitcoin. But again, whenever you have anything this manipulated, anything can happen.

Private equity. We continue to watch plenty of the best investment opportunities creamed out of the market with private equity. It's a real concern because you're seeing float between the buybacks and the creaming of private equity and leverage buyout firms. You are continuing to see much of the best yields creamed out of the market.

Society is well-served by broad liquid markets. If you end up with a hierarchy of aristocracies that can skim off the best performances and deals, you ultimately 'kill the goose that laid the golden egg'.

We are seeing a significant increase in venture capital. Let me read some of my notes, "Venture capital funding in the US reached its highest level since the turn of the millennium. US venture funding climbed to $55 billion in the first six months of 2019. Internet companies profited most from the surge in VC funding, drawing a total of $22.6 billion in the first half of 2019. Healthcare and mobile telecommunication start-ups were the other main beneficiaries receiving $8.8 and $5.9 billion in venture capital.

Meanwhile, the number of unicorns, i.e. VC back companies valued at $1 billion reached a new high according to such and such… The US unicorn population climbed to 167 by the end of second quarter despite several large-scale exit in recent months."

So if you look at the venture part in the private equity market, things seem to be thriving. New technology is a big part of that, and a strong NASDAQ is going to continue to encourage that.

Finally **ESG**, which stands for '**Environmental, Social, and Governance'**, which I will be talking more about in the 1st Quarter theme, and we will publish next week. The ESG trend continues to be strong. My question, of course, is: Is that going to contribute to real change, or is it just going to be used to implement technocracy?

As you can see, many interesting things are occurring in the markets, and we see a lot of very positive trends and a lot of very negative. It's always the question of the bulls and the bears: Who is going to win out?

What do you do? What does this all mean to you? The likely scenario is that we are going to continue to see high inflation. I say that 50% increase in household goods over a five-year period is high inflation. I don't care what anybody else says. Yes, it's not hyperinflation, but to me it's very significant, and it is going to combine with low yields on fixed income.

If in 1980 you could get 8% on a bank CD, today you are going to get almost nothing.

So, we are going to continue to live with our household goods prices going up, up, up, but we will have a very difficult time trying to get any kind of yield on our savings.

I think that lawlessness and corruption is, if anything, going to continue. We are going to see significant pain in the heartland – whether in the farming sector or small business. Part of it is when you get these kinds of government steroids, they go to the insiders more than to the outsiders. I think that surveillance capitalism is going to make it much more difficult for the small companies to compete.

It's very important if you have your own business to understand what 5G potentially could mean to you. It means that your competitors are scarfing up all your information and data as we speak.

I see many people in America on a treadmill of mind control, bad food, bad water, bad media, bad healthcare, and the people who are succeeding are getting off the treadmill. I think that it is incredibly important to get off that treadmill, but there is no doubt that numerous people in the Main Street economy are not going to make it because they are emotionally stuck or addicted to that treadmill.

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If we look at our 80/20 scenario, let's assume that we have an 80% chance of the Dow going up another 10-30% and a 20% chance that it goes down 50% if and when the unipolar model unwinds. This is an environment where you want to be in real things. There is no doubt about it that the fiscal and monetary largess means that you need to

What does that mean? It means tangibles. It means good companies that have endurance and, more than anything in this environment given what is coming up with the corporate rollovers and maturities and debt, you want good companies with endurance and low debt. They have the capacity to either grow dividends or they have the capacity to successfully apply new technology in a way that is going to produce capital gains. I think that is the area where you are going to experience the best return.

There are many of those companies around. One of the big challenges for investors is that there are plenty of these great companies in Europe that are in a market which is underperforming the US market. I believe they represent a great investment, but there is no reason to believe that the European markets won't continue to underperform. So, you have to be able to break away from the index and index tracking if you are going to invest in them.

My clear strategy is to find the great companies who have products that can endure through this environment. Find the great companies that don't have highly-leveraged balance sheets, and be a company picker; don't worry about US versus European versus emerging markets. Find the great companies and stick with them.

One of the issues is that if you are going to be in the equity markets, are you going to use hedges or not? It really comes down to your capacity to live with significant volatility. There is no doubt that if you have used hedges over the last five years that you have given up a great deal of return. The hedges have been expensive.

The reality is that if you can't stand the volatility, we still run a risk in an 80/20 scenario where we could be down significantly. So, you have to be willing to pick those great companies and live through the downs. If you are buying companies that can produce a real dividend or produce real capital gains, it's not a problem; you just have to be willing to break mentally from the index and stick with the long-term buy and hold strategy.

Precious metals: I agree with Rambus. We look significantly better than we did a year ago, and it looks like we have returned to the bull. There is no doubt about it: Precious metals in this environment are a solid tangible. The question is: Can you buy them in a way where you have a low cost of carry? That is very, very important.

Income-producing or food-producing real estate is a great investment. Whoever is picking up all that land in the heartland is going to come out 'smelling like a rose' in 20 years. But you have to make sure that it is income-producing. Real estate can be the gift that keeps on giving.

I'll never forget when I was FHA Commissioner, I found a nursing home in our portfolio where we had foreclosed on the mortgage at $8 million on an $8 million mortgage. By the time I had found it, we had spent $20 million keeping the nursing home funded.

Just make sure that you are picking up something that is very significantly income-producing or food-producing.

Finally, remember the **emerging markets** outside of Asia are not converging with the developed markets. The developed markets have been much more attractive than the emerging markets, but as I noted when I was in Thailand: You still see individual companies that are doing very exciting things. So, I think that in the emerging markets you have to be very careful about the companies you underwrite, particularly outside of Asia.

No doubt that if I won the lottery today, I would be putting a significant investment into equities, but I would be looking for global excellence, and I would be very, very picky about the quality of management and governance – very picky.

Fixed income. I think that there are very significant credit quality issues. We see many managers looking for yield going to emerging markets and sovereign bonds. I'm not saying that there are no opportunities there, but I think that if you are going to take that kind of risk, I would rather be in excellent, high-quality companies.

We now see Legarde talking about doing away with cash. If you are in negative interest rates, it's just another way to harvest people.

Jeff Gundlach thinks that we are going back to 5-6% interest rates because there is going to be so much pressure on the corporate refinancings, but I don't see it. I never underestimate the ability of the central banks to push yields down in this environment. If you look at the dependency of government on low interest rate financing, I think that whether it's low yields or serious credit quality, the long-term bull market is over.

I could get interested again at a very high-quality municipal yielding 5%, but before then I want to stick with tangibles. I don't see the fixed income markets as having any opportunity.

If I were going to have money in fixed income, I would much rather have cash sitting in a safe deposit bank or a safe, which is why Legarde is talking about getting rid of cash.

What can you do to minimize your need for yield? This is an environment where if you look at what you are going to have to do to earn yield in the market other than through capital gains, it is much easier to invest money in a way that lowers your expenses. Buy your own land, get your own well, grow your own food, and move to an area with significantly lower taxes. If you are in a high tax area, do anything that you can to get out.

I was reading an article in *The Wall Street Journal* about couples who bought a yacht, and they are sailing around. That is one way to avoid jurisdictional issues.

Pay off your debt. This is not an environment to have fixed payments. Please be a spendthrift when it comes to investing money on your nutrition and health. Do anything that you can do to minimize risk by getting institutions and people who have low or no integrity out of your life. I am always shocked when I talk to a subscriber and discover that they are still banking with one of the large banks. They tell me, "My account is unimportant; I'm unimportant."

If you think you are unimportant, then you haven't heard a word I've said. You are basically letting transnational organized crime into your data flows. Energetically you are bringing them in. So, whether you are bringing them into your data or you are bringing them into your intimate energy, it is very, very dangerous. I think that with 5G it's going to get even more dangerous.

Anything that you can do as the environment is deflating incomes to deflate your expenses and invest in deflating your expenses, and do it yourself in this environment. That is an absolutely outstanding way to go. Anything that you can do to increase your learning metabolism to learn how to do more yourself is absolutely a way to go. Keep it in the family and look for opportunities.

I saw a father recently, and he said, "I took your advice, and I refinanced all four kids out of their mortgages. I can't say that I'm getting a great yield, but I sleep at night." Take it back to the family.

I have a few **closing thoughts**. I think that there is an extraordinary amount of opportunity in this environment, but it's offset with steadily rising risk. If you are going to achieve good returns in this environment, you have to invest as much, if not more, time in, what I call, 'predator evasion' and risk management, as in finding opportunities. It's important not to let the risk management and predator evasion get you overwhelmed so that you don't go looking for those opportunities. They are really there.

There is no doubt that change is accelerating and the way to surf that change is to keep looking and finding those opportunities. Just keep on learning.

Whatever you do, don't worry about whether or not there is a conspiracy. If you're not in a conspiracy, you need to start one!

Ladies and gentlemen, goodbye 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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