NEW ORLEANS 2015 INVESTMENT CONFERENCE

The World's Greatest Investment Event

October 28-31, 2015

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Mary Anne and Pamela Aden
"A Volatile And Deflationary Year: Is It All That Bad?"

Moderator: It's my great pleasure to introduce the next speakers who are not only people whose work I admire, but also they're good friends. I first met Pamela and Mary Ann Aden in Costa Rica – let's just say many, many, many years ago. They've been publishing and editing *The Aden Forecast.* It's now in its 34th year, and this is a newsletter that gives forecasts and precise forecasts on the precious metals, as well as currencies and stock markets around the world. And they also publish something called *Gold Charts R Us,* which is a weekly trading service now in its 13th year.

Anyway, it is my great pleasure to introduce to you Pamela Aden and Mary Anne Aden.

Mary Anne Aden: Thank you very much. And it's always just such a pleasure to be here and we appreciate that you came to hear us speak. And so we hope you're having a good time, too. It's just very good to be here. Today – I think we'll all agree it's been a pretty crazy year.

There's been a lot of surprises, a lot of concern, a lot of things we weren't expecting. And one of the most important is that deflation has been picking up a lot of steam. Today, though, we're gonna talk about why we don't think deflation is that bad, which is kind of like, the opposite of what most people think. But you'll see why it isn't. Not that it's great, but we'll also go over which markets look best and which markets you would want to avoid.

First, I think we'll all agree that there's – there's obviously a lot of global problems. But there's also a lot of opportunities. So, we've been following the markets, God, probably every single day for over 30 years. And this last year has been one for the records, I think. It's just been a tough one.

Basically, though, if you do follow the markets and you know what to be looking for and you just let the markets tell you what's going on instead of you trying to tell them. And you usually do a lot better than trying to absolutely have a view on what's gonna happen because it so often doesn't happen. When all is said and done, though, this year was really like a nothing year. Nothing really happened. It was boring.

A lot of the markets went down. And we used to have an old boss many years ago who used to joke about, "When markets are the way they've been this year, just go to Tahiti, 'cause there's nothing else to do. Take a vacation." And basically, this would have been a year to do that, because just about everything went down. And you'll see that on this first chart we're showing you.

Stocks, commodities, metals, currencies – all of the markets went down. And, in fact, the only market that was good – if you want to call it that; it wasn't that great – the only exception was the bond market. And even though everyone thinks bonds are boring, they have actually been one of the best investments. And cash was also a good investment for the first time in 25 years. Now, these are all deflationary signs, and it just makes sense, because deflation is truly becoming totally engrained into the economy.

That's why so many prices are going down. So, today, I'm just gonna quickly go over four main questions that we get asked all the time, and hopefully, we can provide you with a decent answer. And the first question is – who's the culprit? Like, why is this happening? And it's one word. It's debt.

Debt is growing by leaps and bounds. I'm sure none of you are surprised and you've all heard all the reasons why debt is growing so much, so I won't even talk about that. But the most surprising thing is that since the 2008 financial crisis, debt has gone up 40 percent. Now, if you'll remember back then, everybody was going to be deleveraging and trying to make things better. And, in fact, the opposite happened.

So, the government's just still spending like crazy, and debt – nothing – it's gotten worse rather than better. So, the next question – why should you care? Well, because we're all feeling the effects in one way or another. Big debt has really been the factor keeping a huge lid on economic growth, and that's why in the U.S., this has been the weakest recovery since World War II. And it's not only the U.S. It's the same in the rest of the world.

So, the point is – no matter what countries try to do – and believe me, they've tried a million things – they can't get their economies rolling along the way they would like. So, basically, this slow growth – kind of super sluggish growth – has become the new normal. That's important also, because China, as you know, had been the – kind of the engine of the global economy. It's now slowing, and it's not the engine anymore. In fact, it's being more of a drag, which just increases these deflationary pressures.

Meanwhile, interest rates have been at zero for seven years now. Now, this is a personal story of a girlfriend of mine who's very wealthy, but she's kind of a trust fund baby. She's been living on interest forever. And I remember about 10 years ago, she was just freaking out and rates had been coming down, and I think at that time, there were maybe six percent or so. And she said, "Well, tell me the truth. How low do you really think they could go?"

And at the time, I just hesitated; because we had been doing some research in the office, and the research showed that they might go down to three percent, which we thought was just crazy. So, I told her, and she just about died, and now, three percent would be great. So, it's like, it's all relative, I guess. But the point is – and many of you, I'm sure, fit into this boat – is that retirees, baby boomers, and savers, are all feeling the pinch by the hundreds of billions of dollars in lost interest. So, the next question – how long can this go on?

Well, it can go on for a really long time. The Federal Reserve keeps sending mixed signals and they're, oh, that they're gonna do it in December, they're gonna do it here. But the bottom line is that the fed cannot raise interest rates right now in this sluggish environment. That's basically it. And they're unlikely to raise them next year 'cause it's an election year.

So, it's just – it's to be seen when things are gonna change. And then this is just kind of a fun thing, but it's a little pop quiz, and I want you to raise your hands and see who gets the right answer. And whoever gets the right answer, we brought a little prize along. Okay. When was the last time interest rates were this low? Anybody want to take a guess?

Audience: 1933

Mary Anne Aden: 1933 over here.

Audience: Never.

Mary Anne Aden: Oh, who said, "Never" first? Okay. You're the winner. We do – literally. We brought an early Christmas gift here for you so you can pick it up.

Never, ever, ever have rates been this low. And they're tracked – as far back as 5,000 years ago is the first record of any interest rate when the first loans were made 3,000 years before Christ. So, basically, in the times of Genghis Khan, Julius Caesar, the rise and fall of the Egyptians, the Greeks, the Romans – all of these empires – the Great Depression – rates have never, ever, been this low, which is kind of scary. And it's totally unprecedented.

Now, a lot of people feel that means a big collapse is coming. And yeah, there's always a lot of scares – I'm sure you all hear them all the time. You'll hear them at this conference, too. And we're not saying that nothing's gonna happen. We could definitely see a crisis.

But we may not. And one thing that's important to keep in mind is that a lot of times, we just kind of keep plotting along. It doesn't mean you have to – this big, massive collapse. The last big collapse and big problem was 90 years ago in 1929, and then followed by the Great Depression. But these aren't things that happen all the time.

Now, the ingredients are there. It could happen, but it's not all bad. There are some opportunities. There are some signs that are good signs. There's a lot of good signs on the global scale.

People are better off than they've ever been. More people are being fed worldwide. There's more, believe it or not, more peace than in previous times. And super low interest rates have been driving – oh, I'm sorry. There. I forgot that one. There's the lowest rates in history.

I was gonna show you this chart. That goes back to 3000 B.C. So, you can see there how low they went. I was supposed to show you that, but I got excited about the present. Anyway, the real estate market – there it is – goes back 125 years.

And I'm sure a lot of you will remember the big crash following the last financial crisis in 2007-2008, but since then, real estate has been rebounding, and it's doing pretty good, and it has strongly benefited from the low interest rates. And so anyway, this takes us to the last question, which is – so, how's it all gonna end up? And, in a way, I think the bottom line right there is just that we are following Japan, and so is the rest of the world. And Japan, as you probably know, has been struggling with deflations, QE programs, recessions, slow-growth. They keep falling into a recession.

That's been going on for 20 years. They've had zero interest rates for decades. But somehow, they've plugged along. Their standard of living is pretty decent, and they've just adapted. Now, we've only been in this here in the United States for seven years, so there's nothing that says we can't just keep chugging along the way Japan has.

The result, though, has been very big changes in the investment world. Bad news is good news, good news is bad news – it's all crazy. Sometimes you'll hear some really bad news, but that makes the markets go up, because it means the fed's gonna do this and this and that. And really, the bottom line is that due to the manipulation and just hands on, so strongly, the fed and interest rates have become the market movers and replaced the free market. So, that's something – a new reality we have to – not so new, but compared to before, it is – that we have to deal with.

And then Pam will talk to you now about which markets look best and which to avoid. Thank you.

Pamela Aden: Good morning. Well, now I'll talk about the markets, but here, since we don't have enough workshop time, that we're gonna go on the big picture today 'cause that's what's most important anyway. When you see the big picture trends and know where they are, it makes – it crystalizes what you should be doing today a lot easier to make decisions and all that. So, I'd like to talk about the five top markets and the dos and don'ts of them. But number one that you want to do now – 'cause it is a deflationary world – is to invest in markets that do well during deflation.

When that changes, then we'll adjust, but until then, that's what's most important. And the number one market – which we don't talk about too much at this conference, but it's worth talking about – is the real estate market. As Mary Anne showed you, it's picking up. And as long as interest rates stay low – because that's really the driving force today, is interest rates – and therefore, the fed is gonna stay the market mover for a while. The fact that when it changes is gonna be an indicator, too.

So, that's something to watch as well, because right now, it is dictating all the markets. But as long as they stay low, real estate will continue up for income sake, for tangible sake. For many reasons, real estate has been up, and it's a global thing, too. It's not just the U.S. Like, on a personal side, in Costa Rica, real estate – especially the North Pacific beaches – they follow the U.S. market very closely, and they're picking up, too.

And some of the markets here in the U.S. are much – never really felt the heat like San Francisco, New York, and some others. But Costa Rica's picking up. Real estate market's trending around a lot of interest. The green seasons is now longer that low of a season anymore. You see people coming down any time.

So, there's more construction starting, and so we're seeing it there, too. And that also means other countries are seeing it as well. So, it is a phenomenon worldwide for real estate. And now number two is the bond market. I know it's not a very exciting market, but it actually is because it's the other side of interest – the long-term interest rates.

They had been the best investment, as you saw in the first chart, and this chart here shows you – well, first of all, I want to tell you that most investors didn't see the bond boom market coming because consider this – last year, was the beginning. In January, the tapering started for the massive bond-buying program by the fed of the QE program. And so when it started tapering, the bottoming and beginning of the rise of the bond market was going hand in hand. Here's the bond market – tapering started. So, it was interesting that when tapering stopped, the bond market took off.

And that's when it really took off. And it ended last year gaining 46 percent, which was 4 times more than the stock market. But really, it wasn't that talked about. That was what was interesting. But people were quick to say, "Yes, it's in a bubble. Bonds are in a bubble."

But we don't think they are in a bubble. Now, if you look at this chart, it's the long-term interest rate. It was 30-year and prior that was the long rate, going back to 1940. So, what I want to point out here is showing you mega-trends. Remember that's what I told you I was gonna show you today?

So, the 80-month moving average is the mega-trend for the 30-year yield, and that's at 3.55 percent. So, as long as interest rates – 30-year yield interest rates – stays below, say three and half just to keep it in your mind – then the trend, it will remain down since it has since 1981 in the 30-year yield, which is like the 10-year yield, which is like the mortgage rates. And so last January, you saw – late January you saw – that's where you see the 2015 low. It dipped down there to the 1950 low, and we think it can be tested once again. Which means it looks like we have at least one more leg in the bull market and bonds to go.

And probably, it can reach around two percent. Now, when you say, "Well, isn't it almost there yet?" Well, it is. It's at 2.85 percent. It's under three right now.

But going to two is a big deal for the bond move. It is a nice rise in the bond market. So, if you're invested in bonds, we'd keep them. And if you're not, it's still not too late to buy some. We wouldn't load up, but we would buy some.

But we don't think they are overextended, so we're looking at 2.8. That's where it is right now. And what's interesting is that with a yield at 2.85 percent, that's attractive in the world today compared to yields in other countries at 1 percent. So, you're looking at 2.85 is much better than 1, so we'll go to the U.S. bonds. Plus, the U.S. is looked at as a safe haven today in the world.

So, when you look at it in those terms, you see that it is attractive around the world, and so we're looking at probably 30-year yield end up reaching around 2 percent. And that would mean a 40 percent ride in the bond market. So, that's what we're watching for the yield. And then, for number three, the third one we're talking about for the markets – remember, I'm going on five – has been good for the stock market. Low interest rates have been very good for the stock market.

In fact, that's the main reason why stocks have been rising – and aside from the QE program as well. But caution – in fact, I have some interesting things in the worktop to show there, but for now, it's enough to show you that the slowing economy – chugging economy in the U.S. looking better than the world. But the fact that the world is chugging, China's hurting – that's gonna affect the U.S. and the stock market. And we are being cautious now in the stock market. Like, 2012 rise – which was a wonderful rise – we think it may be near the end of the line there, and we'd rather either just stay on the sidelines for now.

We think the stock market is at a crossroads, and here, it shows again, a bigger picture – well, the last 20 years of the S&P 500. And you can see again, this moving average. We like to best fit moving averages for the bigger picture. We think that really tells a good story. And this does for the S&P.

You can see that it never really – it was never a fake-out on the upside or the downside except in 2011, and at that point, that was when gold was soaring. That's when there was a lot of chaos, so it went up. So, now we already have a break, and the S&P did go below a 10 percent correction that everybody was waiting for. It was actually more. And it's bouncing up.

We think this could be the topping, and we think the transportations are probably leading. Now, what about the metals? We think that metals are starting to bottom. Now, I know that's a word that's probably overused, so we can understand if you don't like hearing that word, but we do feel that the downside is limited. The bear market's still in force, but we think like now, even more than say, even six months ago, we think the bottom is getting closer.

And we can still see some chuggy-ness. We can see some, maybe, lifelessness. But we think that 2016 is gonna provide a – and now and 2016 – is gonna provide a very good and one of the last buying opportunities for the metals market. And again – low interest rates without inflation is also attractive for the metals. They are looked at as secondary in the last few years, but as a safe haven – which, that'll eventually take over as the dollar tops.

And... let's see... Now, I wanted to show you here – oh, wait. I might have meant to go back a minute. Now, gold – the gold price is – again, this is the major trends in '68, and it's showing you on the 23-month moving average, the mega-trend again, the bigger trend. That's at 1225.

So, I know I'm giving you a lot of numbers, but it's 1225, bull market starts in gold, and so that's what we're looking. For the S&P, we're looking at 2040 to see if it wants to stay above that level for now, and that's the crossroad level. And so there's some key numbers on a big picture basis that are not too far away from where the market is today. That's what's most interesting. So, on the next chart, it's telling you that gold and the dollar – which the dollar is our last thing I'm gonna talk about for the major markets – and the dollar has been rising consistently since 2001, while gold declines since 2001.

But those five-year contra trends, as you want to call them – is what really what they are – the major trend is, when gold rises, the dollar declines and vice versa. And that has been the case since the dollar went off the gold standard back in the early '70s, So, this is telling you that – what's interesting here is that in 1980, 1995, and 2011, those were there three times that you had a five-year decline and a five-year rise in the dollar. This is versus the Swiss Franc. We think that's gonna be coming to an end next year, and we have other things that we'll be showing you in our workshop this afternoon at 4:30.

But these are the big trends and we think there's gonna be a huge potential for gold shares. We think they are truly bombed out in every way, in every form, and, in fact, they are on the bargain table like the big sale, the annual sale. And those are to be picking up as a long-term value investor. We will be picking some up and we would buy them a lot if we see the HUI get up above and stay above 166. We'd say that's gonna turn it really bullish.

It's unusually, awkwardly, and really strangely oversold in every aspect of the gold shares. So, they are on the bargain table, truly. And you want to buy – and for a long-term investor – meaning if you're planning to hold it, buy it and hold it for three to five years, even probably longer – then, yes, beautiful move we see coming up there. So, I see that my time has run out, so I just want to wrap up saying that we are having the workshop, and we also have a table tomorrow. So, we hope to see you there, and thank you very much.

Sean Brodrick
"Power Up Profits With Lower-For-Longer Oil Prices"

Now, our next featured speaker here, his first time in New Orleans, but he speaks at many of the resource-based conferences around the world. He's Sean Brodrick, co-founder of Oxford Resource Explorer. He's traveled everywhere from the diamond fields of the Arctic Circle to a gold project on the frigid southern tip of Argentina, the other Antarctic Circle. Sean's best-selling book, The

Ultimate Suburban Survivalist Guide helps readers prepare for and profit from any crisis. The title of his talk is "Power Up Profits with Lower-for-Longer Oil Prices." Please welcome Sean Brodrick.

Hi there, folks. Yes, I am Sean Brodrick. I hope you know who I am. If you don't, don't sweat it. It's okay. I normally open with a joke. I only have 20 minutes. I was cutting this thing down on the airplane trying to get here. I have 30 slides to get through. We're just gonna zip – all right? – like a bunch of flying monkeys 'cause otherwise we won't get to the end.

So I am going to speak about oil and gas. For a long time – and let me just go back. I changed the title of this presentation on the flight, and the reason is, for the first time in a long time, I have optimism that prices are going higher again – at least in a timeframe I can see. Before, I did not see that. I've been one of the lower-for-longer camp guys for quite some time, but there's a rally coming, and I'll explain why I think that is – at least in oil. Natural gas may take longer, but we have some things going on.

So natural gas, it is hard to find anything bullish to say about natural gas, right now. I mean prices just hit a three-year low, and we have El Niño, which all the meteorologists are telling us is leading to a warmer winter, so that's really screwing up the already huge supply we have. But there are some good things going on, and I'll get to those in a minute.

Just wanted to cover the fact that natural gas is at a record high, right? I mean most people know this, but a lot of this is from conventional natural gas, as a matter of fact. There's just more and more being produced all the time. It is a direct result of the shale gas revolution, but even more is coming on from the conventional natural gas place, and so we are having fewer rigs. It has no effect on prices whatsoever. I mean there's only 193 rigs drilling for natural gas.

The problem is because each of those rigs can now drill for a lot more gas than they ever could. Technology is improving. It's a big, booming story of what is going on in tech in the oil and gas fields, and so there is no real relationship or at least one you can measure between rigs and energy product. It really disconnected in like 2008. So when people talk about the rig count, look for something else. You should be spending your mind somewhere else.

So let's talk about El Niño, "the blob," and winter weather. This is the thing that just hammered natural gas prices this past week. We are gonna have, apparently, by those people who know weather, one of the strongest El Niño's in over 50 years, and traders think that it means a warm winter.

I would point out no two El Niños are exactly alike. The last time we had a strong El Niño, which was the 2010 season, it actually made things cold and snowy on the East Coast. So there haven't been enough El Niños that we've actually tracked to draw any super strong conclusion. They can tell you what they think will happen, and they actually have a pretty good guess.

But on the other hand, I would say that a lot of the bad news is priced in. And if we have an El Niño like the last El Niño we had, it could be a rather cold and snowy surprise for the East Coast. So we'll see how that goes.

And one thing no one's talking about anymore is "the blob." "The blob" – you can look this up on the Internet because this is something that meteorologists have been crowing about for like three years now. It sits out in the Pacific Ocean. It's a big patch of really warm water, and it's controlled the East Coast weather system since 2013. So maybe El Niño will show up to party, but it's already found out that "the blob" has already wrecked the house.

So there's a lot going in weather. People have priced in a very warm winter. You just have to know that there's a lot of stuff going on in weather, and weather is even more hard to predict in the markets, and the markets are very unpredictable. So I would point out that shale gas production of natural gas, which is the thing that got us into this huge over supply, is actually going down. Production from the largest U.S. shale gas deposits will drop for a fourth straight month in October.

So what we're seeing is we seem to be – I think we're close to a peak in U.S. natural gas production. We haven't seen the peak yet. It is still going up, but the new stuff coming on is from the conventional natural gas production, and the shale gas is already topping out. So that's the kind of thing you would see just for peak. So just as everybody is pricing in the apocalypse on natural gas, maybe the apocalypse is not what you should be pricing in. Maybe if you play these kinds of things, there are some really cheap options that can really work out for you, but only if you're a speculator.

Crude oil – let's talk about that a little bit. All right. U.S. crude oil production has peaked. In late May – early June – whenever you wanna call it, depending on how you measure it, it peaked about 9.6 million barrels per day. It's dropped off by a half million barrels per day since then, all right? And so you would think that would send prices higher. Why don't we have $55.00 – $65.00 per barrel of oil, right now? The problem is now the refineries are importing more, and they're still pressuring the U.S.-produced oil. So that's why we have incredible oil in storage – because it's a global market, and I'll get to that in a little bit.

Now, also, new production can be brought on rather quickly. There was a lot of wells that were drilled but not completed. You guys probably know about this. It's just that if we get back to $60.00 per barrel, then we'll probably see some of those wells that were drilled and not completed brought back on.

So there is kind of a cap on oil for now. And I'm not saying oil can't go lower because there are some things here, but there's also a lot of stuff going on that could actually push it higher. The U.S. rig counts – I just put this in here just to show that, like natural gas, there's no real connection between these things anymore. It is interesting that production from new wells drilled by each rig has risen about 30 percent, so each rig is about 30 percent more efficient than it used to be. So again, the rig counts just do not matter.

Oil storage remains near highs. U.S. crude oil stock's at 476.6 million barrels, and we are just seeing this huge amount. And, however, one interesting thing is that now the U.S. strategic petroleum reserve is going to start selling oil into the market starting in 2018 at an annual rate of 5 million barrels, and then they're gonna increase it to like 10 million barrels, later – eventually sell 8 percent of the SPR.

This is part of the budget deal that was worked out between the president and Congress. They're doing this to balance the budgets, one of the many hooks, ladders, and shades that they pull around to make that monstrosity they call a budget actually work. And so people looking at this as a bearish thing, five million barrels per year is not a lot. It's not a lot, and so it's not as bearish as people might think.

I'm actually look for a bigger decline in U.S. supply, and this is where my present station starts to shift to the bullish thing. I mean we are going to see production fall off quite a bit next year. We're down to 9.2, maybe 9.1 million barrels per day, now. It'll decrease probably to 8.8 million barrels per day in the first half of 2016. Shale oil output is just falling off a cliff 'cause those wells really deplete very quickly. And so as a result of this, an International Energy Agency says that growth and supplies from outside OPEC will grind to a halt in 2016, and we'll see output fall, even in Russia, which is one of the big oil powerhouses – Mexico and Europe.

So that's actually quite bullish, so we're gonna have to get to the global supply-and-demand picture. The world is oversupplied right now by 1.4 million barrels per day. What that means is that prices would be even lower except that the Chinese are destroying so much. They're building up their own strategic petroleum reserve. As we sell ours off, they are building one up, all right? So you can who might be the smart one in that situation.

Now, however, global supply has rose by 690,000 barrels a day in June alone. So we've had five consecutive quarters of oversupply, and this'll be the sixth quarter. So the market is oversupplied, but it's not going to stay that way forever. Part of the reason that it really happened was the surge we saw in OPEC production. I don't really have to tell you about that probably except that there's gonna be even more when the sanctions on Iran end.

And all this sounds bearish as heck, and you're thinking, "How is this guy gonna see any bullishness whatsoever?" I will get to that, but you do have to understand that we're gonna see more oil from Iran in the first half of next year.

All that said, you know what, the market has really priced that in already. And it has probably priced in the fact that Iraq is now increasing its production faster than Saudi Arabia increased its production. These countries are pumping flat out, now. They have to pump flat out.

Why do they have to pump flat out? Because cheap oil is crushing them. They have to sell every single barrel they can because the price is so low that they're having huge, huge budget gaps. And if prices remain as low as they are – and I'm not saying they will – then the Middle Eastern oil exporters would face a combined $1 trillion budget shortfall in the next 5 years.

This is what the banks have to figure on. This is what makes everyone so nervous, is they have these oil kingdoms that would be in real trouble if things continued the way they are. And they're worried about it so much, they're selling all the oil they can trying to squeeze out that extra dollar profit against the hard times that could come in case things got a lot cheaper. Goldman Sachs says oil is going to $20.00. I think they're wrong. I think we could see it dip lower, but I don't think $20.00's on the table, but people have to price that stuff in.

And one of the things that the pricing is that OPEC, if things continued low enough for long enough – right? – OPEC could go bankrupt. And how would they deal with that? How would they deal with the fact that they suddenly had to cover a lot of debts? Well, they own a lot of U.S. stocks. They own a lot of European stocks. They own Asian stocks. They own bonds and everything else. They'd have to sell those off.

So that's actually something that could precipitate a leg down in our market simply because the oil prices in Saudi Arabia can't cover their own bills. So they would have to use $1 trillion worth of their sovereign wealth, whether it's in gold or stocks or bonds – whatever – over the next 5 years if oil prices remain the same.

However, global demand is tepid right now, but it will rise. In fact, global demand rose 1.2 million barrels per day last year. It's adding 1.3 million barrels per day this year, in 2016, another 1.4 barrels per day. That's kinda gonna suck up the supply-demand gap that's just been weighing on the market so much, but that's not even the bullish thing. I'm just telling you what everyone pretty much has guessed already.

This is the bullish thing: oil investment is plunging, just falling off a cliff. None of the big companies want to invest in expensive oil projects with prices the way they are. Royal Dutch Shell just gave up on the Arctic, said, "No, that's it. We've had enough. We aren't gonna do it. Leave it to the Russians." And so $600 billion worth of upstream oil and gas projects scheduled between 2015 and 2019 have been canceled in just the last year alone. That would total 5 million barrels per day of production by 2020.

Now, that won't all come off at once. It's just stuff that was planned is not going to be there. When will we start to see that stuff that was supposedly in the pipeline not be in the pipeline anymore? My best guess would be 2017 – maybe late 2016. There will be projects that should've been completed that will not have been completed that aren't going to be there that the IEA and everybody else is using for their estimates of global oil supply. And so this means that I think that 4th quarter of 2016 – early 2017, we could start to see a shift back in the global oil supply-and-demand balance because demand, as I've shown you, keeps going up and up and up.

Now, higher prices would cure some of that, but at the same time, we have a huge and growing global population, at least one-third of whom wants to live like big, fat Americans, right? They're all buying cars and mopeds and stuff like that. They're driving around huge amount of oil and gasoline – whatever else being used in Asia, and that's something that this stuff here is not going to be there to supply when people are expecting it to be supplied. You don't look to the U.S. for growth; though, our gasoline usage is up I think three and a half percent in the past year, which is about double what anyone was expecting.

But you look to Asia, you look to Africa for the use growth, and there is some tremendous growth there. And with these projects being canceled – after all, this is just what's been canceled so far this year, right? What do you think will be cancelled, say, through the first half of 2016 when prices still continue in this terrible range? I'm expecting a range between $40.00 and $50.00, thinking that if oil gets down to $35.00, projects will be shut in. And if oil gets up to $60.00, then we'll start to see that extra supply that I was speaking about come back on.

So I'm looking for a $40.00 to $50.00 range. I haven't been wrong yet, and I think we can continue on in that range for a lot longer even though Goldman Sachs says $20.00. I think that they're kinda talking their own book there.

So crude oil conundrum: spending will fall. That's one way to cure prices, and, sure enough, we are seeing that. Demand for products will rise; yeah, we're seeing that. Oil company stock become cheap. Well, by many metrics, the oil majors, the big stocks, are near 35-year lows, and oil production will drop. We haven't seen that on a global basis yet.

We're seeing new production come on from Iraq. We're seeing promised production from Iran. Saudi Arabia's pumping flat out. We are seeing it fall in the U.S., but, so far, we haven't achieved that global balance that the oil market is looking for. When it comes, that could be quite exciting.

So there's two ways to do this. You can buy stocks that are really cheap and wait for them to go higher in 2017, or you can buy ones that you can be paid to wait. These, briefly, are ones that have been working out for us. Goodyear Tire and Rubber, there's a company that makes money because people drive more 'cause of cheap gas. And at the same time, one of the basic inputs it has, which is crude oil into making the tires, that's gone down, as has rubber. So I mean that's just the kind of thing that can do well in cheap oil. There are plenty of stocks that can do well in cheap oil.

But in energy stocks, I look for cash flow, plenty of cash to seize opportunities, big, fat dividends, but they have to be able to cover them, and a business that can profit even if oil prices go higher. My first pick would be Magellan Midstream Partners. I'm sure you guys have at least heard of this one. It's great. Things keep going up, but it gets sold off with everything else.

I'm not sure if the market's crazy or what. I mean this thing keeps doing better and better and better. If the underlying business is doing better and better and better and the stock is going down, that sounds like a buying opportunity to me. And it just raised its dividend again, and I think that'll work out for you.

Another one would be Enterprise Products Partners. It's the country's largest publicly traded pipeline master limited partnership. Price is down, but it's pumping that volume. Profits are up. It keeps raising its dividend, current yield: 5.7 percent. It's not going anywhere. It's gonna pay that dividend, too. So it's still in a downtrend, but you get paid nicely to wait on that one.

Oil tankers are in the sweet spot. Why? Because more oil is being pumped all over the place, and it has to be shipped around the world. There are now ports, especially in Europe and stuff like that, where there's just a sea of tankers out there waiting to be serviced, and it's not like people stop paying the rent on those tankers, right? So I like tankers a lot – Nordic American Tankers – that worked out well for us – DHT. TK is one of them that doesn't really pay a nice dividend, but it's a really well run business, so if you want more of a growth stock, you might look at that.

Scorpio is not up there 'cause it carries too much debt for me, but some people like Scorpio. You can make up your own mind on that one. But I like Nordic American, and I like DHT – fat dividends. They're doing well.

Refineries – we have three of those in Oxford Resource Explorer. They're doing well – keep raising their dividends. Phillips 66 reports October 30th. You might check that one out. Calumet Specialty Products just doing great – ten percent dividend yield or thereabouts, expected to rise for the next three years. Those are stocks that should do well through 2016.

When oil prices start to go higher, that's when you wanna take your profits on 'em. That's when we'll take our profits on 'em, but we've been holding 'em for a while, getting paid the dividends. We'll take whatever price appreciation we can take, and then we'll book. We'll shift to something else.

This one we added not too long ago. It was up like five and a half percent yesterday. Now, it had been down, so I think we're just a little above break even at this point. But, gosh, this is a growth monster.

Now, this is a company that's dealing with the hard stuff and dealing with it in a smart way. It's can do so well in the Permian Basin that it's selling all its Bakken stuff because for what it costs to drill a well in the Bakken, Occidental can drill six wells down in the Permian. Where do you wanna work, right? So it's gonna sell a lot of stuff and shift things around, but it's not frozen like a deer in the headlights. It's actually reacting to this stuff.

Ten, eleven, and twelve – these are three that I put in there that are beaten down like they've been banged on with iron hammers, but they can cover their dividends. They're doing very, very well, and I think that, again, sometimes, the market just has a disconnect. These are three that I think could do well longer term, and they pay you to wait.

When things come around in late 2016 – early 2017, then we'll be looking at different stocks, and so I hope you in tune in for then because we'll be picking up some things that have beaten – been steamrolled absolutely flat that can go much, much higher. This is a volatile market. Be safe, but be invested. Thank you very much.

Doug Casey
"How The Second Law Of Thermodynamics Can Save Whipped Dogs From The Greater Depression"

Moderator: Our first speaker this evening is Doug Casey. Virtually everyone knows Doug from his work and his writings but I thought it was appropriate to document just how extensive Doug's background is, and once I give you this information I think you'll understand why he is easily one of the three or four most influential people in what we will generally call the libertarian movement.

Doug is a world-renowned investor and author of six books. His *Crisis Investing* was on the New York Times bestseller list for 29 weeks, including 11 weeks at number one. His first book, *The International Man*, was the biggest selling book in the history of Rhodesia. His most recent are totally incorrect, and right on the money. He's currently completing a series of six novels. He has been a featured guest on hundreds of radio and TV show, including David Letterman, Merv Griffith, Charlie Rose, Phil Donahue, Regis Philbin, Maury Povich, NBC News and CNN, and has been the topic of numerous features and periodicals such as *Time, Forbes, People* and *The Washington Post*.

He is also founder of The Eris Society, a non-profit organization that for 30 years brought together over hundreds of the world's leading thinkers on a wide range of eclectic topics related to the arts, sciences, technology, finance and medicine. His firm, Casey Research, LLC publishes a variety of items and websites with a combined weekly audience in excess of 200,000 individuals around the world. Largely high net investors with an interest in resource development in international real estate. He currently also writes a weekly free publication, *Conversations with Casey*, available at CaseyResearch.com, and that's Casey, C-A-S-E-Y Research dot-com, CaseyResearch all one word for the web address.

Mr. Casey has visited over 135 countries, most of them several times, and lived in 10. He has been active in polo, skydiving, martial arts, scuba, auto racing and competitive shooting. He mainly lives in Cafayete, Argentina, Punta del Este, Uruguay, and Aspen, Colorado. And perhaps most interesting of all and the one thing I didn't know about Doug is that he attended a high school Catholic military school, and about the time of Vietnam. So I often wonder how the war would have turned out if Doug had become part of the command and control of that war. This is an extraordinary mind, a breadth of knowledge which is almost beyond belief. And tonight he is going to give a speech on a topic with a title that's almost beyond belief. Doug's title tonight is, "How the Second Law of Thermodynamics Can Save Whipped Dogs from the Greater Depression". Doug?

Doug Casey: Thanks. And to start off with I want to immediately thank Bob for having given his speech yesterday, which I hope you all heard. It was fantastic. And it should be voted the best speech of the conference.

So from the greetings and a warm hello – and it's true, I want to tell you how whipped dogs can profit from the coming collapse of Western civilization because the second law of thermodynamics will save them, and all of us, from the deep state.

Now I'll explain all these things. But as many of you know one of the things that I do for business and pleasure is I talk about the inevitable greater depression. And I'm here to tell you that the inevitable actually became reality in 2008. That's when the depression started. I look at it as a financial hurricane. And we enter the leading edge of the financial hurricane in 2007-2008, passed through the leading edge in 2009, and for the last few years we've been in the eye of the storm. And it's such a huge storm that it's been a big eye.

But now we're going out the trailing edge of the hurricane, and it's going to be much worse and much longer-lasting and much different than the unpleasant times we saw in 2008 and 2009. I'm here to tell you this interlude, the eye of the storm, has been financed by trillions of new currency units central banks have created all over the world. And this time around the black horsemen are going to realize your worst nightmares as they, again, crash through the doors and end the party. And this time they're not going to be riding children's ponies they're going to be riding armored Percherons.

Now to refresh your memories what is a depression? The best general definition of a depression is it's a period of time when most people's standard of living drops significantly. It's also a period of time when distortions and misallocations of capital are liquidated, and when the business cycle, which is caused by the government's currency inflation, a/k/a currency debasement, a/k/a inflation climaxes. Now the result of this is going to be high unemployment, business failures, uncompleted construction, bond defaults, stock market crashes and the like.

Now fortunately for those who benefit from the status quo and the trillions of new currency units that governments all around the world have created in the last few years, these things have delayed liquidation. But it also – what they've done has also insured that it's going to happen on a much greater scale.

Now what causes these problems that we've experienced or are going to experience? With the exception of natural events like fires, floods, earthquakes and so forth they're all caused directly and indirectly by the state through its wars, its taxation, its regulation and its inflation. And yes, yes, I know that human nature is really at fault for all of our problems, and the institution of the state is only a mass dramatization of all the psychological aberrations and demons that lie within all of us. But I don't want to go all the way down that rabbit hole now.

So let's just talk about the proximate, as opposed to the ultimate causes of the greater depression, which is starting again now. And here I want to talk about the nature of the state in general, and something I call the deep state in particular.

Now here's a key takeaway from this, if you don't remember anything else from what I say. I want to emphasize it because I expect most of everything else to bounce off everybody's minds. And here's the idea. The takeaway is this: that the very idea of the state itself is poisonous, it's evil, and it's intrinsically destructive. But like so many bad ideas people have come to assume that it's part of the cosmic firmament, when it's really just a pernicious scam.

It's a fraud, like your belief – which most of you have, that you have a right to free speech because of the first amendment. Or a right to armed because of the second amendment. That's a lie. You don't. The U.S. Constitution, first of all, is just an arbitrary piece of paper, entirely apart from the fact the whole thing is now just a dead letter and meaningless. You have a right to free speech and to be armed, not because of those thing but because they're necessary parts of being a free person. It's got nothing to do with the Constitution or tradition.

Now even though the essence of the state is coercion people have been taught to love and respect it. Most people think of state in the light of a quaint light, of a grade school civics book. They think it has something to do with we the people electing a Jimmy Stewart-like character to represent them. And then this ideal is a pernicious fiction because it idealizes, sanitizes and legitimizes an intrinsically evil and destructive institution which is based on force. As Mao once said, quite correctly, "It comes out of the barrel of a gun."

But things have gone far beyond that. We're now in the deep state. So let me explain the deep state to you, and I think you'll recognize it. The concept of the deep state originated in Turkey, which is appropriate since it's the heir to the totally corrupt Byzantine and Ottoman Empires. And the best Byzantine tradition, the deep state has insinuated itself throughout the fabric of what once was America. Its tendrils reach from Washington down to every part of civil society. It's like a metastasized cancer, and it can no longer be easily eradicated for that reason.

You know, I used to say, "There's nothing wrong with the U.S. that 10 megatons on the Capitol couldn't cure." I no longer say that, for two reasons. Number one, it's too dangerous to say that, and number two it's inaccurate. You'd need 10 megatons on the Capitol and 10 more bursts in a 10-mile quadrant because the state has expanded so greatly.

But unfortunately the deep state is much broader than just the government at this point. The deep state includes the heads of major corporations, all of whom are involved in selling to the state and enabling it. It includes Silicon Valley – at least those guys have a sense of humor with their motto, "Don't be evil." That's very funny. All the top people in the Fed, all the heads of major banks, brokers and insurers, yeah, and the presidents and many professors in top universities who act as recruiting centers for new members of the deep state, people that own the media of course, regulars at the Bohemian Grove and the Council on Foreign Relations, they epitomize the status quo and it's held together by power, money, propaganda.

How many people are in the deep state? Well, I'll go into that. But I divide the deep state into three tiers. And I compare it to a pack of dogs. The people I've just described are the top dogs. There's not many of them, 1,000, maybe 2,000. But there are several million more who aren't at the nexus but who depend on them directly and have considerable clout and support the deep state because it supports them.

Now who are "they"? This is the next tier down after the top dogs. It includes many of the wealthy, who got that way thanks to their state connections. About 1.5 million people in this county have top secret clearances, if you can believe that, it's true. Plus, many people in organized crime, especially the illegal drug business, little of which would exist without the state – mid-level types in the police, in the military, corporations and NGOs, of course, are members of this next round. In the past Brien's had speakers that would be called "top dogs" here at this conference. This year no top dogs; there's just a running dog, the guy that looks like Dr. Strangelove, who will be speaking tomorrow – no top dogs, though.

Now beyond these running dogs, which I've just described, there are scores and scores of millions on this country who depend on things remaining the way they are now. Fifty percent of Americans are net recipients of welfare and benefits from the state. There's 60 million people on Social Security (Ponzi scheme), 66 million on Medicaid, 50 million on food stamps, many, many millions on hundreds of other programs.

There are 23 million people employed by the government – I don't call them "working" for the government but they're employed by it. You might call this level of people, which are the vast majority of the population, you might call them whipped dogs. Why? They roll over on their backs and wet themselves if they're confronted by a top dog or a running dog who feels they're out of line.

And these three types of dogs make up the vast majority of the U.S. population. Now I trust that none of you are top dogs, running dogs, or (God forbid) whipped dogs. Unfortunately, however, dogs, as much as I love actual real dogs, are the enemy of wolves. And I consider myself to be someone of a lone wolf. And this is a problem if you're a lone wolf in a society run by dogs.

So the deep state is destructive but it's great for the people who are part of it. And like any living organism the prime directive of the deep state is survive. I mean that's the prime directive. And how does it survive? It survives by indoctrinating the fiction that it's necessary: "We need the government to do this. Who would build the roads? Who would build the schools?" These are ridiculous and stupid questions. I'll get into stupidity a little bit later. But it's a parasite that promotes the ridiculous notion that everybody can live at the expense of society in general.

Now you're asking yourself, "Well is it a conspiracy that's set up by a man stroking a white cat?" I think not. I find it hard enough to get a bunch of friends to agree on where to go for dinner, much less a bunch of power-hungry miscreants bent on running everybody else's life.

But on the other hand the top dogs all know each other, they went to the same schools, they belong to the same clubs, they socialize together. And most important, they have common interests, values and philosophies – although it's not a real conspiracy. Deep state rotates around the Washington Beltway and it imports America's wealth as tax revenues, where it's consumed by useless mouths, and then it exports nothing but destructive things. So that's who composes the deep state.

But what are they like? They're two types of people from a moral point of view. And this is really a question of morality, not – I'm not making an intellectual argument because the socialists don't listen to intellectual arguments. This is a spiritual one, a psychological problem that can't be cured with logic.

There are two types of people: people that believe in voluntary relationships and people that believe in coercion. Now guess what type tends to gravitate towards the state, and believe in it and take it seriously? And another way to look at it is some people want to control physical reality, and other people are just interested in controlling other people. Guess what type gravitate towards the state?

Now unfortunately the average guy conflates the U.S. government, which is a discrete entity with its own interests with America the country. They think that working for the government means serving the country. And they further conflate the U.S. nation-state with the idea of America, even though the two things are now actually antithetical to each other.

Now the problem is pretty obvious, in my opinion. The deep state is entrenched and it's growing stronger. That's why the rich, almost all of whom are top dogs or running dogs, are in fact getting richer. The question is can things we turned around? And the answer is yes, there's always hope. For instance, in 1973, after the communist Allende destroyed the Chilean economy he was replaced by Pinochet. And it's true he killed several thousand leftists in the process, but because of the reforms he made Chile is now by far the most prosperous country in Latin America. The average Chilean today has higher net worth than the average American, solely because of the fact their social security program was privatized in 1981.

Another example is Singapore, run by Lee Kuan Yew, since 165 – he's gone now. Back in those days Singapore was a dump. Now one out of six households in Singapore has one million dollars in disposable cash. And that is excluding the value of businesses, property or luxury goods.

Now both of these regimes were very unsavory dictatorships. They were distinguished only by their adoption of intelligent economic policies. And I've got to say that 95 percent of the time dictators don't make things better, they make things worse. And I actually expect we'll get a dictatorship in the U.S., but it's unlikely to improve things.

And there's examples of that. In 1789, in France, I would have applauded the overthrow of Louis XVI – except, then they got Robespierre. And then they got Napoleon. And in Russia in 1917 I would have applauded the overthrow of the Czar Nicholas, except then they got Lenin. And then they got Stalin. So if we get a dictator, or a dictator lookalike in this country, it's not going to get worse; it's going to get better. So if you agree with the analysis that I made before, just now, what are you going to do?

Now almost everybody looks for political solutions to problems. But for the reasons I have just given you once a deep state situation has taken over – and it has – only a revolution or a dictatorship can turn it around, and then only in a small country, like the two I just mentioned.

Now some of you are probably thinking, "Well, we should get behind the right candidate, maybe a Rand Paul –" who's not the right candidate, incidentally – but it would be an impossible situation if even a guy like Ron Paul was elected. Why? What would happen? First thing that would happen is there'd be a sit-down with the top dogs of the praetorian agencies and a bunch of Pentagon officers who would explain the way things work.

And if a guy survived that the next thing he'd be impeached by the running dogs in Congress. And if he survived that then the average whip dog American, who doesn't want to have his doggy dish broken, would revolt at the prospect. So you can forget about that. It's too late for that, in my opinion.

Remember, your fellow not only elected Obama but they re-elected him. So do you expect these people to be more rational once the greater depression really deepens? A lot of you are thinking, "Well yeah, yeah, but how about the police and the military? They're our friends." Forget it. They're part of the problem. They're not here to protect and serve you, they're here to protect and serve their colleagues first, their employers second, and then and only then, after a lot of propaganda, maybe you. But you're third in line.

So what are you going to do, based on this? For one thing don't waste your time and money trying to change the course of history. Trying to stop a little snowball rolling down the mountain might have worked many decades ago in this country but now it's turned into a gigantic avalanche and it's going to roll down the hill and smash the village, and it's time to stand in front of that avalanche just as sure as you're going to be washed away.

So what, you may ask, would I do if I was dictator of the U.S. and had absolutely no regard for my personal safety? I'll give you a seven-part program for entertainment purposes only.

First of all I'd allow the collapse of all zombie corporations: banks, brokers, insurers, government contractors. The real wealth that they supposedly own would still exist – it's just the corporate structures would vanish. So I'd allow them to collapse.

Second, abolish all regulatory agencies. Boobus Americanus believes that these regulatory agencies, of which there are scores, exist to protect him, that they're needed – not as big as they are but they're needed. But that's a lie. The FDA, for instance, the Food and Drug Administration, actually kills more Americans every year than the Defense Department does in a typical decade. The SEC – should be retitled the Swindlers Encouragement Consortium before it's abolished, lulls the average investor into thinking he's somehow protected. Meanwhile these agencies extract scores of billions out of the economy to feed useless mouths in return for throwing sand in the gears of the economy.
All right, that's number two.

Third, obviously, abolish the Fed. You need a sound currency to encourage savings and commerce and a productive economy, but actually you don't need a currency. That's a mistake. You don't need a currency. Gold is vastly better as money. So let's cut out the middle man. You don't need a currency.

Fourth, cut the size of the military by 90 percent. This is the most disgusting thing when I listen to these empty suits in the Republican debate. I mean all of them, they all want to start a war someplace. And that's something they can succeed in. So I'd cut the size of the military by 90 percent and abolish all the praetorian agencies because in addition to adding to the bankruptcy of the U.S. the military now is mainly an instrument for creating enemies around the world.

Five, I'd sell essentially all U.S. government assets. I mean some of them even have value, like the post office, even though it loses $5 billion per year and nobody uses it. But you've got the interstate highway system. You've got airports, the air traffic control system. You've got 650 million acres of land. That would liberate a huge amount of dead capital, and some of the returns could be used to pay off some of the government's debts. But I'll get to that in a moment.

Third, you have to eliminate the income tax as a start and replace it with nothing. And that would be possible if the other six things are done. The economy would boom.

And the seventh, and at this point a very important thing, is you have to default on the national debt and all contingent liabilities. That's somewhere between $20 and $200 trillion. Now the reason for this – I'll give you three reasons to default on the national debt.

First of all, I don't want to turn the next generation, several generations, into serfs who are going to be saddled with repaying it because they don't own the debt, but they're going to have to repay it. Second is to punish those people who have enabled the state by lending it money, so it's a matter of justice. And the third thing is hopefully to make it impossible for the U.S. government to borrow for a while.

Now I like this program from a practical point of view, although most of you think I'm telling a joke here; I'm not. Because why? From a practical point of view when a structure's about to collapse it's much wiser to conduct a controlled demolition than it is to just let it fall when no one expects. And secondly, from a philosophical point of view I like it because as Nietzsche observed: "That which is about to fall deserves to be pushed."

But now let me turn around the nature of what I'm saying and tell you that there are two very important reasons for optimism, and they are science and savings. Number one, science and technology are the mainsprings of progress. There are more scientists and engineers alive today than have lived in all human history put together. Unfortunately for Western civilization, however, most of them are Asians, not Americans. Most American PhDs don't have that in rocket science but their PhDs are in political science, or maybe gender studies.

Nonetheless the advancement of science leads me to believe that there's tremendous room for improvement in the world state. I believe that left to a free market the future can not only be better than you imagined but probably better than you can imagine. So science is an engineering or huge favorable thing.

And the second thing is savings. Things can recover very, very quickly in a free market because technology and skills don't vanish overnight. Everybody but a university economist knows that you have to produce more than you consume and save the difference if you want to avoid starving to death.

The problem's twofold, however. Number one, Americans have no savings – not you guys but most Americans – and to the contrary they have a lot of debt. And the problem with debt is this: it means that you're either consuming somebody else's savings, or your mortgaging your own future. That's what debt is all about. And even worse, since science today is capital-intensive, if you don't have capital, which is built by savings, you don't have science, certainly not in today's capital-intensive science world.

So if the U.S. destroys the dollar it's going to wipe out the capital and prudent savers and reward society's grasshoppers until they starve.

Well, of course Adam Smith observed, a couple hundred years ago, that there's a lot of ruin in a country. It took Rome a couple of centuries to collapse. And a look at how quickly China recovered from decades of truly criminal mismanagement. Since 1980 or even 1990 look what's happened. It's been transformed. So things really can be good. I'm just afraid that the U.S. might provoke World War Three with them, eventually. And then we'll see what a real zombie apocalypse looks like. But I always look at the bright side. So talk about free entertainment, huh?

Now let's get back to the real world. What should you do? And how will this all end? It's too bad that in his speech this morning Bob Meyer didn't have a chance to address those two topics. Told us what the problem was but what should we do? Well, I'll tell you. From a personal standpoint you should preserve capital by owning significant assets outside of your home country, because as severe as the market risks are your political risks are much more severe. I suggest foreign real estate in a country where you're viewed as an investor to be courted, as opposed to a milk cow, which you are here, or maybe a beef cow, eventually. On gold, it's no longer giveaway prices, but it's cheap, and I think a bull market is starting again. Look for bubbles that'll be inflated. I think small resource stocks are actually excellent buys at this point. And there could be a super bubble in them. And the other thing is short bubbles that are about to burst like – I'd say bonds in general, Japanese bonds, denominated in yen in particular. If you have a collectible car from the Sixties that you're treating as a financial asset I'd hid the bid tomorrow morning. If you have expensive property in New York, London, Sydney, Tokyo, San Francisco, Auckland, Shanghai, a number of other places in the world I'd get out of it.

Now let me wrap this up. You're wondering, "Wait a minute. What's this have to do with the second law of thermodynamics?" Okay, this is why you shouldn't worry about any of this stuff from a macro point of view. The planet happens to have been here for 4.5 billion years and it has a life of its own. You don't have to do anything to save the world; I'd advise against it. Instead you just have to rely on the second law of thermodynamics. Now there are very few laws that I believe in, but this happens to be one of them.

There are many ways of stating the laws and its corollaries. Now this isn't a lecture on physics and it's almost over anyway. But in essence the second law states that all systems wind down over time. Entropy conquers everything, systems collapse without constant new inputs of energy, and that the larger and more complex a system becomes the more energy it requires.

The second law states that nothing lasts forever. And in human affairs you can state the stupidity as a corollary to the second law, in that it throws sand into the gears of society and accelerates the tendency of things to collapse. But stupidity doesn't mean low intelligence. This is important to define this word properly. Most of the sociopaths who are acting as top dogs actually have very high IQs. But I want to draw to your attention a more useful definition of stupidity.

One is its inability to predict, not just the immediate and direct consequences of an action – a six-year-old can typically do that – but to predict the indirect and delayed consequences of an action. This is one reason why you can honestly say that everybody, like Janet Yellen and her cronies, they're stupid. They're not predicting the indirect and delayed consequences. But an even more useful definition of stupidity is it's an unwitting tendency to self-destruction. And it's why operations run by bad people always go bad, and why, since the deep state is necessarily run by bad people – I explained that earlier, who's drawn to the state – sociopaths are actively drawn to it – the deep state is necessarily going to collapse.

Now the second law not only assures that the deep state will collapse, but given enough time – actually all end of the world predictions are eventually going to be right up to the heat death of the universe itself – but unfortunately that includes Western civilization and the idea of America because nothing lasts forever.

And as for Western civilization it's had a fantastic run. Claims of the politically correct and the multiculturists aside, it's really the only civilization that amounts to a hill of beans on this whole planet. But it's even riskier calling a top to a civilization than it is to a stock or a bond market. I say Western civilization peaked just before World War One. And in the future it'll be a prestige item for Chines families to have European maids and houseboys. The shoe will be on the other foot.

As for America it was a very good idea, but it's already vanished, replaced by the United States, which is just one of 200 other nation states covering the face of the globe like a skin disease at this point. So that said, the U.S. as a civilization, I think, peaked in the '50s, mid to late '50s, and it's gone down decisively since about 1971. And right now it's just living on memories and momentum and Chinese money.

So let me bring this gloomy, Spenglerian view of the future and the world to close with some happy thoughts. You want to leave them laughing. Not everybody went down on the Titanic, okay? So let's further at the bright side. Just being born in America in the 20th century amounted to winning the cosmic lottery. You really got lucky just being able to be here. I mean you could have been born in Guinea or Zimbabwe, okay? So you're already way ahead of the game.

On the other hand if I wanted to make a fortune today I'd go to Africa, not here. But as the second law dictates that all good things, like America, must come to an end. So much all bad things, like the deep state in particular. And that's a cosmic certainty.

So finally it occurs to me that while I have explained why the second law will vanquish the deep state I've neglected to explain to you how whipped dogs can profit from the collapse of Western civilization. You're probably asking yourself that question. Well, it was a trick question because we all love the idea of justice, even if most people neither understand it or like it when its reality comes up. But justice will be done, which makes me very happy.

The answer is: whipped dogs can't profit from the collapse of Western civilization. That's because parasites can only live as long as their host lives. So whipped dogs are going to be washed away, and along with them, all the running dogs, and the top dogs. Which is why the final piece – that's why – that's the final piece of good news: I want to leave the guys – I don't know if we're going to win but the bad guys are going to be washed away. It will be like the final battle on "The Wild Bunch".

Okay, that's all I got to say on that subject. I've got a workshop somewhat after this, I think over there. So thank you very much.

Eric Coffin
"A Grizzly Miner's Bear Market Survival Guide"

Moderator: Our next general session speaker is Eric Coffin. Eric Coffin has been publishing *The Hard Rock Analyst*, or the HRA newsletter for over 20 years. HRA specializes in finding discovery plays and resource growth opportunities in the junior resource space. The average return for over 100 stocks sold from the HRA list from 2003 to 2015 is a staggering and truly remarkable – over 150 percent. That must be one of the single finest track records in the whole area of securities of whatever type.

Twenty-five of those sells results from larger companies taking over HRA list companies to get access to their discoveries. Mr. Coffin's topic this morning is: "A Grizzly Miner's Bear Market Survival Guide". Mr. Coffin?

Eric Coffin: The dog ate my homework. So if you're looking for slides you won't see them, but I will send a copy of the presentation when I can get into my laptop to everyone if Brien wants me to do that. I'm happy to send it a couple days from now. There's nothing in those slides that you're not going to see 450 times before Friday anyway. It's all pretty much standard general market stuff.

I'm going to touch on the macro stuff first, as I usually do. Did yesterday change the script? It might have. For the last few months, as my readers know, I've been kind of hovering between essentially two potential scenarios for the market going forward. One, which I consider – and I consider these two to be pretty much equally waited in terms of probabilities – one is a major correction or potentially a bear market. The other is sort of zero interest rates forever, or close enough to zero interest rates that anyone's going to care, forever, which could potentially give us a weak bull trend; I wouldn't expect – I don't really expect any kind of massive bull market continuation from here simply based on evaluations but enough love from the central banks could at least give us sort of a weak upward trend.

The second scenario would be the best one for those of us that trade and invest in precious metal stocks. That's the most likely to give us the near-term joy when it comes to the gold price. The first one I suspect would also actually give us some love when it comes to the gold market but it's going to be a lot bumpier, and there's probably going to be some nastier stuff at the start if we go the major correction/bear market route. I think gold comes out of that first but it gets sold, like everything else does, in a bear market.

Which way are we going to go? You know, as of yesterday, and obviously as of – still as of today, based on the way markets and especially the gold market is trading, you know, traders came out of yesterday's Fed decision saying to themselves, "That was a much more hawkish –" which it was – "statement coming from the FYMC. I mean they've got a serious credibility issue. They really frankly screwed up not raising rates a year and a half ago.

And having done that I think the Fed governors have come to the conclusion that if they don't do a rate increase of some description between now and the end of the year what little credibility they've got is completely shot. So I think the odds of an increase in December have probably gone up substantially.

In the year world should a 25 BP interest rate increase have any real impact on anything? Not really. I mean when you think about it it's pretty meaningless stuff. The only reason why it would is sentiment. When you get right down to it at the end of the day when you're dealing with markets you're dealing with sentiment as much as anything. You know, I could unroll statistics from here until tomorrow, this that and the other thing. But the truth of the matter is markets go up because there's more buyers than sellers and they go down because there's more sellers than buyers. You've got to look at what the average trader in the market is thinking.

Right now we're dealing with a relatively expensive market. I don't think this market can handle an extended period of bad news. And while I'm not expecting anything horrendous I've felt for some time – and I've been telling readers for a few months now that I think the slightly higher probability outcome is a major correction and potentially a bear market. And the reason for that's not complicated: it's earnings.

If you take a look at recent numbers on earnings for the S&P500 about three, four months ago consensus estimates turns negative. Actual revenues, if you talk about top knot earnings, I'm talking now about top line revenues they topped out a couple of quarters ago. It looks like we're probably going to have two quarters in a row of negative top line growth, revenues shrinking, in other words. We're almost certainly, unless somebody really pulls some ridiculous numbers out in the next week or two, we're going to have shrinkage in terms of declining earnings. Odds are reasonably high that's going to be followed up by another quarter of the same.

And while those aren't absolute guaranteed bear market material the truth of the matter is if you go back the last 30 or 40 years you might find one or two occasions where you had a couple of quarters of declining earnings and no recession and/or no contraction in the market with at least 20 percent. There's really only one or two instances of that in the last 40 or 50 years.

So regardless of what the market's doing today, regardless of how close it is, the all-time highs, given the rally in the last three or four weeks, I don't think any of us can ignore the fact that when you look at the earnings statistics, when you look at the trend that is something that has generated at last 20 percent corrections. I think there's one instance in the mid-'70s where we got two quarters of declining earnings and we didn't get a correction. So I think we've got to assume that's on the horizon, even though it doesn't look that way if you look at charts right now I think we've got to take that as a precursor to at least a 20 percent decline in the market.

Where that leaves us when it comes to metals, it really depends on which one you're dealing with. Gold I think we've probably seen a bottom for, but the enemy of gold, if you want to call it that, is the U.S. dollar. Right now it's the only game in town because people are assuming that we're going to see a rate increase from the fed, so that's got buyers in the U.S. dollar market again. It's had a couple of extremely strong days. It's not back to where it was in the spring.

But the other statistic that came out this morning actually about half an hour ago was, as I expected, GDP growth came in quite a bit lower than Q2; Q3 came in about 1.5 percent against about 3.8 percent for Q2. We're seeing some major deceleration. That feeds back into the comments and the argument I just made about both earnings top line revenue and earnings to sell rating. Although the U.S. is dominated by service sectors the simple truth is that when you look at the big companies, the S&P500 a lot of those companies are multinationals, they're exporters. The level of the U.S. dollar is important to those companies. If we continue getting this run-up in the dollar I think that's only going to worsen the earnings trend and increase the probability that we end up with a bear market in the next three to nine months.

So the dollar itself is going to be tough on the market. Really when you look at what determines currency fluctuations, when you look at currency pairs usually the major determinants between – and valuation between two currencies is real growth rates and interest rate differentials. Right now the U.S. is seeing a lot of push on its own currency because the ECB, Bank of Japan, Bank of China, probably Bank of Canada, probably Bank of England the way that their economy's slowed down. All of these different central banks are printing money and loosening monetary policy because they've got decelerations in their economy. So the assumption is we're going to get this widening interest rate gap between the U.S. and these other countries. That's really the biggest driver of the dollar right now.

The other one is the assumption that the U.S. is going to have higher real growth rates. Personally I'm not so sure that's going to be the case, certainly based on the GDP numbers we just saw half an hour ago. That gap has narrowed significantly. If the Fed decided not to pull the trigger again I'm not sure that would be smart. I wouldn't do that if I was the Fed. I think if they don't raise rates in December their credibility is completely shot. But if we see continued deceleration it is possible the Fed's just going to basically wimp out again. And that scenario could generate fairly rapid decline in the U.S. dollar. I'm not talking Armageddon, dollar goes to pennies or any of that nonsense. I'm talking U.S. dollar index going from 97, where it is right now, to low 90s, potentially the high 80s if the market decides the Fed's just not going to do it.

I don't think that's baked in the cake. That's only going to happen if we see continued deceleration and continue deterioration of the economic readings in the U.S. I don't think that's a done deal yet, but right now as of today that looks like a likely scenario. In that case we get the biggest move in terms of metals, precious metals, gold particularly.

Silver, to some extent, although silver is 50/50, an industrial metal. It's not just a precious metal so it does actually get a lot of its supply/demand movement is based on the economy because most of it actually gets consumed in industrial processes. So it's not quite the pure speculation, if you want to call it, that gold is.

Base metals you have to differentiate between ones that have got reasonable supply demand pictures going forward and ones that don't. I mean one of the things that I found most mind-boggling in the last year – as someone who was born in a mining town to a mining family I really didn't think the major miners were going to screw it up – again – the way they've done many times in the past. But somewhat to my amazement they actually did it. We've seen a large number of major mining companies really overleverage their balance sheets. They're in real trouble. It's not insurmountable, it's not something they can't get out of, but you're seeing a lot of transactions right now by the world's major mining houses to try to unwind debt and deleverage their balance sheets. That scenario makes it a little bit more difficult for these companies to cut production.

I frankly expected to see a quicker supply response in the case of most metals, and the reason why it's been slower is because a lot of these companies have got overleveraged balance sheets and frankly the miners are probably getting instructions from the bankers because when your balance sheet is that leveraged it's really the guys that are getting the interest payments that are calling the shots.

I saw this back in 2000; I saw it in the early '90s, I saw it in the early '80s. I mean I've seen this movie so many times in the mining sector. I really thought these guys weren't going to do this again. But to my amazement they actually have. We're in a low interest rate environment so it's not insoluble but it is lengthening the supply response. And the companies that are probably in the biggest trouble when it comes to that, if you want to look at metal sectors are basically coal, iron ore, potash is better but it's also probably in a position where you're not going to see a supply response very quickly. So essentially I would say coal, iron ore, potash, short-term I would stay away from them. I don't see any of those things seeing higher prices in the near future.

Base metals, copper you are in fact starting to see some supply response. I don't think the supply is going to be quite as high next year as a lot of forecasters are assuming. One interesting thing with the copper market – and this is the way copper miners operate – if you look at industry statistics and industry projections every year the copper miner – and there's two or three industry groups that put out these projections of what their production's going to be next year – copper miners are apparently an optimistic bunch because they've overestimated forward production every year for the last 25 years. Every single year they come in like a million tons high. I'm not sure they'll be that much higher this time but certainly even if they come in half a million tons less than they estimate – and like I said, they basically do that year after year after year. They always estimate high.

I would expect to see not much of a surplus next year. The elephant in the room of course is China. I'm assuming China's going to come in with, say, 5-1/2 to 6 percent growth next year. They're not going to do the 7 percent they want to but I'm not expecting China to fall off a cliff. So all these numbers I'm throwing around are based on the assumption that China's not in fact going to fall off a cliff and contract. So I expect copper market to be fairly balanced. I was mildly bearish on copper for the last couple years. I may see a little more downside from the 230 level it's at now but I think once we get through the this slowdown that I think the western economies are going to have I expect enough supply response for prices to maybe dip down below 2 but probably not much below that. And if it goes down to 2 you will see a substantial supply response. You will see companies closing mines left, right and center.

A couple of companies that I've followed to take advantage of that that I think are good ones, one is Nevsun, NSU on Toronto. It's a company I've followed for a long time. One mine operation in Eritrea, incredibly profitable, great mining operation, great management. The company's trading at about 4 – I think it's about 4.40 right now on Toronto; 3.50 in New York. About 75 percent of its price is backed up by cash in the bank. It spends huge cash flow.

They're looking for – have been for years – looking for takeovers or merger opportunities. They haven't settled on anything yet. But there's always a potential for these guys to do a transaction. Failing that I think the potential for them to be taken over is reasonably high. A lot of miners, a lot of people aren't that comfortable with Eritrea, although they seem to be able to operate successfully there. But it's getting to the point where their literal cash value, which is sitting in accounts in the Virgin Islands, it's not in Eritrea, it's getting so high and has grown so much quarterly but I think the potential for them simply to get taken out by somebody who is going after – who says to themselves, "4.50? I got 3.50 in cash on the balance sheet right away. I got an operation that's spinning about 20 million bucks a quarter. Even if things go sideways in Eritrea I can't really go that far wrong." So I think the odds of that thing being taken out are fairly high.

Another company that I follow that's actually in Eritrea but earlier stage is called Sunridge, that's SDG on Vancouver. They have just gotten their mining permits for their project in Eritrea that surrounds, at three or four concessions that surround the capital city. Good project, very good numbers on their feasibility study. They've gone to sort of a staged production scenario where their first stage of production would actually only cost them about $30 or $40 million to do high grade direct shipping. They've got about 60 or 70 million pounds of copper and direct shipping ore. They don't actually have to build a mill for it; they just dig the stuff out, throw it in bags and ship it off.

It's a very good-looking product. I don't think they'll have any trouble finding smelter groups that are willing to front them some money to get this going. So I don't think their financing risk is that high. It's trading at about 16-17 cents. But again, I think the potential for that one to be a takeover candidate – I know there's Chinese companies that have been circling it for a few years now. Whether these guys actually pull the trigger I don't know. The Chinese SOEs are famous for coming in and talking a big game but they don't always actually pull the trigger. I don't know whether they will but I think it's got good upside short term just based on getting this DSO operation into production.

On the gold side I'll talk about two or three development stories. One of them is Kaminak, which I'm sure everybody and their dog's mentioned. KAM on Vancouver. Very high-grade oxide deposit. That seems unusual when you see where it is in the Yukon. I won't bore you with the details but the Yukon's one of those areas that actually missed the last three or four glaciations. That's why you actually have oxide deposits there. Even though it's that far north it didn't actually – it didn't take part in the last three or four ice ages.

So they've got a nice oxide deposit, about 1-1/2 gram average. Very low op ex and relatively low cap ex based on their PEA. They will be putting out a feasibility study probably – I'm going to say two, three months. I don't think they're that far away from it. It should be early 2016. They have a lot of backing from some big names in the sector. I think Kaminak's one of those ones that's highly likely to be taken over before they actually go into production. Failing that I think they'll get the finance to go into production.

A couple of other sort of higher grade stories that I've followed one's called GoldQuest. It's a company I've followed off and on for years, GQC on Toronto. They have about a 3 million ounce gold equivalent resource in the Dominican Republic. I like the Dominican Republic. I'm a fairly big fan of the place. I like the belt that they're in. It's their discovery; it's called the Tireo belt. It really didn't exist before GoldQuest came along. I think there's room for a lot more discoveries in that belt. They've got a fairly large project and quite a few targets they've barely touched yet. They're also in pre-feasibility level now. Their resource Romero has pretty high grades. If you look at their PEA numbers they're quite strong, cap ex in the 120 to 130 range, payback in two years, post-tax IRR in the mid-30s.

So it's a pretty strong looking project, and it's important to point out that the guys who run this company they ran another company called the GlobeStar, which is one of those 25 companies that got taken out which found, developed and built the copper mining operation in the Dominican Republic. So these guys, one, they know how to get a mine built but they also know how to get it permitted, which is a really big deal in most parts of the world.

Another high-grade company that I'll mention that I follow, it's one called Lion One. They have a very high-grade gold project in Fiji. It's already fully permitted. They have all their permits already. At this point it's a financing exercise. I know the guy that's chairman of the company very well. Wally has been around for about 30 years. He's got three or four highly-successful deals, takeovers in his background. I think Wally's a guy that's going to get it done when it comes to financing. So that's one I like. And it's a fairly tight stock so if Wally gets this financing done there's room for a fairly big boost in price on a financing announcement. And I know he's running around Australia and China right now, working on that. So I think the odds of a favorable outcome on the finance side are fairly high on that one. And it's a low cap ex as well: $20 to $30 million. It's not one of these billions and billions and billions of dollars to get the thing going. It's fairly simple, straightforward operation.

Weirdly enough – and this is weird because there's usually some overlap in my list and Brien's – there aren't actually any companies that one of us follows at the show this year. But I am going to – I do think one of the important things at these shows is to get a chance for you to walk over and look at some of the companies in the next room. It's important to go and introduce yourself to these guys. It's your best chance to really get a feel for management and talk to them face to face.

So even though they're not official recommendations in the newsletter I'm going to just throw three or four names that I know are across the hall at you. One of them is Sabina. Sabina has a very nice, fairly high-grade gold project, good feasibility numbers. There's two routes they can go: high production, lower production. Both of them are actually fairly high level, multi-year operations. It's a very mid-tier miner sort of operation. It's the sort of thing that's highly likely to be a takeover candidate. Don't be scared off too much by the location because it's quite far north. But there's actually ways to very successfully work around that kind of location with ice roads, especially if you're a gold project rather than, say, like a zinc or a coal or an iron project where you're shipping huge amounts of stuff. You've got to remember the annual output of a fairly large gold mine, if you stacked all the bricks, it isn't bigger than about half that desk. So you can actually work in places like this as long as you get things set up, and northerners know how to do it. Sabina is one that's up there.

Auryn Resources is taking over another company called North Country Gold. They also have actually a very similar kind of project, also fairly far north. I would look at both of those companies. As long as we're sticking with staying really cold take a look at NovaCopper. I'm not sold on that one yet simply because of timelines. I'm not sure how long it's going to take them to get through the permitting process, but their copper project in Alaska is very, very impressive, actually.

And probably the fourth one I can think of off the top of my head that I know is here is First Mining Finance. They're the ones that are – First Mining Finance is basically trying to set up a company where they will – it's not so much a prospect generator as it is an investment vehicle. The key to that one working is going to be the company itself being able to promote itself well enough to do deals without being overly delusional to their own shareholders. I don't follow it yet because I'm still – I still have to be sold on them being able to do that.

But it's a very strong group that's had three or four successes behind them and groups like that are generally worth looking at. So those four from across the street, none of which I actually follow in the newsletter, all of which I could potentially following in the newsletter because I like all of them, are worth a look. And you know, at the end of the day the guys across the hall help pay for the gumbo, so it's just polite to walk over and say hi to them.

That's it for me today. I'm going to move on. Thanks very much.

Brent Cook (Pre-Conference Workshop)
"Insights Into The Business Of Exploration"

Brent Cook: So the title of our talk, our panel discussion today is Insights into the Business of Exploration, and I should also include that and the business of mining, because this year we're fortunate enough to have at least one fellow who is operating a mine, another in the process of developing it and the third who's actually made one of the most important uranium discoveries in at least a decade, so it's a good panel. My goal during this 45 minutes is to really provide you all with insights into how these people think about the business, how they operate the business, how they work through both the financial and technical issues in a way that they're successful and success in my book means an increase in the share price, that's really what we're talking about, not market cap, share price. So I hope by the end of this you'll have a much better understanding of how they actually work, get a feel for what's real and what's BS and at the end, we'll leave some time for some questions as well. I – and if something comes up that doesn't quite click or you don't really know what – you have a question, just raise your hand and we'll get right into it. Because we want to – this is for you to learn more about this industry.

I think personally we're at a very critical time, this is a boom-bust industry and we're definitely seeing the bust and we're getting every year closer to the boom. So with that in mind, what I'll do is I'll just briefly introduce the fellows and let them give a introduction to themselves, if you will. I'll start with Bruce McLeod, who is president of Sabina Mining and a mining engineer. Bruce?

Bruce McLeod: Thank you, Brent. I am the president and CEO of Sabina Gold and Silver. We are a development company, our primary asset is the Back River deposit, Nunavut of Canada. Total ounces of a little over seven million ounces and six grams. Very high grade deposit. My background in the industry is, as I like to say, I've had two jobs, I've had a paper route and then I've been in the mining business. I'm third generation in the mining side. I worked my way through the ranks of – as a miner operator to eventually went back to school in Montana, in Butte, to – for a degree in mining engineering and have been involved in exploration, development, construction operations for my entire career. Thank you very much for having me on the panel today.

Brent Cook: Thanks, Bruce. Ross McElroy is the president and also a geologist at Fission Uranium. Ross?

Ross McElroy: Sure. Well, Fission Uranium is a company that primarily focus on uranium exploration in the Athabasca Basin, which is Canada's, well, only uranium mining district, current production. But it's also the most important uranium area in the world, as well. So it's a premier jurisdiction. I've been working in this business now for close to 30 years, I came out of school in the mid-'80s armed with a degree in petroleum geology at a time when oil was trading at $5 a barrel. Couldn't find any work in that business at the time, I was lucky enough to be employed by Cameco, worked on my first project I was thrown into was McArthur River discovery, which was – is now the world's biggest high-grade uranium mine, and spent a bit of time working years at BHB in gold exploration and development where we made some major discoveries up in the Holt Bay district, eventually sold off those assets to what I think is now TMAC Resources, which is now the current owner of those properties. Involved in diamond production, so my experience is basically exploration through to development and mining, as well. Thank you.

Brent Cook: Thanks, Ross. And finally we've got Paul Huet, who is a real miner and also president of Klondex. Paul?

Paul Huet: Thanks, Brent. Thank you for being here today. Little bit about my background. I started mining in '87 in the northern part of Canada. I was unfortunately one of those Canadian boys who was a bad hockey player, so at 18 years old, I found myself working in a mine, similar to some of the stories I'm hearing today. I actually mined for ten years, drilling and blasting, driving lots of vertical tunnels and horizontal tunnels underground. At the age of 30, I found myself going to college for the first time in my life, getting a mining degree, which led me to, after graduating, come to the US. I spend the last 15 years of my career in the US. I've been mining now for 28 years. Klondex has two underground mines we feed in northern Nevada. We feed a central mill, the Midas mill. We've evolved quickly from an explorer to a producer, last year being our first year of production ever. I'm very happy to be here today.

Brent Cook: Excellent, thank you. And for those of you who don’t know who I am, I'm Brent Cook, I'm a geologist, I write an investment letter, Exploration Insights. The letter is about basically what I'm doing with my money in this sector, what I'm seeing and basically what you get from me is an opinion that's not biased by anyone else.

So anyway, let's get – I want to start off with the big picture. We know it's been bad out there, we've all – we know what it's been like as shareholders at various companies. But I'd like to get a feel from you three as to what you're seeing out there in terms of what are the bankers and funds telling you that when you're out promoting and marketing, what is it that you're seeing, what's the sentiment out there? I'll start with you, Ross.

Ross McElroy: Well, we spend an awful lot of time on the road. We have shareholders in Canada, we have quite a large, significant group in the US, as well, and over in Europe in London and Asia, as well. So it's – we're – we do meet with people probably on a quarter basis. So it means we spend a lot of time on the road talking to bankers, we feel it's important to have a lot of face-to-face discussions and I guess the sentiment out there that I always find is well, you have to have a good project. I think in today's market, that's a given. But bankers tend to – and people – investors in general, I think, like to back good, successful teams, and I think that's a key.

So you want people that have a track record, then you have a good chance of catching the ear. So if you've made success before, they'll find it again, but it is a difficult time right now, there's no two ways about it. A good quality asset is certainly – it makes it a lot easier and also you have to continue the work. You need to be delivering new news all the time, and I guess that's – we find there's some optimism out there, it's not all doom and gloom, but we're certainly struggling through the lower parts of our sector right now.

Brent Cook: Would you say it's worse, the same or better than the '97 to 2001 bust? How would you compare it?

Ross McElroy: Well, I was sheltered in the '97 to 2001 somewhat working for BHP at the time, so there was – we had – on the project I was at had all the attention, which was Hud Bay gold, so they had a lot of funding and then the diamonds was just starting up. So I – from a junior perspective, I was probably a little bit sheltered.

But it's difficult now, this is probably one of the longest and hardest low points in this sector. I mean, I've seen probably three cycles now so far, this is maybe the most challenging I would say.

Brent Cook: All right, and Bruce, you're out doing a lot of marketing as well with I guess the develop – progressing development story. What are you seeing and learning and hearing?

Bruce McLeod: The sentiment is quite different depending on who you're speaking to is – as I'm sure many of the people in this room and myself included that have been very close to the business, they're – the resource funds, Toronto-based resource funds, which in this last numbers cycles have been some of the largest providers of capital, they are probably the most pessimistic of any. And I think part of it is they've been facing redemptions, they haven't seen nee inflows of capital, they've had to sell some of their better, more liquid names, and I'm obviously generalizing. So because of all that, I think they've been very pessimistic.

Where I'm starting to see the optimism is from the we'll call it small generalist funds, the $200 million to $300 million market cap generalist funds who haven't been overly weighted or many of these no weighting to metals in mining and precious metals. And what they're doing right now is seeing the – some weakness in the Dow and the NASDAQ and S&P.

And so what they've been doing is looking more at some of the deep value stocks and sectors out there, and where you're getting some optimism is they're starting to, for the first time, I think, in – since this last cycle is actually starting to do due diligence, looking at quality assets, looking at what they consider deep value. And I think from that sector, there's been some optimism.

Brent Cook: Would you say these new investors, this new money into the sector is sophisticated? Are they really digging into these things or are they going to get burned like a lot of the funds got burned last time?

Bruce McLeod: Well, it – I don't think I can answer that question across the board, but I was in New York last week and meeting with a fund and it became fairly apparent to me that the person sitting across the table, although he was with a generalist fund, it wasn't a mining specific, was asking me some of the more detailed, better questions that I've been asked by many of the investors. And it turns out at the end of the meeting I asked what his background was and he was with Anglo Gold before and several other majors.

So I think that the more sophisticated funds that have decided that there's been a sector rotation and maybe this is a place they should be looking have actually bolstered up some of their bench strength. Now, with that being said, you've got an awful lot of generalists that just truly don't understand the sector. And will they get burned, I think right now the – what will calm the survivors, the companies that have quality assets with quality people that have the experience to move them forward, develop them, execute them, explore them, operate them, I think that it'd be very hard to go wrong at this part of the cycle. The question is is timing.

All I know is we're one day closer to the end of this bottom end cycle than we were yesterday, but I think long term is picking quality people and quality assets. I can't see them getting burned, but I guess the $64 question is do they have the bench strength to be able to separate the good from the bad.

Brent Cook: Yeah, that's a good point. Paul, are you seeing anything different in your travels about the financial world?

Paul Huet: Yeah, so we've been marketing a lot, as well, and based on the responses I'm hearing today, we're seeing a lot of similarities. The one thing we have noticed lately with our marketing has been some very encouraging meetings we've taken with generalists, which hasn't happened in the last two years. We haven't had any active generalists looking at our stock or our story or in our sector for quite a while now. So that is starting to see at turnaround sign. So it's very encouraging for us to see the, and actually taken to the meetings and we're actually seeing some of them actually doing some buying, which has been very encouraging for us.

So with that, that's very helpful for us. I've been in this sector for several years now and I remember the '97 to 2001, whether or not this is worse or not, that's a tough one to answer. But at this point, I think we're starting to realize some of the bottoms. I think there's many opportunities now. As Bruce pointed out, the survivors are – there's some strong ones, there's some good assets. Putting your money behind a key management is always critical and seeing where they put their money.

In our case, most of our management team not only are we very committed but we've put our own money and our own families' inheritance alongside our shareholders, so if it falls apart, then we're going to suffer, as well. So looking at the trends of the people who've been successful with good assets are definitely – you're going to see some successes come out and some consolidation here. We're already seeing some consolidation. There's some great opportunities and now's a good time to be buying.

Brent Cook: It's interesting, I was at the Sprott Stansbury conference in Vancouver last – I guess it was July, and that it was mostly consisted of maybe a dozen various newsletter writers for the Stansbury Group, and they cover everything, not just mining at all. They're generalists, I guess. And again, the theme that I got from them was saying they're looking at this sector as a way – a value – undervalued play, as a contrarian play.

So you're getting that sense anyway, I agree. I want to get into now how you guys are actually successful or how you succeed, and not going into ten minutes of this, but let's start with Ross within exploration discovery, the POS discovery in Sas in the Athabasca Basin. How did that come about? How long did it take, what was it that keyed you into it and when did you know you had something?

Ross McElroy: Well, just start with a general paintbrush of what uranium's like in the Athabasca Basin. Currently all of Canada's production comes out of the eastern side of the basin along a belt that runs along the eastern margin. That's quite a large geologic formation, it's – what is it, about 500,000 square kilometers. So it's a big thing. But Cameco has basically been the company that's focused on the eastern side.

I spent a couple of years, a bit more than that, actually, a few years with Arriva, the French multi-conglomerate, and they had mining operations over in the western side of the basin. They were sort of thinking of things a little bit differently than the way Cameco did. The one thing I got, one of the models of the Cluff Lake Mine which was out on the west side that Arriva operated, it was often thought of as a one-off type deposit. It was part and parcel of a meteorite impact and so therefore the uranium that was exposed there was probably due to an impact and maybe not a repeatable thing.

I didn't quite buy that argument, I actually saw a lot of similarities on the western side as the eastern side. We also employed another idea, we were actually exploring outside of the basin margins, whereas everybody was looking inside the basin, thinking that there was something there. But these are old deposits that they – the basin that is today is not the basin that was several hundred million years ago to a billion years ago, whenever these deposits were formed. So you have to kind of put yourself back into that mind frame.

And with that and looking at similarities in geology on both sides, we staked a package of land and kind of used – employed some of the same techniques that worked on the eastern side to the west, and lo and behold, in an area that nobody had really been looking or exploring, we found what's now the third largest deposit. And not only that, it's near surface, so it's only 50 meters below the surface. And it was kind of taking what – things that people already knew, employing some new ways of looking at it, there's been some changes in the uranium models over the last couple of decades and I think employing all of that now that that's really what led us to pick some new ground and we were fortunate enough to make a good discovery.

Brent Cook: And how long did it take from staking that ground to making the discovery take?

Ross McElroy: We staked the ground in 2008 and began that work, the discovery, well, I guess 2011 we made the discovery of the high-grade uranium boulder field. In 2012, we had our first discovery hole. So I guess from the point of discovery and drilling until two and a half years later, we put out two resource estimates and a preliminary economic assessment study. So it's been a pretty quick route from basically concept to now what's the third largest uranium deposit in the basin and a very attractive PDA study, so I think it's a very quick timeline.

Brent Cook: But almost four years from idea, stake ground, to the drill hole to hit it. And that's – that is relatively quick. Bruce, picking up Back River, I know you've been looking at a number of – hundreds of projects, probably, before you selected that. What was it that led you to select that above the rest? What did you see that most people didn't see?

Bruce McLeod: Well, today things are certainly much different than they have been 10, 20 years ago as what it takes to permit a deposit today is at least a 5-year timeline, in some jurisdictions, that can easily be 10. So you're looking for something that is really worth the effort. And I think the two things that attracted me to it were certainly scale and with over five million ounces in measured and indicated and another two million ounces in inferred, it certainly had that. Grade, over five grams per ton or six grams per ton, certainly in the top quartile.

It's that kind of scale that certainly makes a deposit worth the management time and effort of developing. And that can provide shareholders with returns. But it's really – you can have the best deposit and if it's in the worst jurisdiction, it really – it's immaterial. And so the due diligence process for me was three months of looking at all aspects of metallurgy, of infrastructure, of certainly grade continuity, we'll call it the mineability of a deposit.

Those are the keys, those are the ones that are the make or break, and then you have to take a look at the socioeconomic perspective, are people supportive in the area of mining, and if – when you add that all together, it really is – it's finding something that checks all the boxes. And I don't think there's such a thing as a perfect deposit because I think the perfect deposits today are probably the ones that are holes in the ground.

The biggest challenge for us was – is location, is infrastructure, and it's – at an over six gram per ton deposit is – our margins are probably closer, based on the feasibility, to something that would be a three or four gram in – connected to grid power and in the US or southern Canada. So it's really putting all those pieces together and what I've found from due diligence in the past is I think anybody who's been in this business can talk to you about making mistakes, and it's in never the questions you ask, it's always the questions that you fail to think of or you – or sometimes you just take for granted.

And every – as I – the longer I've been in this business, my due diligence checklist gets to the point that you need a large binder to carry it around with you. So it really is getting into the details on the asset. Because it really – you can have the best management team in the world, but you can't put gold where it doesn't exist. And if, from a socioeconomic perspective, if you're not in a supportive environment, it's very difficult to move forward.

Brent Cook: I'm going to assume that you pretty quickly screened out a lot of countries, you probably decided on Canada, maybe Mexico, maybe the US, how many projects did you go through before you picked – how many made it down – how many did you start with, how many got through detailed due diligence?

Bruce McLeod: I've got to say most projects that you look at, due diligence can be a 15-minute exercise. It really doesn't take much to separate the ones that obviously aren't going to make it, based on available data. I'm – I've been an explorer for a good part of my life, but I wouldn't call myself an explorationist, I'm a developer. So for me, it's looking for something that really has the ounces or the pounds of copper, depending on the commodity, in the right jurisdiction.

It – the second stage of due diligence is probably two to three days, where you can take that mound of 300 to 400 properties and turn them into 10 or 15 that you actually have to do detailed due diligence on. But it – you're able to screen out the probables from the losers fairly quickly.

Brent Cook: Yeah, I think that's really important. And this is where I want to go with Paul, who picked up the Fire Creek project in Nevada, which I knew from the previous work, previous technical studies, and it never held together, never made any sense, it as a dog. Yet Paul saw something there through all that and has turned it into something quite worthwhile. And I'm curious what it was that you saw that the rest of us missed, at least going through the resource reports and such.

Paul Huet: Thanks. You know what, earlier you talked about success and how it's measured and definitely our share price is one measurement. When we look at Klondex and the resource and where we began, we started with exactly what you said, we had a dog. It was very difficult to do anything and make any moves at the beginning.

The advantage that I had of Fire Creek specifically was having previously done some work there. In 2006 and in 2009, I was part of 2 due diligences done there at that asset. And in both cases, I made recommendations, once to a board of directors, once to a senior group, an executive group, to actually buy the asset, because I believed in the grade.

A lot of people don't understand narrow vein, high-grade epithermal systems. There's a lot of people that are skeptical about them because they have a shorter mine life. In our case, Fire Creek today is one of the highest grade if not the highest grade mine being developed or being mined on in the world today. We are running at about – our reserve is about 44 gram per ton. So we have some of the best grades currently being mined in the world today.

So when we initially looked at the technical reports, we were also a little – we weren't as confident as we are today, that's for sure. In reality, we redid all the work. It took us some time, it took us nine months, but we revisited everything. In fact, in the first three weeks of being there, we actually pulled the technical reports off of the website and based on some initial red flags that we saw, in fact there was, in all three categories, measured, indicated and inferred, there was over 2.2 million ounces at about a 9.9 gram, which makes for a very good deposit in its location in northern Nevada.

Once we started looking at the detail and looked at the modeling technique, we were not so confident that it was there, actually. So we redid everything and our results were significantly different. Instead of having 2.2 million ounces, we had 720,000 ounces. So that was obviously a big change. But the other change that happened was the grade change. Instead of being a 9.9 gram, it was 44 gram.

So as investors, I often get the question, how do investors know the difference between a good model and a bad model, and it's really going back to the basics, going back to some of the things the panels talked about, making sure the team has credibility and looking at the modeling techniques.

There are some basic modeling techniques, at least in the types of deposits we're in, in the narrow vein epithermal system, there should be some easy boxes to tick. And without going too technical, you just look at the mining or the modeling technique, in our case it was very obvious that the technique that was used was predominantly used for open pits. So it smeared things.

If somebody is looking at investing in something and trying to understand whether or not the resource is real or not, in the case like we had, going back to those basics and really looking and evaluating the resource model will really give you a good insight, and then obviously having a team that's been there and done it. So in our case, once we go the model right, we were confident with the thread, we were then able to continue developing and building Fire Creek and then mitigating the number one risk.

Our number one risk at the time was milling. While toll milling is possible in Nevada, it comes at a cost. The people who own the keys to the mill, they get to determine the price. And I've paid anywhere from 350 all the way to $450 a ton for toll milling. While when we have our own mill, we're spending $40 a ton. So for us, acquiring Midas, which is another narrow vein, epithermal deposit was key to us. It mitigated that number one risk in the toll milling where now we have the opportunity to treat our own ore from Fire Creek and Midas together, blended through that central mill.

So that's really what shaped and formed our company. That was key pivotal to making Klondex *[crosstalk]*.

Brent Cook: Well, in your experience, where do most mines fail?

Paul Huet: I think it's right at the beginning, the basics. We were talking about it here today, a lot of people, right out of the gate, they have beautiful models, everybody wants to cookie cut a model and it's got to be a five or ten year model. And they're sometimes reluctant on a three or four year model, but it can be replaced. At the very beginning, people often take it for granted. That's my hearing aids. My beautiful wife there, if you could turn my hearing aids up, let me take them out. Sorry. My phone's ringing in the audience.

Brent Cook: Too many blasts.

Paul Huet: That's too many blasts, actually. So I did good by not bringing my phone up here, but it's actually ringing in the audience. So yeah, right at the beginning. And I see it time and time again. Any time we do a due diligence, we can look very, very quickly at the beginning and look up front and see if that model's right.

When we get our modeler to assess that and any economic things, anything we've linked to that model can then be validated. That's very, very key for us, and many times, I've seen many cases where that's wrong, right out of the gate.

Brent Cook: Bruce, do you see – what do you see?

Bruce McLeod: It's the resource model. If you look at the mines that have failed, I don't know the number but I'd be surprised if it's less than 75 percent that is not attributable back to the initial resource model.

Brent Cook: Yeah, and that's – I spend most of my time in the letter looking at drill results, sections, resource models. And I saw a study that an engineering group, RPA, did a couple years back. They looked at 85 projects that had failed and 45 of those projects failed because the resource model was wrong.

After that, it was the mining method, then other problems. But it really comes down to the resource model, and that's where we've really, really got to focus early on as speculators and investors in the sector is get a handle on it. So not all of us can go through and build a model. Is there anything that you can pick off?

I mean, even – this is probably going to – I don't know if you'll be able to answer this for me or not. But are there groups out there that you will automatically say this is suspect or this is solid?

Bruce McLeod: I think there's some out there that probably have better reputations than others.

Brent Cook: Are you going to tell us those?

Bruce McLeod: *[Laughter]* Well, no. But you know what, early in university, I had a professor and I went to school when most resource methods were manual. We – there wasn't conditional simulation, geostatistics was something that was applied in many models lightly.

But what he had said is no matter how a resource is calculated, if you go back to a polygonal method, and that is really just drawing a polygon around a drill hole, calculating the area, and applying that grade of that drill hole to that area, he said, look, in any resource method, if you went – if you go back to a polygonal method and you can't get a reconciliation of 10 to 15 percent, he said, there – that's a big flag.

And I think what's happened today is you have people that develop resource models that don't understand the fundamentals of the resource itself. And it really is a garbage in, garbage out system.

Brent Cook: It's a real problem, and most of these companies are in a rush to get out a resource so they can raise more money and this and that sort of thing. So the resources, it's not solid. I'm sure Ross probably, you've seen that as well, right?

Ross McElroy: Absolutely you do. And I agree with that, it is – there's a lot of factors that go into it, but you're absolutely right that it's garbage in, garbage out, or the inverse of that is quality in, quality out. You have to have some experience with that modeling for it to be relevant.

We – you can – depends if it's a geologist doing the modeling, but often you'll have three guys that'll have three different numbers but one of our checks that we did and have done with a couple of our deposits, when we do a resource estimate, we'll do an internal one that – where you sort of sit in a closet and guys will put together the model and the number and compare that against what the third party consultant is doing, and we've found pretty good reconciliation.

So when I see good reconciliation from both two independent guys trying to create the same thing, I'm pretty comfortable and happy with it. And that's assuming all the data that's gone in there is good, you've got good drill density, there's lots of things. But I think doing a – having a second opinion is not such a bad thing. You do that internally, I'm sure we're not the only ones that do that. But I find that that's quite useful.

Brent Cook: Well, we're down to eight minutes. I wanted to throw the floor open to the audience questions. I only got through half of my questions. But let's get some questions, are there any questions from the audience for these gentlemen? Yes, sir. *[crosstalk]* The question had to do with the government, the permitting regulatory environment, how long it takes and how they can fix it basically. I don't have any ideas, you?

Bruce McLeod: It depends on the jurisdiction. There are some – certainly some – as mineral explorers, we have – there are very few places in the world that I don't think that we've collectively all worked. If you go to places that are mining centers, Nevada would be a good example, that – timeframes can be reasonable. If you go to places like Idaho, Oregon, how long is a piece of string is how long it takes to permit. And I think that there are jurisdictions that have legislative timelines for permitting, and so a null response is a – is tacit approval. And I think as miners, we'd like to see more of that. And there are certain jurisdictions in Canada that have adopted that.

But there's – there are very few places that you can even say how long a permitting timeline is, depending.

Brent Cook: It's not easy, the bigger the deposit, the more complex a deposit, the longer the timeline, for sure. Any other questions? Yes sir. *[Break in Audio]*

Paul Huet: Sure, it was exactly the resource that we talked about so initially when we went in there and looked at the method that was used to estimate this deposit, as I mentioned, many things were smeared. There was higher grade smeared across a wider distance. So one of the advantages we had over the previous group was the fact that there was a ramp in place but there was no tunnels on the actual vein system. So what we did is before pulling the resource model off the website, we actually tunneled 2,000 feet on the vein system itself. With that new information, it was very clear to us that the previous widths that we had in the resource were very wrong.

Actually many cases, the first area that we crossed it, it was supposed to be 12 feet wide, 16 gram. It ended up being 3 feet wide by 160 gram. So it was really a function of additional information. The drifting on the vein itself, additional drilling, higher density of drilling and really getting better people, actually. We really put solid people who are very experienced in this type of deposit on. That was very critical to us, that's how we identified the problem right at the beginning.

We identified the issue because we put a stronger team in place and there was some red flags that came up looking at the technical data.

Brent Cook: Good. Do y'all know what smearing of grade is? Well, if not, let's say a lot of times you'll drill a vein, call it one meter and it's ten grams. What someone might do is take that ten-gram interval and spread it over the next nine meters that don't have anything, so it appears like you've got a ten-meter-wide vein grading one gram, when in fact what you've got is a very narrow vein and higher grade. And that has huge implications as to how you mine out the resource, et cetera. It's a real problem.

Paul Huet: Well, and Brent, the reason a lot of times people do it is because of the mechanized mining. Many times they do it, they smear this so that they can say well, look, I'm going to apply this mining method instead of trying to mine something very narrow, which is more difficult, I'll be able to fit six yards. So smearing that thing, you can use more mechanized mining. So that's how it sometimes gets injected.

Bruce McLeod: Brent, don't you have a widget for doing that?

Brent Cook: That's a good point, I do have a little widget on the internet you can find. It's the drill hole indicator. You can link to it off my website or

Google for it, and that gives you the opportunity to put in the big grade and the big width and the narrow ones and it gives you a product, it shows you what the interveiny material actually runs. And it's quite interesting and there's also a way you can copy that link and send it to the company with a question.

I guess we're getting low here. There's one question I always want to ask you and that is what question should investors ask you. What are they not asking you that they should be asking you, Paul, about your company? Just to learn more, to make a wise investment decision. Paul.

Paul Huet: That's a tough one, we get asked all the time, the question that we should be asked is can we replace the reserves. Because we have a shorter life, do we have more gold in our area that we're mining in, is there more in the system or is it at the end of it. And in our case, both operations have tremendous amount of exploration upsides. So asking us if there is more exploration upside that could yield more ounces to extend the life of both deposits, because we're in such a good jurisdiction and good location.

Brent Cook: Let me change it around. What would you ask Bruce if you were looking to invest in his company? What one question would – is the top of your mind?

Paul Huet: Yeah, the first question I'd ask is how real is the resource, how real is those five plus million ounces. Because he was very definitive on he was looking for something. There's many deposits, many resources in the world, and we've all talked about it on the panel. Is the resource real, I'd ask him, right out of the gate. If it's real and I'd see it in his conviction, as well, you can see the response of some people going yeah, I think it's real, my geologist said it was real. Then I get a red flag. But I – that's what I'd ask.

Bruce McLeod: And that's the benefit of having 400 kilometers of core to put into a deposit at about – over $380 million spent on the asset. So to get it to this point is – and again, it all starts and it all stops with the resource.

Brent Cook: So what's the question on top of your mind for Ross?

Bruce McLeod: Where's uranium price going? *[Laughter]*

Ross McElroy: Up.

Brent Cook: Good question, that's what it comes down to. And Ross, you might as well ask Paul, what – if you're looking to invest in his company, what's the key thing you need to know?

Ross McElroy: Well, yeah, it's tough to say. We all have our own biases and there's a lot of really good questions, but I wish more people, and that's a question I ask all the time, I guess as long as I believe in the sector and the jurisdiction, so that's a given, I want to know something about the grade. The first thing you learn in economic geology is that grade is king.

That's true, it's not everything, but it is so important. You don't want to be – I don't think enough people understand what grade really does. You don't want to be moving mining ore or rock that doesn't actually pay for itself, to make it, I guess, as simple as I can. So I really want to understand the grade and I think that very few people do. And that's why I'm pretty pleased with that talk we had just a few minutes ago on grade and smearing. It's so important that people get a handle on that.

Brent Cook: All right, so excellent. I hope this has been useful. We are out of time. I am sorry, Marin. But I guess the last question I've got is are you presenting at this show, Bruce, and when?

Bruce McLeod: I am and it is tomorrow at 9:40 in the morning, presentation area 1.

Brent Cook: Paul?

Paul Huet: I'm going to defer to our senior VP of IR, John, we are, right?

Brent Cook: Friday at 4:30.

Paul Huet: Friday at 12:30.

Brent Cook: 12:30, and then I'm on Thursday at I think it's 3:00 or so, and for the rest of the day I've got a number of things going. So that's it, thank you all for coming, I sincerely appreciate it, hope it was useful, and look us up during the show.

Bruce McLeod: Thank you, Brent. Thank you, everyone.

Paul Huet: Thank you.

Brent Cook
“Could It Get Any Better Or Worse Than This?”

Now I want to introduce Brent Cook, a renowned exploration analyst and geologist, author of Exploration Insights with a website ExporationInsights.com with over 30 years of experience providing economic and geologic evaluations to major mining companies, resource funds and investors. He was principal mining and exploration analyst to global resource investments from 1997 through 2003, where he provided analysis to retail brokers and to in-house funds managed by Rick Rule.

He has worked in over 60 countries on grassroots through mine feasibility projects, evaluating virtually every mineral deposit type. Exploration Insights is an independent newsletter that discusses what Brent himself is buying, selling, and avoiding in the junior mining and exploration investment sector. His talk is titled, "Could It Get Any Better or Worse Than This?" Please welcome back Brent Cook.

Good afternoon. Thank you. I'm not sure how to follow Bob's presentation except to point out my name is not Abdul. *[Laughter]* What I want to go through here is I've thrown up a question, "Could it get any better or worse" and there should be a "than this?" The supply and demand fundamentals of exploration and discovery. The answer to that question is: yes and no.

What I want to do today is quickly go through the cycle, the commodity cycle, and the booms and busts, and I think you all are aware of this, how it's always been this way. A bit of history of how it plays out, what the miners generally do out of necessity. My thesis here has very little to do with the gold price. I don't need a gold price or copper price increase per se because the issues we're facing are decadal. In the end, this is intended as a positive presentation.

So here's a quick look at the commodities boom and bust cycle since 1900, excluding oil. You can see it just goes on and on, and it's happening again. We're in the bust/down phase of this cycle. This is probably – does anyone own this stock? *[Laughter]* I'll bet. Care to guess?

All right, so this is 99 percent loss. We're just gonna look at some charts. This is from 1996 to 2001. The company is called Nevsun Resources, $17.00 to $.10 over that timeframe. That was a tough bust. Here's what happened after. You can see the long low period from 2000 to 2002, and things started picking up. What happened was Nevsun made a discovery, and we booked in – well, it booked almost a 9,000 percent gain over that timeframe that we're looking at there.

Here's another one: Virginia Mines. I think a lot of you have probably owned this in the past. At one point in 1999 it was – you could buy this company, headed by one of the best explorers in the business for $.35 when he had $.45 a share in cash. You can see what went on to happen here. He made a discovery and booked a 3,500 percent gain. Another example: Solid Management Altus. I think a lot of you probably owned this one as well; $.30 to $30.00.

One more: First Quantum. I went and visited them, one of my first jobs with Rick Rule in '97. They had a small copper operation they were putting in production. Smart guys. We had a placement at $.50 for the full warrant at $.75, and this is what happened. I use these examples because these are actual things that I bought and did well on. I didn't buy at the bottom; I didn't sell at top. But these are the sorts of things that happened coming out of a really tough bear market, which we're in.

Here's what it looks like since the bust, this most recent bust, call it 2010. What I show here is gold, as measured by the GLD, copper miners in blue, and the small miners as measured in the GDXJ, which is down 83 percent more or less from its peak – well, not the peak, but since 2010. I threw on *Exploration Insights*, which is my portfolio, and it's done relatively well. It's because I'm cautious. I'm extremely cautious and I was lucky. A couple of stocks I bought did well, and I sold them over that timeframe. So it looks better than it probably is.

So it's bad out there, really bad out there. How have mining companies reacted to this decline over the past five years? Here's what they're doing. They have to do this. They have to increase cash flow. They have to become profitable. They're slashing sustaining costs. Sustaining costs, when you think about it in a mining business, sustaining costs is what it actually takes to sustain your business. If you're not sustaining your business, which is bringing in more infrastructure, developing more underground workings, building more facilities, you're going under.

You can see that it's down 40 percent, and it's down another 30 percent last year, and it's still heading down. They're still focused on decreasing costs, and how you decrease costs at a mine is 1) stop developing, 2) you start high grading your deposits. What this shows here is a 45 percent drop in the average grade of gold mines, open pick gold mines since 2001. You can see here in 2013, that there's an uptick. So they've increased the grade about 15 percent, and I think that's about the same this year. So they've increased profitability or even stay in business. They're pulling the guts out of their deposits.

I want to show you what this looks like in real life, and this is an example from a project in West Africa. The top slide shows the original mine plan with the red being the higher grade and the orange the lower grade material. The black shows you where the original open pit was gonna be, which was gonna mine 4 million ounces, grading 2.1 grams a ton. The lower slide, what they've had to do is just dive down on the high grade material, which amounts to 2.8 million ounces at 4 grams. So much better grade, but what happens is the remaining part of their reserve, that 1.2 million ounces now only grades 0.9 grams.

So what used to be ore is no longer ore. So by high grading their mines, to a large degree, they're sterilizing what used to be reserves. So their reserves are going down at the same time. This is a serious issue. All right. They're also cutting exploration, and this is worldwide exploration for all metals, including iron and such. You can see how it's peaked and valleyed and peaked and valleyed, and it was 30-something billion in 2011. It peaked, and now it dropped off about 40 percent, and it's down again this year.

More importantly, a recent study actually looked at how much companies have been spending per year, and you can see that although the total budgets has gone up, on a per company basis, the actual expenditure has not increased much at all across that timeframe. In fact, it's down again now. These are nominal dollars. These are no inflation-adjusted. So we're spending in inflation-adjusted dollars much less than we were spending 10 or 20 years ago exploring. It's getting much, much harder to find these deposits as well for a number of reasons that I'll probably go into during my workshop later today. Interesting, interesting fact here.

Finally, another recent study. I think this is BMO put this together, the cost of building a mine versus the cost of actually going out and buying a deposit is almost the same. So if a company can go out and buy a deposit for what it would cost to put it into production, there's little point in actually developing these deposits. There's even less point in exploring for these deposits. So that's what we're seeing happening. The problem is by going out and buying and operating deposit, you're not really replacing the global demand; you're just improving your company. That's gonna get tougher and tougher to do because there are fewer and fewer deposits out there that are worthwhile.

This looks at discoveries. So if it's cheaper to buy than build, why explore? That's a question that was put to me just yesterday, "Why explore?" From an accountant's point of view or financial guy's point of view, there is no point. But you've gotta consider that it takes so much time and so much work, and you've got to replace your reserves or you go out of business. So these are all metal discoveries. This is just for Southeast Asia, and you can see what's happened: it's down considerably.

If we look in more detail at gold discoveries since about 2000 I think that goes to, the bars represent how many ounces were found in that year. This was done by a group that looks back and forth and estimates how it's done looking backwards. You can see the lighter color. Those are what they estimate discoveries to be. The point being, it's headed down as well. We're producing on average about 90 million ounces a year globally, mine production. The last time we found 90 million ounces of gold was in 2006. So we can see the one line going – that's production. You can see where the expenditures have been, and you can see how much has been found.

This gap here that I'm pointing to, that's a 40 million ounce deficit in new gold reserves versus what's being produced. That's an important thing to keep in mind as I go through this, 40 million ounce gap every year. What does 40 million ounces look like? Well, the entire Carlin trend since its discovery has produced about 90 million ounces, and that's over a 25, 30 year period, about a dozen deposits. So, effectively, just to replace our 90 million or 89 million ounces of annual production, we have to not only find, but put into production, one Carlin trend every year. It ain't happening. There is no way possible this can happen.

So you see where I'm building up to is we're not replacing what demand is gonna be. Here's what it looks like. The brown slide, again, shows discoveries and the blue graph shows what production has been and what it's projected to be. This is a presentation put out by the CEO of Goldcorp, who should know something about this. So we're reaching peak gold production – not peak gold – peak gold production. We're not finding enough large deposits. Even of those found since 1950, and this is just not gold, but for all metals, most are stalled because of economic issues, political issues, and environmental issues, et cetera.

Less than half of the discoveries made worldwide since 1950 have been put into production. That's a conversion rate of about 48 percent. So even when we find something, it's not necessarily going into production. The important point is that because we're producing so much metal now, it's the tier I and tier II discoveries we need to find, which are the major deposits. They count for 10 percent of the legitimate discoveries, but 70 percent of the net present value or the value that these are. So we're not finding those.

I went through a incidental database of 135 deposits that they list, pulled out the deposits that were held by one company with one deposit to get a feel for what this is gonna look like. Then I've yellowed out here the ones that I think are probably economic. Most of them aren't economic. An interesting point here is what I've done here is the NPV of these deposits, all of them, is $15.3 billion. The capex to build these is $20 billion. The market cap of these companies is $2 billion combined. So there's no way in hell these guys are gonna raise the money to build these things even if they're economic.

How long does it take to put these in production? We're looking here at about a 20-year timeline now for a major discovery to production, 20 years. Here's the production profile of the top 7 gold companies. You can see what happens. Let's go back. Okay, here's your timeline to build a mine. Here's when they're running out. That's 10 years out. They cannot replace this.

All right. So let's go do the big picture. This is the only big picture I work with. What we've got here is human population since creation, call it 6,000 years ago. You can see Adam there, the apple. Eating that apple worked quite well. The Great Flood that wiped us out pretty well, but since then the population is going up. That's not gonna change. That's really what's important to remember here. So this is the gold production since 1800. This is copper production since 1900. Looking back at those big pictures, that's not changing. We're gonna have ups and downs over a couple of years, but really, that is not gonna change.

So this about this: if mine grades are declining, yet demand is increasing, the tons mined have to increase substantially. New mines have to be built; they are finite. But money is tight, discoveries are down, production timelines are up. Development and exploration are being slashed. What's the solution? What's the solution that these mining company's CEOs are doing? *[Laughter]* Now, I've tried that and it really doesn't work.

So moving on, okay, so what we've seen here is that production is outpacing adding new deposits, and that's what's really important to take into consideration here. When that finally hits, it's gonna be great for us that own the stocks that are worthwhile, which means, and this is what we do in my letter. This is what my letter is all about is if we know that 90 percent or so of the prospects out there are gonna be worthless, we need to kill it as quickly as possible. We need to understand the company's funding requirements. We need to know geologically and economically what is a go, no-go decisions.

What do we need to see as an investor in the results coming out of the drilling and such to convince us that this is gonna work? So, again, find the fatal flaw. Know the parameters. Is successful meaningful? That number seven, that's a really important part. I would say the vast majority of exploration guys out there looking are looking for something that even if they're successful is not gonna have much of a positive impact on the share price. Given the risks involved in this sector, it will only make sense to go after the discoveries that are gonna be meaningful. Does that translate into share price increase? That's another one.

I mean I see a lot of companies that are market cap increases, but their share prices go nowhere. That's no help to us. Okay, so why is it so good out there? I'm gonna give you two examples of companies that have put out spectacular news. I'm not necessarily recommending or not, but I want you to consider. This company Aim Listed 83 meters of 13 grams gold and 2.2 percent copper. It's a legitimate discovery. They've got a resource now. That's almost $600.00 a ton rock. They made this announcement and the stock dropped two pence.

As an investor looking at this, this is fantastic. This gives us the time to evaluate the results and make a wise investment decision. If this company would have released this in 2010, it would have doubled, tripled, right off the bat, and we'd have missed it. So we are lucky now. We can evaluate these results with time and in context and make more intelligent decisions. Same thing here with the reservoir minerals: 84 meters of $920.00 rock. Stock goes nowhere.

All right, so we're getting towards the end here. What I've done is I always try and pick out a couple of companies out there that I think are worth your time. I'm not gonna go through them in detail. First off, there's two micro, microcap companies. These are prospect generators. I think most of you are familiar with how these work. Riverside Resources: market cap $6 million, $3 million in the bank, and they've got partners spending $3 million their projects. Success could really affect a stock like this, and they're smart people. They run a smart model. They're not gonna go broke.

Another one out there: Millrock Resources. Market cap $5 million Canadian, about $2.6 million in cash, and partners are spending about that much money exploring their properties this year. If they're successful, I suggest this goes a lot higher than $5 million in market cap. Others that I intend to spend more time with while I'm here, these are the stocks of the companies that I'm familiar with, I want to learn a bit more about: Klondex Mines.

How many of you caught our panel session on Wednesday, just the pre? I hope that was worthwhile. The Klondex fellow was up there and so was Sabina, Bruce McCloud. Smart guys, interesting deposits. I think it's worth spending some time on. Energy fuels. I think in the uranium space, if you're gonna be betting on uranium, bet on a company that has resources in the ground, permitted, ready to go when and if the price rises.

Third one: Newmarket Gold. I'm gonna go spend some time with them. SO these are the ones that I'm gonna spend some time with, and I think it might be worth your time as well.

All right, so takeaways. Mining is cyclical. I think we all know that. I think anyone of you here know that and that's why you're here. Discoveries and exploration collapsing. Supply: new mine, new resources are not gonna replace what's being mined over the long run. I don't know when this is gonna play out. It may be six months. It may be a year. It may be two years. It may be ten days, but I know it's gonna happen. It always does. Go for the best.

Own the high margin deposits that are gonna be the acquisition targets of the larger miners when it comes time for them to replace their reserves. Own the best and cut the rest. If something is not working, get out of it as quickly as possible. Hope is not an investment thesis for me.

Finally, this is what I'm doing today. In five minutes, I'm doing a speaker tour. I hope you'll all join me. We talk to, I think, four companies just rapid fire, and then we can talk as much as you like after that. Workshop, third floor. We'll go over a bit more detail of feasibility studies and mostly take questions and answers. The mining panel, and then tomorrow the speaker table at 3:40.

Finally, I posted some articles on my website. It's the "What Was It Like?" series thing, and it was generated by one of my younger subscribers who asked me, "Well, what was it like during the NAS bust?" because he wasn't there. So I wrote these, and they're free on my website, ExporationInsights.com. Go there and just pull them down and have a read because I think it's worth reading. That is the end of my presentation. I'll be here all week. Stop and talk to me and I sincerely appreciate your time. Thank you.

Adrian Day
"Where In The World: Best Opportunities For The Year Ahead"

Moderator: Our final speaker for this session is Adrian Day, who is addressing the topic where in the world best opportunities for the year ahead. Adrian Day is a British born writer and money manager, a graduate of the London School of Economics, and president of his own money management firm, Adrian Day Asset Management, where he specializes in global diversification and resource equities. He has been a frequent guest on CNBC and Wall Street Journal Radio. His latest book is Investing in Resources: How to Profit from the Outsized Potential and Avoid the Risks, and that's published by the very prestigious firm of Wiley and Sons.

Now Adrian's bio is one of the shortest in the speaker book, but don't let that deceive you. This bio is very short, but Adrian's accomplishments both on the journalistic side and on the real world money management side have been very large and very extensive. So at this time, I'd like to bring Adrian to the podium. He was on his way. He had a call he had to take from President Obama.

Adrian Day: Oh gosh. Okay, well thank you ladies and gentlemen. Thank you, Bob, very much for that kind introduction. I'm going to talk a little bit this morning about the fed and the fed's policies and what it means for the economy. Now I know the Aden sisters, particularly Mary Annee talked a little bit about that. And so some of what I say will reinforce what they said, and then there will be a few things where I disagree. But here is Alan Greenspan blowing bubbles, and Ben Bernanke blowing bubbles, and Janet Yellen blowing bubbles. The fed has been blowing bubbles, keeping rates too low as Aidens said for far too long.

And it seems to me that they're almost incapable of raising rates. Now these ultra low rates, not withstanding any effect on real estate and the effect on the stock market, have had devastating effects on the economy as well as individual segments of the economy, and we'll come to that a little bit later. When I say that the fed is almost incapable of raising rates, I want you to think back to QE. And you remember that the fed talked a lot about ending QE. But every time they talked about ending QE, as soon as they stopped and the stock market went down or there was another unemployment number that wasn't too strong, they immediately resumed the QE.

And that happened three times. And even now when we don't have QE officially, we shouldn't forget that the fed has not been reducing its balance sheet. It is still increasing its balance sheet because every time the short-term bonds that it buys from the treasury roll over, every time they end, they roll them over and add the interest to the purchases of bonds. So the fed is in fact continuing to increase its balance sheet.

And now with ZIRP with the – what an ugly word with the zero interest rate policies, you know, the fed keeps I'll say threatening, keeps promising or threatening they're going to start raising rates. And you know, at the beginning of a year, they ostentatiously eliminated the word, the need for patience. That phrase, the need for patience in raising rates. And there's hence they'll raise them in June, and they're laying the groundwork for September, but it will be later this year, et cetera, et cetera. And every meeting, there's some excuse. Well the unemployment rate is down, but we're not creating enough jobs, which is true. Oh dear, the stock market went down. That's not a good time to raise rates. Oh, dear, China is having problems, et cetera.

Now they're saying they will do it in December. And all I can say to that is we'll see. You know, at the beginning of the year, I said I thought there would be one interest rate hike this year, and it will be in December, and it will be really just to show the market that the fed – can I say this – still has balls. It will be to try to retain some of the credibility of the fed. At this point, I'm not actually sure if they're going to raise rates in December. It's quite possible that they won't. And as the Aidens just said, a lot of people don't focus on it. Next year being an election year, the fed is highly unlikely to change direction in any dramatic way during an election year.

That is very, very, very untypical. I mean basically, the fed is suffering from performance anxiety. As they say on those advertisements, from stimulus lasting longer than four years, you should see a proper economist. So you know, in my view, the fed should never have pushed rates so low to begin with, and I'll come to 2008 in a second. But having pushed rates low, they should never have kept rates so low for so long. And they're clearly not taking Macbeth's advice. The plain fact is, again I'll get to it, the low rates have actually been a drag on the economy, and that higher rates would actually loosen the credit conditions for lenders.

They would encourage lenders to actually put money into the real economy because that's not what's happening right now. Now we're told by many people that we should trust the fed. I mean after all, they've got all the information about the economy in their hands. You know, and why should we think we know more than they do? And let's not forget, they say, that they saved us from a disaster in 2008. I don't believe it. First of all, it was the fed itself that created the conditions for the crisis, and we should never forget that and never let them off the hook for that. In addition to that, they have simply been wrong in all of their forecasts on the economy. Here is a table from Peter Schiff. I hope he doesn't intend using it himself because it's his table, but it shows you what the federal reserves range of forecast is for the GDP growth is, and then the actual growth.

And they are wrong every single year. Every single year, you're outside the range. This is just astonishing that people could be so wrong so many times. Remember Alan Greenspan saying there's no housing bubble, there won't be a housing bubble, you won't have to worry about it. Bernanke said there's no housing bubble, and even if housing prices go down a little bit, it's not going to affect anything else in the economy. So not to worry about it. Remember all of those comments? I mean again, the plain fact is that the fed is consistently wrong. Now in my view, interest rates are going to stay low, and they'll stay low for a period of time.

The main reason is the debt. This is the same table I think that the Aidens showed, but we can see how debt is – this is in the US, US government debt I should mention, the US federal government debt. We can see how federal government debt has exploded. And as we mentioned last year, rates in my view are going to stay low because of the debt service. When you think that interest rates today are at 75 year lows, matching all-time record lows for short-term rates, and when you think the federal government is financing more and more at the short end where rates tend to be lower than at the long end, then it's astonishing the federal government is already spending over ten percent of its revenue on debt service.

Now the average of all outstanding debt, government debt, federal government debt today, the average is just a shade over two percent. That includes 30-year bonds issued 29 years ago. The average of all interest – the interest rate the government pays, just a shade over two percent. When you look at the 25-year average, which includes the last five years of ultra low interest rates, when you look at the 25-year average of 6.4 percent, you can see quite clearly why the fed can't raise rates.

If rates started to move back up even halfway towards historical norms, then the federal government will be spending 20, 25, and 30 percent of its revenue on debt service. And that of course is totally unsustainable. Now I've mentioned it a couple of times perversely, but it is perverse at first. Perversely, these ultra-low rates are a drag on economic growth. They're not helping economic growth. So has stimulus helped the economy? And stimulus by stimulus, I mean the QE monetary expansion programs as well as the ultra low interest rates. The problem with stimulus like Botox is that you need more and more of it, and yet it's not a pretty picture at the end. If you look at the US economy, I'm not going to go through many things, but let's just look at a couple things. One is unemployment or employment. In recent months, it's been – not the last couple months, but in the spring and summer, there was a lot of news headlines and CNBC chatter about job creation finally getting back on track.

Well you know an economy the size of the US needs about 250 to 260,000 new jobs every month just to stay flat. So when we're getting 180 or 200, that is not good news. And in the last couple of months, there have been more first-time claims, unemployment claims, than there have new jobs creation. So I just don't see how this can be considered good news on the employment front. And of course, as I think most people know, one of the reasons – I mean there's a lot of reasons the unemployment rate has come down.

But the unemployment rate as we know is artificial or disguised as a lot of the truth for a lot of reasons. One reason, of course, is the employment pool itself has shrunk. The labor force has shrunk, so when we're looking at unemployment coming down, it's only because the denominator is coming down and is coming down faster than the growth in jobs. The other reason I think we all know is that so many of the new jobs created are either part time jobs or very, very low paying service jobs. So again, how ugly, I won't go back to the Botox picture because I can only look at that once.

But again, how ugly is the economy despite all its repeated stimulus? Well we're now seeing a situation where sales are going down. That's the red line, even as inventories, the blue line, is going up. Now normally when you see inventories go up and cross over sales going down, that's normally a sign that the recession is ahead. I'm not sure we're – I think there's a good chance we'll see a recession, but I think the odds are probably that we're not going to see that in the next 12 months. But we are going to see in my view a continued sluggish and increasingly sluggish economy.

And again, it seems to me every time something goes wrong in the economy, these excuses are made about these nasty foreigners, it's their fault. Global turmoil hits jobs, and they're talking in this article about the Chinese stock market, and I'm not quite sure, but people, small businesses in particular in the US are not hiring people because they're concerned about the Chinese stock market. Business is booming in China. Business is booming in China.

Manufacturing is slowing. Absolutely. We'll come to this in a second. The economy, the rate of growth in the economy is slowing, but is still growing, but business is booming. Look at this top line here that shows business startups in China booming even as the GDP rates of growth starts to slow or is slowing. Compare that with the United States, and I'm sorry these numbers are out of date. But if you go to the government's business dynamics statistics – business dynamic – I like the word dynamic statistics. You go to their website. You'll see a little flashing thing on the front page saying, "New 2013 update."

So government statistics aren't always up to date. So I apologize for the fact that these are a little bit out of date. But you can see the green line there is the number of new phones, and we've seen startups in the United States decline for 30 years now, but particularly from 2006 onwards. That's despite these ultra low interest rates. That's also despite an I think surprising given how easy it is these days to start a business via the web on the internet. You just don't need a lot of capital these days to start a business. You don't even need an office or employees half the time.

And yet, the number of new businesses is declining for the first time ever since these statistics have been done. For the first time, business closings – there are more businesses in the United States closing than there are new businesses starting. It shouldn't really worry us, of course, because remember, you didn't build it. Someone else did. But what is the reason for this? There's a lot of reasons, but two main reasons. One is particularly for the period from 2006, small banks are not lending. They're not lending to small businesses, and this is a direct result of ultra low interest rates. Just think, if you're a bank and you can borrow money from the fed at zero and you can put it into treasuries at a quarter of a percent or half a percent, why are you going to take a risk lending to a small business when rates are only zero or half a percent anyway.

So what are you going to charge for business? Five percent, six percent, seven percent? It's just not worth the risk when you can borrow all you want from the fed at zero and reinvest it at half a percent. The one major reason that we're seeing this is ultra low interest rates, and the other one of course is excessive regulation. For a Chinese person, it is easier for a Chinese person to start a business in China than it is today to start a business and run a business in the United States.

And it's not all his fault, but the excessive regulation is just driving people out of business. So that's one result of easy money. Another direct result of this ultra low interest rate policy is increased in equality, and again, this is a table I showed last year, and I'm sorry, government statistics are slow. Maybe next decade we'll get the 2014 numbers. I don't know. But you can see as of the end of December '13, as of the end of 2013, it was only the top ten percent in terms of net wealth. It was only the top ten percent who saw any improvement at all from 2007, which was before the crash, of course. That's just astonishing.

So why have ultra low interest rates not changed the situation? Of course, those with wealth are always the first to borrow, and then this ultra low interest rate environment, that means primarily the banks. And as I just mentioned, banks are not lending to main street. So the money is not getting out into the economy. If we raised interest rates, we'd actually see more money being lent by the banks. Those who own their own homes. Those who save and don't have any debt. They are relatively disadvantaged by ultra low interest rates, particularly retirees.

So if you're a retiree and you were planning on earning 50,000 a year from your million dollar nest egg, you're not doing that anymore. So you have two choices. One choice is to continue to save more, to keep it in the bank for longer, and the other one is simply to speculate, take more risk. So you keep money in the banks, which are not lending it out into the economy, or you speculate. What you absolutely don't do is spend more money, which is what the federal reserve says it wants us to do. It wants everybody to spend more money, which is total nonsense economically anyway.

You need to encourage investment savings, not spending, but they want us to save so they can boost inflation to two percent. I mean if someone had said 20 years ago the federal reserve was going to have a policy to try to increase inflation to two percent, you'd have thought they were crazy. But that's how perverse and upside down everything is these days. But even of the fed's own objectives, this ultra low interest rate policy is actually working against their own objectives.

So the two things you absolutely don't do are spend more money or actually invest in companies when you have ultra low interest rates. So it's hurting a big portion of the population, and if we want to look in moral terms, it's actually hurting that portion of the population that financially has done the right thing over the years, not taken on debt, saved, bought their own home, et cetera. Those are the people being hurt the most.

And the ultra low interest rate has led to, not surprisingly, more debt, here's companies. Look at how corporate debt has exploded since 2006. So even companies that have cash balances are borrowing money because rates are so low. They're borrowing money, but they're not borrowing money to invest. Corporate investment has declined, I don't have that graph, but corporate investment has declined dramatically in the last seven years. They're borrowing money to buy back their own shares. It's financial investment. It's not real investment in the economy. This again is a direct result of ultra low interest rates.

Do you think if a company had to pay seven or eight percent to borrow money for 20 years they would borrow money to buy back their shares when they've already got cash on their balance sheet? Of course not. So again, direct result of ultra low interest rates. It's also enabled, ultra low interest rates have also enabled very weak companies to survive, to hang on for longer than they should because capitalism is a dynamic structure of course, and weak companies should go out of business and be replaced by stronger companies.

Ultra low interest rates have also encouraged margin debt. Margin debt, that's a red line now. That shows you the rate of growth. And the S&P is the blue line. Margin debt is now at all time record highs. And that's at a time when ordinary investors, retail investors, are actually continuing to move money out of the stock market. All year, this year as well as every year since 2007, the monthly numbers show monthly withdrawals from the stock market, from stock market mutual funds, which is a reflection of what the retail investor is doing.

Now I realize to some extent that's offset by 401 contributions, which have continued to grow, but the withdrawals from retail investors' holdings of mutual funds is a very good reflection or indicator of what the ordinary retail investor is doing. So again, the people that are borrowing the money here and doing well in the stock market are not the bottom 50, 60, 70, 80, 90 percent, but again, they're the top ten percent, and again, a direct result of ultra low, excessively low, arbitrarily low interest rates. So let's just wrap this up by looking quickly globally. Look at the bars.

The bars are the increase in central bank balance sheets around the world, and they are continuing to grow, even though the European Central Bank in the last 12 months actually declined, and the fed has – the rate of growth of the fed has gone down and so stabilized a little bit. But globally, they're still continuing to increase.

And ultra low interest rates are extend around the world. Is it ironic? Is it perverse, or is there a lesson to be learned that the only country with realistic interest rates, China, is also the country that is growing the most? This is not a coincidence. This is not a coincidence . Ultra low interest rates are an absolute drag on the economy, and rates are still falling. This year to date, 47 – there have been 47 central bank interest rate cuts around the year. That's 47. Sometimes the same country twice, but Sweden cut their interest rates, and most recently China cut their interest rates a little, and Singapore cut their interest rates. But 47 countries have cut them this year, so interest rates are still falling.

So again, it's not a surprise given the ultra low interest rates that since the crash, despite people talking about austerity – what austerity? There's no austerity measures by governments. There's people suffering austerity, but most governments – even England, which has made a big deal out of an austere budget, it's nonsense. The debt in England is still growing, the budget is still growing. That's not austerity. So not surprisingly since the crash, debt around the world has risen faster than growth.

That's not what the fed meant to happen with ultra low interest rates. So you see from 2007 when it was 142 percent ratio debt to GDP – this is debt as a percent of GDP around the world is now 199 percent. Basically, debt is twice GDP, and that's grown that dramatically over such a short period of time when in fact we were aiming for the opposite. That's what was meant to happen. The opposite. And this is again a direct result of ultra low interest rates. I put this one up. You can't read – I'm sure you can't read all those countries, but the interesting thing here is – I like this because it shows since 2007, of all the countries that are better off in terms of their debt ratios, it's Argentina, Romania, Saudi Arabia. I mean my gosh, there's not a –

With due respect to people from those countries, there's not a major country, major economy on the list. Every major economy has seen their debt go up. So low interest rates have distorted the allocation of resources. They've increased debt, hurt savers, hurt retirees, and they've acted as a drag on the economy by disincentivizing investment and by disincentivizing bank lending. And so it's not a surprise that we are in the situation we are. Now I have a workshop tonight, I think it's 9:00 – no, 8:00, 8:00. And I'm going to talk about some of the investments that actually benefit from some of the things here we're talking about. US dividend stocks are stocks, good quality stocks in the US today, some of the business development companies we've talked about that are yielding between eight and ten percent. Eight and ten percent well covered by earnings, and dividends that generally go up, if not every year, but they tend to go up over time.

Asian growth stocks I think have been completely beaten down, and that is a good time to get into them. And lastly, ultra easy money is good for gold and gold stocks. In my workshop, I'll discuss why gold stocks have been hurt the last few years, but why I think they're about to turn. And so with that, I appreciate it, thank you very much.

Economic Panel

Mark Skousen (MC), Douglas Kass, Peter Ricchiutti, James Rickards, Andrew Schiff

Mark Skousen: Well ladies and gentlemen my name is Mark Skousen. I'll put up my name thing here. I am the moderator of our economics panel. As you can see I am wearing a Halloween tie because we've heard a lot of scary predictions and analysis at the New Orleans Conference. And it's always a pleasure for me to moderate this very important panel on the economic policies and economic issues of the day, and particularly how it will affect your investments. So we're delighted to have on our panel –

We have Douglas Kass. We have Peter Ricchiuti. We have Jim Rickards and we have Andrew Schiff. We're going to start the discussion today with a topic that I think is very important. And that is I've been reading a book recently called *Superforecasting*. I don't know if any of our panelists have seen this book called *Superforecasting*. It's by Philip Tetlock who is at the Wharton school. And he's developed this good judgement project. And what he's done is he's reached out to literally thousands of amateur forecasters.

And these are not professionals. They're retirees. They're seniors. They're people who have some time on their hands. And he has been able to locate hundreds of people who have an incredible ability to predict the future. And in analyzing these individuals he discovers that they have very common characteristics. One of the things is that they're constantly reading, constantly finding out what's happening in the news. Second of all they have a historical perspective.

They look at history. They look at trends. They look at the cycles of history. And last but not least when they are wrong they analyze why they were wrong by talking to those who were right to see what they were missing. They are doing what Ayn Rand said was checking their premises. So I would like to ask our panelists from the very beginning here, and particularly Jim Rickards and Andrew Shiff, who have in the past recently made very bold predictions that from what I have seen have turned out to be postponed or incorrect or however you want to phrase it.

And so the predictions of the collapse of the dollar, a stock market crash, an economic downturn, have not happened. Armageddon has been postponed. So the question I would like to ask both Jim and Andrew is: if you could go back and make your predictions of three or four years ago what have you learned from these failures – if you will – to predict accurately and on a timely basis what is happening? What were you missing? What were the factors that you would now look back and say, "Oh I should've thought of X"?

Jim let me – I mean that's a tough question to start off with. Andrew the same question: what have you missed? What happened? Why did not these events occur at least now?

Jim Rickards: Well you just spent ten minutes putting words in my mouth so I'm not sure how much I need to say but I would not change anything. First of all I don't do predictions. I do warnings. So I'll tell you what's going to happen in the form a warning. And the warning doesn't mean it's going to happen. It means it will happen if the path doesn't change. So you're on some path. There may be time to change it. There may be time to do something else. If you don't, you will have the outcome that I describe.

I don't consider it a prediction. I don't consider it predicting the future. I consider it correctly analyzing the dynamic system. And if you do that it's fairly easy to say what's going to come next. If I hold this pen in midair and I say I'm going to let go of the pen and I want everyone in the room to write down what's going to happen next, I dare say almost 100 percent of the people – probably 100 percent – will say, "Jim if you let go of that pen it's going to hit the table." So I let go of the pen and it hits the table.

I don't consider that predicting the future. I consider that having the right model of how things work. If you know you're on the planet Earth, if you understand gravity, if you know the pen has weight, if you know we're not in outer space, it's not much of a prediction. You're just getting the system analysis correct.

Mark Skousen: Right but you're not holding the pen. Other people are holding the pen and you're predicting when they are going to drop the pen.

Jim Rickards: I'm trying to explain the difference between system analysis and what you call predicting the future which is not how I think about it. So now let me come back to the collapse of the dollar. That's underway. That will happen.

Mark Skousen: But it hasn't happened at all. In fact the dollar has strengthened since you made your warnings.

Jim Rickards: Which is slowing the U.S. economy, which is delaying the Feds. Look, there are actions and reactions. So the dollar will lose 80 to 90 percent of its value at best, as it did in the 1970s, as it has numerous times. You know people say the dollar went down in purchasing power 90 percent since 1913 which it has. But what that ignores is that you can go down 90 percent and then you've got 10 percent left. But then the 10 percent becomes a new benchmark and you can lose 90 percent of the remaining 10 percent which would be another 9 points. So the dollar can go down 90 percent multiple times relative to whatever benchmark you want to pick.

So I haven't changed. I do listen. The main thing I do is I have a forecast or some understanding of the system. But I'll also say not only what if I'm wrong but actually say, if I'm wrong here's something else that will happen. So for example I said – By the way November 2014 I was on TV a lot. So the good thing about being on TV is you have all the video clips. Go back and look at CNBC, November 2014.

I can send you the link. I said categorically – categorically the Federal Reserve would not raise interest rates in 2015. Now at the time Wall Street was saying March. Then after March they said June. After June they said September. After September they're saying December. I'm sticking to that. That was completely accurate and it wasn't a guess. I understood the forces at play including the strong dollar which imports deflation. Now the Federal Reserve wants inflation.

That's not a secret. They said so multiple times. But they also said they're going to raise rates. Raising rates strengthens the dollar – you're right about that –

Mark Skousen: Right.

Jim Rickards: which is deflationary because it imports deflation in the form of higher import prices. So it pushes the –

Mark Skousen: Let me –

Jim Rickards: further away from the goal. So the point is that was 100 percent accurate but it was not a guess. It was an analysis of the reaction function: if you're actually going to raise rates you're going to strengthen the dollar. Now let's say I'm wrong –

Mark Skousen: We need to wrap this up 'cause we've got other panelists.

Jim Rickards: Let me – No seriously because you put a lot of words in my mouth and characterized my work in ways that I think are inaccurate so I'm going to finish what I have to say. So now let's just say I'm wrong. Let's say the Fed raises interest rates in December okay?

Mark Skousen: Well I did my homework, believe me.

Jim Rickards: Okay well so do I.

Mark Skousen: And if you don't think you haven't made false predictions than maybe we don't know how to read.

Jim Rickards: Well read one. Go ahead. Go ahead.

Mark Skousen: But –

Jim Rickards: No just read one. Read it in context and I'll respond.

Mark Skousen: Well –

Jim Rickards: We can't throw accusations like out there and not back it up. Go ahead.

Mark Skousen: So –

Jim Rickards: So what? Now if the Fed does raise interest rates in December – I'll take your point. Let's say I'm wrong and the Fed does raise interest rates in December which I don't expect but let's –

Mark Skousen: All right for example in 2012 you predicted $7,000.00 gold.

Jim Rickards: I still do. I did that yesterday. Gold will go to $7,000.00.

Mark Skousen: If you don't have any timeframe a prediction is meaningless. Does anybody else want to comment on this – Douglas?

Jim Rickards: No it's not meaningless because when gold goes to $7,000.00 –

Mark Skousen: It's a question of timing. Anybody can predict the future and you can say we're going to have $7,000.00 gold at some point.

Jim Rickards: We are, we are.

Mark Skousen: But people are going out and buying gold at that point and seeing the gold price drop sharply. I mean how is that a good recommendation.

Jim Rickards: So you know Mark I run into people like you all the time where they say, "Hey Jim call me at 3:30 PM the day before the stock market crashes and I'll sell my stocks and buy some gold." And you know what I tell them? A) I'm not going to know that day. I know it's coming. That's easy. I'm not going to know that day. But two – and this is the important point – when that day comes you're not going to be able to get the gold. When gold spikes – super spikes – in a couple days – And everyone's saying it's a bubble and then they say its' a bigger bubble.

And then someone's going to wake up and say, "I really want to get some gold." You're not going to be able to get it. Physically it's being put away by China and Russia and others.

Mark Skousen: No, that's just nonsense.

Jim Rickards: It's not nonsense.

Mark Skousen: You can buy lots of gold. There have been lots of false starts.

Jim Rickards: Today you can.

Mark Skousen: It's not going to happen overnight. Does anybody else want to comment on this – Douglas?

Douglas Kass: Yes. Before I defend Jim I have a couple things to say, just melding all your observations together. So in 2013 Warren Buffet invited me to spend eight hours on the day at the Berkshire Hathaway Annual Meeting at the Woodstock of capitalists in Omaha, Nebraska to ask him and Charlie Munger more hard-hitting questions than he's been asked in prior meetings. So I asked my questions and Andrew Sorkin and Becky Quick asked questions.

And then he threw it up in the afternoon session to members of the audience. And a young kid like maybe the age of the surf dude who has the great Facebook product said, "If you could distill your investment advice into one recommendation what would that recommendation be?" It's something that you just mentioned. And Warren said, "Read as much as possible." So I write a daily blog.

Mark Skousen: Munger says the same thing.

Douglas Kass: Yeah and Charlie says the same thing. And I write a daily blog on the http://www.thestreet.com. Jim Cramer is my partner. And at the end of the year on December 30 I do 15 surprises which are what I call probable improbables where there's an overlay on what investors are expecting. And in Wall Street, unlike Jim who has – And I don't think you're listening to Jim 'cause his forecasts are based upon events. Those events are constantly changing. His timeframe – he didn't just say it – is constantly changing to reflect the changing events.

It could be linear economic growth decelerating. It could be Fed policy. It could be a bunch of things. But I write these 15 surprises because I developed these variant non-consensus views which have a chance of occurring – a higher chance in the market things – because you can make a hell of a lot of money in an outlying investment which should only be 3:1 odds against and you're getting 23:1 odds. That's how you make a lot of money. But as I said in my talk – And he's –

You know he may sound like it. He's not a permabear. Permabulls and permabears are attention getters. They're money makers. And if you think back – I think back to my career that the dogma of being bullish on a stock or on an economy or a market or being bearish has really hurt my returns. You have to read everything and be objective. As to the dire case I think he's a friend of yours too Jim. I have a very good friend by the name of Byron Wien. I'll conclude by saying this: Byron ran with Barton Biggs, Morgan's Stanley's Investment Strategy.

And now he's the chief investment strategists at The Blackstone Group. And he had a great line which talks about permabears. It's very simple and I think you should take it away from this conference. He said, "Disasters have a way of never occurring." So I'll leave it like that.

Jim Rickards: By the way –

Mark Skousen: No Jim –

Jim Rickards: I'm not done –

Mark Skousen: I want the others to participate.

Jim Rickards: You can't start out, bring someone up here and throw out those kinds of accusations. I was the only one – the only one I know – tell me someone else if you do – who said Greece would not leave the Euro. And I said that in the beginning of 2011. I said it repeatedly when Roubini and Krugman and Stiglitz and everyone else that I know or hear or –

Mark Skousen: Krugman especially yeah.

Jim Rickards: who said Greece is going to leave the Euro. I said no they will not leave the Euro and I was right. I was the only one I know who said last year the Fed will not raise interest rates in 2015. I was right.

Mark Skousen: Yeah.

Jim Rickards: And I'll stick to $7,000.00 gold.

Mark Skousen: Oh look we –

Jim Rickards: So don't be so selective.

Mark Skousen: We can cherry pick our –

Jim Rickards: Oh yeah I will.

Mark Skousen: all we want.

Jim Rickards: Well that's how you – You started by cherry picking and I'm not going to stand for it.

[crosstalk]

Mark Skousen: Hold on. Wait a minute. Andrew over there has thrown his glasses off. He's furious.

Jim Rickards: If you want to start by cherry picking you're going to get cherry picked back okay?

Mark Skousen: He's not getting a chance to speak. So Andrew are you not a permabear?

Andrew Schiff: Well let me start by prefacing – going back to the baseball stuff and quoting the late, great Yogi Berra to say, "I don't like to make predictions, especially about the future."

Mark Skousen: *[laughter]*

Andrew Schiff: But in terms of our predictions – and by the way James did out-flank us. We're publically get pilloried for a $5,000.00 gold prediction. So you're taking the more exposed position there.

Jim Rickards: It's eighth grade math though.

Andrew Schiff: You could say – If Mark's taking the position that we're wrong we're really talking about the last four or five year period because if you read Peter's books, of which I had something to do with, we correctly predicted the mortgage and the housing bust leading to the mortgage bust leading to the financial bust leading to a recession: correct, correct, correct. Not a lot of people made that prediction certainly in 2006 and 2007. Now what you can fault us for is not seeing the monetary reaction to those crises.

We correctly predicted that the Federal Reserve would come in and bail out everybody and become the lender of last resort and really changing their mission substantially from what we'd seen before: correct. We thought that those actions would then lead to a dollar weakness at least initially okay: incorrect, at least for now. Now you could measure that cycle in a four or five year period. And you know I would suggest in that period Mark is saying that's – The timing is very important.

Now depending on how you're looking at it that four or five year period could be considered a blip – a small amount of time in the economic cycles in the great development of economics or not. But I think more so than the mathematical models that Mr. Rickards will point you to which I really couldn't explain to you. I just didn't get that far in math. I think it's more of a psychological thing and a geopolitical thing. But things that we couldn't necessarily have predicted that have been surprising to me – and I've been dealing with the financial media for instance for 15 to 20 years – is the very noticeable shift in the way people report things in the media.

Like for instance where in a very much black – good is bad type world. When bad news comes out it creates a positive effect in the markets because it tends to increase the likelihood of more monetary stimulus and the markets like monetary stimulus. Trade deficits, currency movements are always reported very differently than they were 15 years ago. If you go back and read a *New York Times* article from 2001 or 2002 they would report currency gains positively. The Polish loti moved up. It's signs of gaining economic strength in Poland.

That was the way it was reported. Now it's negative. Now people almost universally see currency movement in the downward direction as a good thing. And I think that's just simply an entrenchment and an expansion of perverse economic ideas that serving the interests of governments who were trying to inflate together and trying to keep the reality of a stagnant economy and a bankrupt or failing financial policy from being correctly understood. And the media which curries favor by essentially carrying the water of those interests have played along.

And that's created the conditions that people can't see the forest for the trees. I mean we have a situation right now where everyone universally acknowledges that there's no inflation. Yet at the same time the Social Security COLA adjustments have come out at zero, at the same time when the principal costs that seniors face in terms of medical coverage and costs of living and rents are going up. So we can say at the same time, "Oh by the way there's no inflation so we're not increasing COLA."

But look at the difficulties that seniors are facing with higher costs. And people don't see the irony there. That's the problem.

Mark Skousen: Andrew you know what –?

Andrew Schiff: That's the problem we didn't really see.

Mark Skousen: Let's have Peter comment first. Peter you haven't spoken so far. Is the main argument from what I can see from what I would call the bears – We won't call them permabears even though that's the way I read it when I read their books, and I've read them all. Is our financial system a fragile system? Douglas for example really hammered on the derivatives market, how that could just pull everything down. He considers it a totally speculative market. I see it as largely a hedge market.

But whatever you may want to do, from your perspective are we facing this fraction reserve, paper money system – Is it inherently fragile that will cause this apocalyptic collapse that Jim and Andrew and perhaps Doug – I don't know. He's more short term.

Jim Rickards: I've never used the word apocalyptic – never, never. And I've never said it's the end of the world. By the way I'll share my slide decks from '05 and '06 where I said the system is going to collapse.

Mark Skousen: A 70 percent stock market crash.

Jim Rickards: Yes.

Mark Skousen: $100 trillion meltdown, U.S. default to a 24-year great depression.

Jim Rickards: Do you know the –?

Mark Skousen: Does that sound apocalyptic or not folks?

Jim Rickards: It does not. Do you know the gross notional value derivatives in the world? Do you happen to know what that number is?

Mark Skousen: I'm sure you do.

Jim Rickards: I do. It's $700 trillion. So a $100 trillion collapse is only 14 percent write-off of $700 trillion. $700 trillion is the gross notional value derivatives.

Mark Skousen: I think most of us in this audience would consider your views apocalyptic.

Jim Rickards: Well I don't. I consider them –

Mark Skousen: All right just by show of hands how many think that his view in currency wars and the end of money – the destruction of money basically –

Jim Rickards: It's analytic. You may not know what analysis is. It's analytic, not apocalyptic.

Mark Skousen: Geez. I mean let's call a spade a spade.

Jim Rickards: No you're very good at putting words in my mouth. You call me a bear. I'm not a bear. I'm an analyst. I'm not apocalyptic.

Mark Skousen: No I'm quoting your own advertising for your book.

Jim Rickards: I'm analytic. Well –

Mark Skousen: A 70 percent stock market crash is great depression level.

Jim Rickards: And it's –

Mark Skousen: So Peter back to your question.

Jim Rickards: And it's happened 5 times in the last 100 years.

Mark Skousen: Is the –

Jim Rickards: That's happened 5 times in the last 100 years.

Mark Skousen: monetary system so fragile that –

Jim Rickards: You don't think it's going to happen in the next 20 years.

Mark Skousen: Jim is right?

Peter Ricchiuti: I don't think – You know everybody who's predicted the end of the world has so far been wrong. I think that's important. But no I don't –

Jim Rickards: No one is predicting the end of the world.

Andrew Schiff: The end of the world –

Peter Ricchiuti: I know. I'm just following with him.

Jim Rickards: Yeah you're putting words in my mouth. I've never predicted the end of the world. I've never used the word apocalyptic.

Mark Skousen: Believe me it's riots in the streets if we face this kind of scenario.

Jim Rickards: I do expect that yeah.

Mark Skousen: Okay well that's pretty apocalyptic.

Peter Ricchiuti: Eating our young. But I guess the thing is I'm much more of a market guy. The real reason –

Jim Rickards: There will be rioting in the streets. People were dead. There was blood in the streets in Indonesia. They were rioting in the streets in the Indonesia and Korea in 1997. There was blood in the streets.

Mark Skousen: Peter are we ever going to hear from you?

Peter Ricchiuti: I'm just going to say the reason I'm optimistic about the markets I guess is really in the supply and demand side. You know in 2000 there were 6,600 publically traded companies in the markets – actively publically traded companies. And you know you don't see it because it's day to day. But for instance on Monday Pep Boys was bought out. On Tuesday Rite Aid was bought out. You don't see it en masse but we've had so many companies bought out now that there are just half as many publically traded companies in America.

Now that's net. That includes all the IPOs that have come in. So we now have 3,300 publically traded companies. We've got all these shares about $1.5 trillion worth of shares have been taken off the market. And it's really in the last six years. And that's really one of the reasons I'm optimistic. I think it's supply and demand. We've got more dollars chasing fewer companies. Unfortunately you know I've mentioned that we've fallen in love with stock buy backs. And I don't think that's going to end well.

And of course corporations – You know I sat on the board of a public company for a long time. You know you can't pay a CEO very much money anymore. You can't pay him zillions of dollars. What you can do is give him a moderate amount and give him a lot of stock options. And once you do that they're acting on behalf of the stock. They get a much more short term orientation. And the other thing is finally on the mergers and acquisitions, although it's been great and there are half as many companies as there were out there before and all that 70 percent of all acquisitions don't work out.

And the reason for that – You know we can do all these analytics about it but the reason is that people pay too much for these companies. They have to pay a big premium. And you know the old adage: the seller knows more about what's being sold than the buyer knows about what's being bought. I think that's all I see. So no big macro thing. That's why –

Douglas Kass: Can I just say one quick thing?

Mark Skousen: Peter that sounded all very depressing as well so I guess all four of you are on the bearish _____.

Douglas Kass: Can I just say one –?

Mark Skousen: All right Douglas. *[laughter]*

Douglas Kass: I think there's a broader message here which I would prefer emphasizing since this is basically an educational forum. There's an old expression. I'm going to change the physical part of the anatomy but opinions are like noses. Everyone has them. And an answer Yogi Berra once said also: "In life you approach a fork in the road. Take it."

Jim Rickards: Take it, yeah.

Douglas Kass: So Andrew and Jim have taken, through logic of argument and process of analytical dissection a view. On the other hand Warren Buffet and Charlie Munger don't understand the price of gold. They think it's worthless. They think it's a pile of junk on a couple of football fields. Somewhere in the middle is another smart person – the fifth smart person. It's Howard Marks, the chairman of Oaktree who says, "Gold is much like religion. Either you believe in God or you don't. Either you believe in God or you don't."

So educationally I think rather than get involved in sort of a political statement that I think you're trying to make about his viewpoint which really isn't totally accurate, but that's a whole different discussion. We should as investors or as traders just weigh everyone. Read as much as you can and then make your own decision.

Mark Skousen: Okay I agree with you on that. But as the moderator I'm speaking on behalf of those investors, many of which I have talked to at this conference, who follow the bears' predictions and their analysis –

Jim Rickards: I'm not a bear. I'm not a bear.

Mark Skousen: No wait a minute. Let me finish. – and are down 50 percent or down 60 percent. And what do you say to them? Are you saying that eventually you'll be right holding onto your gold? Eventually you'll be right getting out of the stock market, even though you're opportunity cost is – You've lost a huge amount of opportunity costs by being in the market. What do you say to those people? Andrew you're a money manager? What do you say to these people?

Andrew Schiff: Well no one's down 50 and yeah it's been –

Mark Skousen: Do you want to bet?

Andrew Schiff: the last four years – It's 30 because the dollar has rallied about 35 percent. If you're out of the dollar and even the stocks you're investing in have done okay you're down about 30. And we were, like Jim was, very vocal in predicting no rate hike for 2015. We're down to the wire here and see if we get one in December. We think not although the market – The Lucy and the football thing seems to work every single time. But we had a great October because of this 10 percent rally because of the September weakness in the jobs report.

If the Fed comes out and doesn't raise in December and then puts them on ice for the election year of 2016 – which is a distinct possibility – then you'll see a huge rally in the kind of no rate hike portfolio that we have. We saw 10 percent in October. And that's just a taste of what could happen especially if we get QE4 before we get a rate hike, which is a distinct possibility based on the fact that the economy is approaching rescission. But I want to get to one thing because I don't know if I'll have to address it later, in terms about making predictions. This is a very important point to make.

We're not permabears and we're not predicting a stock market crash. What happened in 2008 – the crash that we had – happened because the market did not know what was going to happen. There were little time bombs exploding all across Wall Street because people were holding mortgaged-backed securities that might've been worthless. So people started selling everything. At that point they didn't know that the Fed would come in and bail everybody out. That behavior had been unprecedented.

Now it is quite precedented. And if you want to know where this QE experience is going – which we've been doing for five or six years, not helping the economy – just look at Japan and what they're doing. I mean they've been doing it for 20 years longer than we have and they're the Virgil to our Dante – for those people who get the reference. And what's going on there – and I just read a fantastic article I read this week – about how the Japanese government is moving into direct equity purchases.

They already own over 50 percent of the ETF market in Japan. ETFs are being created specifically so the government can buy them 'cause they've bought all the bonds. Now they're moving on to the equities. And now the ETFs aren't enough. They're moving in buying up shares of

Japanese corporations directly. A government minister was quoted as saying one of the tangential benefits of such a policy would be if the Japanese government gets controlling interest in these equities.

They can then be in a position to force those companies to implement the administration's _____ about – I mean Obamanomics policies of raising wages and increasing spending. So it becomes socialization through QE. And that's where this is going.

Mark Skousen: Why?

Douglas Kass: If you think the QE is going to stop soon it's going to be bonds and then it's going to be stocks. I just want to put a punctuation point to this and then we'll move on to a different subject hopefully. You know everything depends upon your risk profile which in turn produces a timeframe of your trading or investing. The shorter you are in duration, in timeframe, the more price is truth. Getting back to your discussion with members of the audience who objected to his "forecast," the longer you go out in time price is not truth. My largest short position is a stock rollup called Valiant Pharmaceuticals which two and one-half months ago traded for $265.00 and closed after hours at $92.50 on Friday.

To the trader $270.00 was truth two and one-half months ago. To the short seller with a longer term timeframe having Valiant VRX as an investment short price wasn't truth. It was an opportunity for me to short the stock. So I think it depends upon your timeframe.

Mark Skousen: Well that's been my –

Douglas Kass: Traders should never heed boldly optimistic and boldly pessimistic views. Traders I'm saying – Traders with even a year or two timeframe. But people with longer term timeframes and take their money serious, respect their hard earned capital and their investors' capital should consider all these factors.

Mark Skousen: Let me ask a question that I think will be critical to this issue of the future. And that is a chart that Peter showed. I don't know how many of you saw it – on the yield curve.

Douglas Kass: Oh I want to discuss that. I want to discuss. Peter had two base core arguments. I love Peter. I hope to lecture in his class at Tulane. As I said my son went there.

Mark Skousen: Very good forward –

Douglas Kass: He basically had two core arguments and correct me if I'm wrong. Now I'll be like the fact checker at the CNBC Republican debate.

Peter Ricchiuti: Oh I like this 'cause –

Douglas Kass: On Fox Business 'cause you're doing all that –

Peter Ricchiuti: This is sort of like *Saturday Night Live* like, "Jane you ignorant slut." I miss that kind of format.

[laughter]

Douglas Kass: And by the way I say this totally respectfully –

Andrew Schiff: Or misguided slut.

Douglas Kass: to Peter. At the core of his bullish case he had two tables. One was a table of 2011 to 2015 S&P earnings. The other table was a slope of the yield curve. And his thesis was a positive yielding slope of the yield curve portends positive economic growth going forward: correct. He also said look at the progression of S&P earnings. Well if you look at – Now we came out of a freaking depression in 2007/2008. So earnings growth should've been rapid. The fact of the matter is 2011 I think his number was $103.00 or $104.00. And it's going to be $115.00 he says but it's actually going to be closer to $110.00.

That implies three percent annual average rate of earnings growth including financial engineering. So it's like one person looks at the chart and says, "This sucks," me. And he looks at the chart and says, "Well look at this earnings progress." I look at quality of earnings and that's awful earnings growth. And if you did a revenue number you'd really be pathetic. In terms of the slope of the yield curve portending positive economic growth I will say that if you look closely at his chart you'll see the greatest spike in the yield curve was in 2008 – one of the worst years for the equity market in history.

And what did it portend? It didn't even portend three percent real GDP growth coming out of a sucky great decession in 2007 and 2008.

Mark Skousen: The key here –

Douglas Kass: We've had 2.1 percent real growth with 0 interest rates – the theme of my talk – for 6 years and humongous injections of liquidity. And all we could get is 2.1 percent – the latest quarter being 1.9 percent reported I think.

Andrew Schiff: 1.5.

Jim Rickards: 1.5.

Mark Skousen: I think the chart that he was showing was a very powerful chart to show that when the yield curve turned negative – which it did twice in 2008 – you saw a recession occur.

Peter Ricchiuti: Right.

Mark Skousen: And so right now –

Douglas Kass: It was actually 2007.

Andrew Schiff: 2008 it was –

Mark Skousen: You had a strong positive yield curve although it is starting to drop. And that suggests that maybe it would some point create a problem. Now the other thing –

Andrew Schiff: If you've got short rates at zero. How could it possibly even be a negative slope?

Jim Rickards: That's true.

Mark Skousen: That's right so maybe that won't work this time around. That's always a possibility. One of the things that I think the panel has missed is that you've underestimated – And Jim you're shaking your head. You don't even know what I'm about to say.

Jim Rickards: Well you're telling me –

Mark Skousen: You underestimate.

Jim Rickards: You're telling me what I think. You're telling me what I underestimate.

Mark Skousen: You underestimate the Federal Reserve.

Jim Rickards: Again you're putting word in my – You're sitting there telling me what I think.

Mark Skousen: The power –

Jim Rickards: Why don't you ask a question instead of telling me what I think? I know what I think.

Mark Skousen: You kept going like this when I haven't even finished my sentence.

Andrew Schiff: I want to go fishing with these two.

Jim Rickards: By the way – You act as if 80 percent declines in the stock market are from the dark side of the moon. The Nikkei went down 80 percent in 1990. The NASDAQ went down 80 percent in 2000. These things happen with some regularity – every seven, eight, ten years – 80 percent. You act like it's a man from Mars.

Mark Skousen: I think what I was trying to say – before I was interrupted – was that we underestimate the power of the Fed to intervene. And I think that's – Andrew said that earlier and this is what has postponed whatever crisis you want to predict or whatever you want to call it. And I would like to see Jim – you at least admit – that the Fed is more powerful than you realize?

Jim Rickards: Listen, I'm the only one who's saying not only is the Fed more powerful than most people realize. I'm the only one who's talking consistently about the central bank of the world, about the IMF. And the IMF's ability to address the next liquidity crisis with trillions of SDRs which you know is not very well understood. But I'm saying not only is the Fed powerful, there's something more powerful than the Fed which is the IMF which the world will turn to to create liquidity in the next crisis.

So far from underestimating the role of central banks I'm describing a central bank that very few people understand. I'm telling you what's going to happen. When the collapse comes the Fed – The Fed did $10 trillion of swaps with Europeans. They printed $4 trillion. The FDIC guaranteed every money market fund in America. They guaranteed every bank deposit in America. I didn't underestimate that. What I'm saying is the next – Now here's – What I'm saying is the next time it will be bigger than the Fed and the trillions of dollars of liquidity will come from the IMF.

So I don't think I'm the one underestimating the role of central banks. I'm actually saying there's a central bank of the world.

Mark Skousen: Well I guess what I'm saying is if you recognize the power of the Fed you would've seen that the stock market would've been a good place to invest. It's doubled and doubled again. I mean it's – Since 2009 the stock market has doubled and doubled again correct? I mean it's increase dramatically and you've missed that entire market which seems like an opportunity to make a lot of money.

Andrew Schiff: Look we had about 80 percent growth from 2009 to 2015 in the U.S. market on the back of the weakest economic non-recession I think we've ever had. I think the GDP average went 1.9 or something like that. So who would've predicted that necessarily as being the case?

Mark Skousen: Well Jeremy Siegel was one of them.

Andrew Schiff: Well I mean the question is yes the Fed has a lot of power. And just like the – But the question is until the faith in their ability to create good is dissipated. And that day will come, especially as the merry-go-round goes quicker and quicker and each cycle becomes larger. Let's take a look at earnings growth as the illustration –

Mark Skousen: Are we going to have an earnings recession like Doug is suggesting?

Andrew Schiff: Everybody knows that yes earnings growth is up largely because they're buying back shares and taking shares off the market. Now you know that's financial engineering. You know that doesn't have a good long term outcome 'cause instead of spending money on plant and equipment and growing your business and investing in your business you're trading that long term growth for a short term pop of fewer shares and higher earnings per share. Now that – If everyone agrees that that's not a problem and everyone loves that then yeah you can get away with that forever.

But at some point if real long term earnings matter and growth really matters that's going to blow up.

Mark Skousen: All right so we have only a few more minutes. So thumbs up or thumbs down for the next New Orleans conference. It's going to be a year from now. All right stock market up or down? Jim's not going to make a prediction again.

Andrew Schiff: Not about the future.

Mark Skousen: Andrew up or down?

Andrew Schiff: I would say most like upish because they're going to call off the rate hikes and the market's going to love that.

Douglas Kass: The federal ease in March and that will be bullish for stocks. It will.

Mark Skousen: Wow interesting. Gold up or down?

Jim Rickards: Up.

Andrew Schiff: Up.

Mark Skousen: Peter says down. Douglas?

Douglas Kass: In a year I don't know.

Mark Skousen: I don't know. You're honest to say I don't know.

Peter Ricchiuti: Doug said that was a sign of a – A good guy that wants to say I don't know.

Mark Skousen: Fed will raise rates by next year up or down?

Jim Rickards: They will not –

Mark Skousen: They can't go down much but.

Jim Rickards: They will not raise rates.

Mark Skousen: Jim says they will not raise rates.

Andrew Schiff: If they make a mistake of putting 25 basis points on the table in March – I mean in December if that happens they're going to have to be sucked into a very embarrassing position of taking that 25 basis points off the table, not too much longer after they put it on the table.

Jim Rickards: That's why they won't do it.

Douglas Kass: I do think that –

Andrew Schiff: That's why they won't do it. That's the important point.

Mark Skousen: Andrew last word.

Andrew Schiff: The important part is if they do that then they look really stupid. And they don't want to look stupid which is why they don't do it.

Douglas Kass: I do think. I just want to respond to what Andrew said. I can't speak for you but I can speak for myself. What I missed was not what central bankers would do Andrew but rather how market participants would react. In other words I didn't see this blind faith in the central bankers. And I still – And I'm more negative I think than you going forward on equities for that reason. I mean a very good example was 2013 to me was shocking that the S&P was up 31 percent. Reported earnings were up 6.5 percent. Operating earnings before financial engineering were up 2.5 or 3 percent.

To me that was a valuation change that was unexpected by me. And to me we're at the point where it's clear that at least domestically the marginal impact of ZIRP and quantitative easing is probably value disruptive to the economy. And it will become – There will come an aha moment when investors realize that. And we'll see you know very disappointing earnings growth coupled with valuation declines of some extent.

Mark Skousen: And we've run out of time but one final question: Donald Trump will be the Republican candidate for president up or down?

Douglas Kass: I will bet anyone that Marco Rubio is the candidate.

Mark Skousen: That's what they're betting on. Let's thank our panel. All right, Doug, Pete, Jim, and Andrew thank you all very much.

Energy Panel

Rick Rule (MC), Sean Brodrick, Nick Hodge, Marin Katusa

Announcer: Rick Rule from Sprott Global Investments will moderate. Sean Brodrick from Oxford Club, Nick Hodge from Outsider Club, Marin Katusa from Katusa Research, and Bryon King from Agora Financial. That is a really high quality talent lineup on energy. So gentlemen if you'd please come forward and we'll get –

Rick Rule: Good evening ladies and gentlemen. It's nice to see so many of you here the first day. I hope that opening cocktail party was nice and I hope you got some sustenance in you. We have an hour in front of us talking about the energy business. And so you'll all need to be strong for this. How many people were here at the New Orleans conference last year for the energy panel? And how many of you people took notes and remember what was said last year?

We might – depending on how the rest of the conference goes – ask some of the people about their predictions last year and talk about whether or not they came true. The good news about of course moderating a panel like I do – at least I did last year – is that I had the extraordinarily good sense not to make any predictions. You can hold me to every firm prediction that I make. I think you know all of my panelists. And to the extent that you don't I think they probably arrayed themselves correctly in front of the right nametags.

All are prominent financial newsletter editors. All are deeply versed in the energy business. And so well let's get started. To set the stage I think we need to talk about any energy in the context of the commodities market which is a different way of saying that the last year – if you want to be really polite – has been challenging for the energy business and challenging for the energy business in a way that I've never seen in my career. Those of you who are clients of mine will know I frequently say that this is my fourth cycle.

And the thing that really differentiates this cycle from my point of view – and I'll be asking the panelists about this in terms of their own points of view later – the thing that differentiates this bear market from prior bear markets in my own experience is that this bear market has been singular in the sense that at least in the commodities space we have depressed demand for everything. The first real bear market I suffered was the bear market of the 1980s which was different.

We didn't have constrained demands so much as we had a surplus of supply – a supply that was brought on in the great bull market of the 1970s which so many of us recall with such fondness. The truth is as we like say in New Orleans the cure for a bear market is a bear market. The cure for a bull market is a bull market. Or in other words the cure for high prices is in fact high prices. And that's the way bull and bear markets usually go. This is a complicated one because the prices have fallen.

The prices have fallen substantially to market clearing prices. But the truth is that there's a real weakness in demand. And one of the things that I'm going to prime my panel for as a question that they're going to be asked later on is where and when will demand reappear? And which commodities will it reappear for most dramatically and soonest? But now that you're thinking about it I'm going to ask you a different range of questions. First – but I wanted to set the stage.

And we're going to talk about energy in a lot of different facets. We're going to talk about oil and gas. We're going to talk about coal. We're going to talk about uranium. We may descend just so that I can sort of beat myself up for past sins into alternative energies. But we're going to cover the energy business. And since we have time tonight we'll talk a little bit about energy policy. But most of all I think we're going to try and talk about making some money which will be an interesting challenge given that the last 12 months that we've had in the energy business.

So let's start off in the oil and gas business. And let's localize it for a while to the North American oil and gas business. We have seen a situation in oil more than gas of course, but we've seen a situation in oil where after a very long time of the oil price being stuck at $90.00+ it seems to be stuck in the $40.00 to $50.00 or $40.00 to $55.00 range. And I have a couple of questions. But my most important question – and it's fair to say I don't know if you don't know.

One of the things that strikes me is that I believe personally if you look at the total cost of production in North America that includes the cost of capital that today's oil price doesn't cover the total cost of capital for North American production in any basin. And so I'd like people to comment on that. I'd like people if they have the ability to answer either with regards to the median or the mean – the median or the mean total cost of production in the United States and in Canada.

And if there are any obvious anomalies by way of specialty or basin let me know. And Byron I think I'm going to start with you. Total cost of production in the United States, Canada – any specific basins.

Byron King: Well I tend to agree with you the total overall cost isn't sufficient to pay it all back. But neither were the original railroads you know 150 years ago or 100 years ago or whatever. It's not the person that built the railroad who made the money. It was maybe the second or the third or the fourth owner who made the money. And I think that for much of the independent and the smaller at least parts of the industry – I'm not talking about the Chevron and Shell and Exxon end of things.

But for the mid-tier and down I think that yeah they have immense financial problems, immense financial overhangs. But investment wise that's not what you need to worry about. You need to worry about who's going to be the next owner or the owner after next because they're going to make the money. All that sunk cost; that's going to get dealt with in bankruptcy court. Or that's going to get dealt in write-downs, write-offs and marking things down when the time comes, which is like now.

So you know that's a good question to ask but then it moves you into a whole other way of looking at things which is that you need to look at not this owner but the next or the next, or the owner after next.

Rick Rule: Do you have a sense – and feel free by the way to say no because nobody knows the answer to every question. Do you have a sense – a hint – as to what the total cost of production for public companies in the United States is? I know that you follow American markets more than Canadian.

Byron King: Well you know it depends again what basin you're in. But I've seen numbers between $20.00 and $30.00 a barrel that people can keep the lights on and do very well.

Rick Rule: Marin?

Marin Katusa: Okay we need to differentiate total cost versus cash cost.

Rick Rule: No, no, no not cash cost.

Marin Katusa: No I know but –

Rick Rule: Total cost of production including –

Marin Katusa: It's irrelevant. It's a theoretical –

Rick Rule: cost of capital.

Marin Katusa: Like last year we debated when I said it's going to go lower for longer. And I'm glad there are people that take notes so I can brag about my one right call. The reality here is that there are thousands and thousands and thousands of wells that are drilled. And they can come online within three days by completion. So the total cost – Rick is 100 percent right when he's saying the total cost – You'd probably need about $65.00 or $70.00 total cost all in. It doesn't fly.

But the reality is thinking about there's a whole lack of thousands of half-built houses. So now it comes down to that differential. That's what Byron's talking about. So that's correct. For example in the Bakken and a lot of people don't know that it's three companies that produce 27 percent of the production. So you look at the lowest cost quartile. It's a difficult question you're posing but the reality is there are a lot of companies. The cash cost – Remember from this time last year they've dropped costs by about 20 percent.

That's a big difference. And if you look at the actual number of horizontal rigs drilling they're nowhere near as down as the conventional vertical rates. So that's what you need to focus on, like I talked about last year. Don't focus on the Baker Hughes overall drill rig count. It's just old – It's like an old computer. My analogy last year was a computer from five years ago is nothing compared to a computer today. A computer today is five computers of five years ago. That's like the horizontal fracks today. So it's a totally different game.

Rick Rule: I don't think I got an answer.

Marin Katusa: I did. No the answer is $65.00 total cost but that's irrelevant because it's down to cash costs and the lowest cost a quartile in the shale in the U.S.

is probably around $30.00 to $35.00. And then in Canada remember they've got the currency crisis advantage at a 33 percent weaker dollar. So they even have an advantage there also.

Rick Rule: So Marin would you say that total production costs including return on capital employed – because assuming these guys are going to be producing four years ago they have to earn their cost of capital. Would you say total production costs in the United States or in Canada are cheaper?

Marin Katusa: So historically you're going to look at it and in the U.S. it's going to be cheaper. Why? Because it's all about growth, growth, growth and innovation through technology. And they have to survive. So there's more infrastructure. There are more companies. There is more capital – lower cost of capital – going into U.S. so it's going to be cheaper in the U.S. In Canada the big, big projects like the oil sands are very high CapEx cost. And then their cash costs are a lot lower. So once they build it they can produce at a lower price.

Rick Rule: Nick what's your sense?

Nick Hodge: I think $65.00 to $70.00 is the right answer. I've seen Bernstein Research peg it at $71.00 and I like their numbers. But I would say that it does matter and it is relevant as opposed to Marin because technology is improving. And costs will go down. But it didn't matter over the past year right? They didn't drive them down low enough fast enough that they took on to drill the wells. It wasn't repaid back fast enough. The decline rates in the Bakken were too precipitous to overcome the economics of that beast that we talked about as potentially being a Ponzi scheme on this stage last year.

And so you know if you're taking out debt to drill oil that costs you $65.00 or $70.00 a barrel and the price of oil goes to $45.00 which it did it doesn't matter if the technology is going to improve over the next five years. Your stock still gets wacked and they did.

Rick Rule: Sean.

Sean Brodrick: Okay I just want to say that there is no right answer to your question but I will give you the right answer to your question. Also I was the only person on this stage I guess who wasn't here last year. Therefore I'm the only one who was 100 percent correct. *[laughter]* Now one thing I would say is it really varies from company to company. Occidental which is one of the ones we recommend in Oxford Resource Explorer just reported earnings. And one of the interesting things about the earnings: they are quite cash flow positive in the Permian.

They do very well there. Costs are cheap. But the Bakken is so bad they've decided to sell everything they have in the Bakken because they can drill six wells in the Permian for what it costs to drill one up in the Bakken – I mean what they get out of it. And so I think it really depends on the company. I have found companies that came make money at recent prices. I think I've found companies that can make money at even lower prices which we could see. But there are certainly some companies who still have to go through some serious adjustments.

And also about Canada, I did want to mention they have had a change of government up there. And the new prime minister has been talking about taking away some of the favorable treatment for oil companies up there and instead putting it to different new forms of energy and stuff. So as much as we get used to things things can change. So don't get comfortable in anything. I hope that answers your question.

Rick Rule: It'll be fun making fun of the Canadians later in this discussion tonight. I had the good fortune a couple of months ago to put on a conference in Vancouver that mercifully many of you were at. And I had Jim Rickards as a speaker. And I've been communicating a lot with Mr. Richards since. And he believes that one of the consequences of $45.00 energy is going to be a massive default particularly among U.S. producers who often were employing debt as to 75 or 80 percent of total capital.

He sees massive problems in the junk debt market and massive problems with regards to revolving credit or senior term facilities – problems that he sees perhaps having a T in front of them – a very, very, very large number. Byron do you think that energy prices will stay low enough for long enough that the credit default scenario that Mr. Rickards talks about particularly among the U.S. independents comes to pass?

Byron King: The short answer is I do. I work with Jim in the sense that he's a colleague at Agora Financial. I like his work. I like what he does. I like the way he thinks. I don't disagree with him. My view is that there is too much supply. There is not enough demand although that delta – that difference number – isn't nearly what it as at other times in the past. But it's still enough to keep us lower for longer which is where we're at. I think longer does extend well into 2016 maybe into 2017. The one problematic issue –

I keep waiting for somebody in the Middle East somewhere to drop one of those barrel bombs on a pipeline or on a pumping station or something because when that happens then the bets are kind of off. Things could go north in a hurry just because that delta of production – that swing production so to speak – is so narrow. Rick you started out saying that something like four oil cycles – My first job out of college was with Gulf Oil Company in 1978 in West Texas. And we were just sort of in the upswing of what became the Iranian revolution.

And so that was my first boom. And then there was my first bust. According to the people at Chevron who bought Gulf – and I stay in touch with them – we've been through eight up/down cycles since 1978. So do the math. I mean what is it 37 years – every four or five years we go through a cycle. So what is down will go up. It's just a question of when the wheel turns. And it has to turn.

Rick Rule: So I guess the follow on question to that is you are sympathetic with Mr. Rickards' point of view with regards to continued credit disruption in the oil and gas business. If that's true should somebody be short the U.S. independents?

Byron King: I think there's room to go down for those guys yeah. I think it's a shorting opportunity. I don't write a short-oriented newsletter and so shorting isn't really by gig in terms of that kind of trading. But I do think that we're going to see a lot more companies filing bankruptcy. And with all that that implies in terms of the share prices and the market movements.

Rick Rule: Marin you are a token northerner. What about credit conditions in the oil patch north of the border?

Marin Katusa: I think they're both going to be tough. First of all I don't think any retail people should short. You're going to get your ass handed to you by the pros. They're going to play you like a fiddle. But I think if you have to understand how the bankers do this on reserve lending and it's based on a 12 month rolling. In Canada it's on a 3 year roll. So you have third-party independent engineers. And they get paid by the companies. So it's like a big happy circle and everybody wants to keep things happy.

And then at the end of the day what are the bankers going to do with these assets? And who's going to buy the assets. So I see interest rates staying low. I think they'll kick it as far down the road. The hedges are going to unwind. But you'll also see the governments change rules. A lot of people don't know. I'm writing an article that's being published on Friday about the Bakken. You've got North Dakota changing the rules where it used to be a 12 month – You had only 12 months on a phantom well before you have to put it into production.

They're going to kick it down to 24 months. And remember the whole flaring rules? They're going to get rid of those so you can flare as long as you want because the costs are there. They've got to keep these jobs. So I think you'll see the bankers work with the government. The government will do what they can and kick it down. And I think it's going to be – Both will end up happening. I don't see it imploding by 2016. The hedges are still there. So I think this will be an issue for 2017.

Rick Rule: Nick, same question – either side of the border?

Nick Hodge: Yeah I think the probability for more bankruptcies and defaults is high. We've seen some small independent producers and explorers go into receivership already. And the honest answer is you know we don't know where the price is going to go. And neither do they right? The thing I look at is that demand isn't there. And so if the demand isn't there and the supplies are already exceeding demand then the price is going to stay lower for longer. We've said it three times now that Marin's already said it in his independent talk.

So do I want to short? No I don't want to short. Marin said it. Byron said it. Short's not our game. And it certainly shouldn't be the retail investor's game. But I do think you're at a point where you can go long, maybe not the independents. You know we don't always have to talk about $10 million companies or $100 million companies. Why don't you buy Royal Dutch Shell that's sitting you know a couple of bucks or percentage points of its 52-week low and kicking off 4 or 5 percent yield?

I mean the price of the underlying commodity – West Texas Intermediate – has taken a 45 to 50 percent whack. I don't want to go dabbling in small independent producers that have higher cost of capital and higher levels of risk when I can buy majors like Statoil at near 52-week lows. Those are companies I like. Those are companies that are market caps with a B not an M.

Rick Rule: Sean?

Sean Brodrick: Well yeah that's a good question. I'm not a fan of doom and gloom even though I've written a survivalist book. But I do think we'll see more bankruptcies. I don't think as many as some are predicting. You can find companies that are cash flow positive now. And they can cover their nut and they can do more. And those are companies that will do well. Once that can't – again things could get cheaper before they get more expensive. We've seen oil production in the U.S. drop by like 500,000 barrels per day since like May.

And it's supposed to drop some more next year. You would think that would provide relieve to U.S. producers but now the refiners are just importing more. And so you know we've seen imports start to come up again. So the relief for those producers is not there. And they could face some more problems ahead. Do you want to say something?

Nick Hodge: No, no after you're done.

Sean Brodrick: Okay. I just heard maybe Royal Dutch Shell. I like Exxon. We're in Exxon. We're up about seven percent which is – I mean that's a company who does extremely well. If you're looking at a major you might want to consider that one. It's already had a run. But you know what? In this kind of market you don't buy things when they're running up. You just buy the dips and you can do extremely well. But there are independent companies out there that can still do well in this market.

And you just have to look out for the lemons you know? Look into their finances. See which ones can make money now and which ones are really up against the wall. You wanted to say –?

Nick Hodge: Oh I just wanted to say that you know we're talking about the independents facing trouble. The majors are facing some level of trouble as well. We just saw Shell back out of the artic right? They went up there. They felt they found a little bit but certainly not at today's prices, not with the ice, not with the rigs and things they have to get up there. So they're backing away in a strong way. I just don't think that you know oil at the price it's at can lend itself to these deep, deep wells or these untraditional, non-traditional, types of drilling.

Sean Brodrick: On the other hands the Russians are doing very well up there aren't they? So maybe we need to look at Russian oil companies. That sounds crazy.

Marin Katusa: Yeah I wouldn't do that.

Sean Brodrick: But maybe that's a thing you might want to do.

Marin Katusa: Two things I'll add Rick. I think it's hilarious that Obama's just passed legislation that they're going to dump 500 million barrels of this Strategic Petroleum Reserve which works out to be about 26,000 barrels a day. And that average total cost was about $70.00 U.S. a barrel and he's going to be selling it somewhere around $40.00 a barrel. And that could be a sign Rick. I don't know. And when you mention Russian be careful in Russia. They play differently there. I wrote a book about it.

But Exxon has actually increased their holdings in Russia – land holdings – by over 400 percent in the last 18 months. And Exxon – you mentioned Exxon – has 300 percent more land in Russia than they do in America. I thought there were sanctions against Russia.

Rick Rule: Well it's arguable in the oil and gas business that Russia is freer than the United States but – Anyway –

Nick Hodge: And we thought the price of oil would go higher *[inaudible]*.

Rick Rule: I'll leave that alone. I'd like to keep the question on energy for a little while. I'm going to start with Sean this time. If we don't see any relief on pricing in the near term and if the industry isn't earning its cost of capital what happens to the service companies in the next two years? I mean I understand that Halliburton and Schlumberger and the whole mob – Precision – all of them have fallen in price. What happens next year and the year after in the service businesses? Their margins are driven by volume.

Sean Brodrick: Yeah and some service companies – even some large ones – will be in some serious problems. They'll have to spin things off or else do other things. I am working on a report about service companies. There are some ones that are quite good. You have to be extremely choosy. But this is a good time to mention – I think – that if producers aren't doing well someone else will be. And who is that? Refiners, right? That's why we have three of them in Oxford Resource Explorer.

Because stuff is so cheap they do incredibly well. And so I mean I don't know why you have to absolutely invest in energy. But if you're obsessed in investing in energy I would look at refiners. I would look at tankers. These are the ones that you know do well in this kind of low price and high volume environment.

Rick Rule: You can tell a veteran panel. How many of you used to watch MacNeil Lehrer NewsHour? Do you remember the technique on Mac Neil Lehrer where they'd ask one of the politicians a question and he'd use the question as a platform for a statement? He didn't answer the question. He just used it to move onto something he'd recommend – I mean some previous campaign plank.

Sean Brodrick: I don't really want to talk about service companies because I'm writing a report about it now. And I don't want to name them.

Rick Rule: I get it.

Sean Brodrick: But there are some that are actually pretty good.

Rick Rule: Listen you're no more guilty than you peers.

Sean Brodrick: *[laughter]*

Rick Rule: Nick? I hope somebody's going to stick to a quesiton just for fun one of these days, but what about the service companies in the context of cost to capital, low energy prices?

Nick Hodge: I like the answer that you don't have to invest. You know you certainly don't have to buy Schlumberger. And you don't have to buy the service companies. I don't think they're going to do all that well. Refiners I think may do okay. But what I think I want to buy is pipelines. They've been hurt harder than the producers. Keystone has not been approved. In fact it has been vetoed. And the last time rates rose – which if you can remember that far back to 2003 – in a rising rate environment between 2003 and 2006 MLPs absolutely trounced even the S&P by 50 percent.

So I want to buy MLPs. I want to buy companies that own the pipelines. And you know you can do that in a partnership but you need an accountant for the taxes because they tax those like income. Or you can buy the ones that aren't the partners. Normally you see two listings. If you buy the one that's not the partner it's just taxed like a regular dividend. So some of those are yielding four, five, or six percent, and again I say if you can buy those companies with market caps in the billions yielding five, or six percent, why wouldn't you at this point of the game?

And especially because they've been hit harder and they're not as closely tied to the commodity price.

Rick Rule: Marin?

Marin Katusa: I think many of the smaller ones are going to go to D service heaven. The bigger boys are going to buy up what they want. You know if you go back in the last cycle in the late 1990s you had Canada frack services. They went away. And that's what's going to happen here.

Rick Rule: Byron?

Byron King: Well I just take a longer view of what's happening. As Marin just said the really small guys and the financially incapable ones are going to go away. The big guys and the good guys – You know Schlumberger and the Halliburton and Corp Labs – CLB out there – I mean an outstanding company. I mean just irreplaceable. If it didn't exist you'd have to invent it. They're great companies. There is no reason that you have to go buy them tomorrow. But in the next 6 to 8 months these things are just going to be absolutely bargain basement. And if you're looking at building a 5 year portfolio the next 12 months or so is going to be the time when you're just picking up diamonds in the rough and gold nuggets in the rough.

And you're just putting them in your pocket. And you're just going to wait. And five years from now you're going to smile and be real happy with yourself.

Rick Rule: We're losing the audience. Twelve months from today we're all back here next year: one oil and gas stock that will make you proud? I'll give you 60 seconds to think about it: one oil and gas stock that'll make you proud in the next 12 months? Byron it's yours.

Byron King: Well watch for opportunities but I mean I'm already proud of Chevron. I mean six weeks ago we bought it at $74.00. Now it's at about $86.00. We've already made some money on that one.

Rick Rule: Marin?

Marin Katusa: I don't have an answer for that one Rick. We have one in our fund and I think it's way too risky for most people here. It's a play on Mexico. It's led by Ian Telfer who is the chairman of Goldcorp. And that's either a hero or a zero. It's called Renaissance Oil but that's a punt. So I'm going to use a punt as my answer. It's the only one we have in our fund.

Rick Rule: Nick?

Nick Hodge: Magellan Midstream Partners – MMP. A $14 billion market cap paying 5 percent right now. It operates in the Permian basin which we already learned is the lowest cost producer. And it also operates not only as a refiner but a transporter.

Rick Rule: Good. Sean?

Sean Brodrick: Well you know –

Rick Rule: It's down to you. You weren't here last year. You are here this year.

Sean Brodrick: If you aren't buying Exxon on the dips you're really missing an opportunity. It is the largest oil company and it won't shock you in the next year. But it's going to do pretty damn well. They take the cash they have and they seem to have buckets of cash falling out of closets there. And they use it to buy their own shares. They have sworn to protect their dividend. If I was thinking for a stock it is going to be safe and potentially grow quite well that would be the one.

But if I wanted to move down the scale, and I'll hope you allow me to, Occidental is doing extremely well in a very tough market. It's making the tough choices. It has a good dividend. It protects it and it just had a really, really tough quarter. But it made the hard choices to make the next quarters going forward better.

Nick Hodge: Just to throw in maybe an ad lib I think we might be at a low in the panel at a junior resource conference talking about Exxon and Chevron and you know I just find it funny. Most of you are attracted to promos that promised 100,000 percent gains and we're pitching Chevron.

Sean Brodrick: All right let me give you a small one. All right it's called Trans Ocean Partners. And what they do: they are a drop down from Trans Ocean. They had to take all their offshore rigs and had to stick them somewhere. They stuck them in Trans Ocean Partners. Now everyone is worried about this because they have contracts. They have contracts through the end of next year that pays these extraordinarily high rates for these rigs which is why they can have a dividend yield of like ten percent. Or it should be distribution yield.

But we've done very well with it because if you're looking for someplace that's going to spin off money in the next year that's a great place to be. And I believe around maybe the third quarter of next year we'll really start to see some action in pricing. And this comes to something we haven't really addressed so I'm going to have to just beg the indulgence of the panel. But we've seen so much money not invested in new products that over the course of the next five years that's going to stop future production around the world that had been planned.

It isn't going to be done anymore and by 2020 it'll be about 5 million barrels per day of production that had been planned that isn't going to be planned. And that's what we just know now. More and more stuff is going to be canceled I think by the end of next year – the third, maybe the fourth quarter – will really start to see things turn around. And so that's my plan is higher prices in 2017 and as people see that coming along they'll start to position for it. But that's very risky. So certainly take that with a grain of salt and do your own research.

Rick Rule: One thing I would like the audience to note is that as Marin sort of danced around the revolving credit facilities, the bank facilities, that the juniors have utilized they kind of got a pass this year. The third-party engineering firms who did the net present value calculations for reserve valuations were allowed to use price guidelines over three years that varied from the futures market – varied from the strip by about 30 percent. Investors need to ask themselves which forward price projection is the best.

One manufactured by appraisers or one arrived out in the marketplace by people writing checks. There have been two times before in my career where I've seen large deltas between third-party engineering assumptions and the market. And both times the delta reconciled in favor of the market. The reason that I point out this to you is that beginning in April or May of next year the smaller companies – the sub-billion dollar market cap companies – are going to have to release another annual report.

And there is going to be another reserve calculation. And my suspicion is that the engineering firms will be less able to manufacture pricing scenarios given how badly they've mis-estimated the pricing scenarios for 2015 and 2016. But more importantly although bank lines haven't been called no new capital has been lent which means that the companies have produced reserves but they haven't replaced the reserves that they've produced.

In the oil and gas business they call that a blowdown. And I think the real reckoning with regards to revolving credit facilities for smaller companies takes place in 2016. That combined with the fact that the oil and gas sub-index and junk bonds in the United States is trading below 80 would suggest that the cost of capital for the junior producers ex-equity is in the 13 to 15 percent range. And it amuses me as an analyst to have the third-party engineers use a 10 percent discount on cash flows when the industry's cost of capital is 14 or 15.

If you take the net present value of the reserves – I know that late at night this is a difficult time to have to go through all this arithmetic. But the truth is it's an important thing. If you use a 10 percent discount and you have a 14 percent cost of capital you can skate with that for a couple of years. But it does not end well. The good news in this silver lining is that I suspect that next year will be one of those years – the kind of year like 2001 was, the kind of year like 1992 was – where you have these incredible, incredible washout sales.

And the investors pay no attention to differentiating between companies that are well run with good balance sheets, low cost of capital, and low production costs. And the rest of the sector people just say, "Oil, forget about it." About once in a decade oil becomes a four letter word. And I think we're headed into that space. I don't think we're there this year but I think we're three next year. Anyway we've trashed oil well enough. Let's move on to other energy commodities.

Let's move down market if you will. Let's talk about coal. What do you think about the coal business Byron? I mean if ever there was a business that was hated –

Byron King: Let me tell you the other day I wrote a note for my newsletter about CONSOL Energy – you know the old Consolidation Coal Company. It's coal mining. It's beaten down. It's horribly beaten down. It's just totally in the dumps. I wrote a note to publish in my newsletter *Outstanding Investments*. My publisher said, "We're not going to publish it." That's how bad the coal space is. When a guy who covers energy and writes a newsletter about energy submits an article about CONSOL Coal and the publishers says, "I'm sorry Byron but we're not going to run that."

They're afraid that somehow or other we'll blow our credibility. That is how despised coal – When even the newsletter publishers don't want to talk about it that's how bad it is. There must be an opportunity there somewhere. I mean could it get worse? Yes but when it does get better you are buying these guys on pennies on the dollar. And CONSOL actually; they're not really a coal company anymore. They're a natural gas and NGL company.

And they have some fabulous acreage just waiting for that slight price move to slingshot them up. But yeah everybody hates coal. The EPA hates coal. Obama hates coal. There's a ware on coal. You know if you're in the coal space you've lost a lot of money. If you're thinking about going in the coal space even my publisher doesn't want you to go there. You know I mean there must be an opportunity somewhere.

Rick Rule: Marin?

Marin Katusa: Sometimes the best investments are the ones you don't do. And since 2011 we have not done a single coal. It's not going to change. Stay away. In Canada the largest met coal producer is Teck. They still haven't ridden down. They're carrying their assets on their books at twice of what they're selling in in the market. So you're going to see further write downs on some of these met coal producers. Good luck permitting and building a new thermal coal mine in North America. And even the Chinese are changing the rules on what they're importing on their coal.

So the game has changed for coal and I think you'll do best to stay away from coal. And it is a four letter word.

Nick Hodge: Yeah I'll admit I was wrong on this panel last year. I thought I could catch the knife and I told people to by Arch. It was a mistake. Coal is: fool me once I'm done with it. Stay away. It's lost 15 percent market share in North America in the past ten years and that's only going to continue to erode. There's a new day here.

Sean Brodrick: I'll just say that world coal use is actually expected to climb. So there could be opportunities there. But you might know Rick. Are there any

	U.S. producers that can produce at a lower cost than producers in say Australia?
Rick Rule:	The answer to that is strangely – I'm going to sound like a panelist now – no and yes.
Sean Brodrick:	No and yes because it would seem that –
Rick Rule:	If you produce met coal in the United States for the U.S. market it is cheaper to ship coal from Pennsylvania to Pennsylvania than it is to ship coal from Queensland to Pennsylvania. So the mine mouth coal price in Queensland is much cheaper than the mine mouth coal price in Pennsylvania. But they've got to get it from Australia to Pennsylvania and Ohio.
Sean Brodrick:	Yeah I know –
Rick Rule:	When we think about coal we think about a world market. In fact what coal is is 70 or 80 regional markets.
Sean Brodrick:	Yes and so the point that I was going to make is most of the growth in coal will be in Asia probably – Asia, India, and stuff like that. Really Australia will probably will that market if it is going to be one. And I can't really think of many U.S. coalminers that I would really want to buy.
Rick Rule:	Got it. I want to tell you people a little story for fun. I'm not going to tell you to do anything about it. But some years ago we, in conjunction with a then rival – now my boss – Sprott – and LuKass Lundin and some others bought some coal assets – met coal assets – in Pennsylvania. And you know we thought we were being aggressive because coal was very unpopular then. You know how coal is with the EPA and all that. Anyway we bought this stuff for about $60 million. And we spent about $25 million fixing it. And then the coal price started going up 'cause steel utilization went up. Through a series of fortuitous circumstances a few people wanted this coal and some Russian folks – a steel company called Severstal – bought it from us for just the shady side of $1 billion. It was a truly stupid move – more stupid than we knew at the time - $90 million to $1 billion. And then the Russians spent about $200 million on it. So they had sort of $1.2 billion in it. We got to thinking we were pretty smart. And about three years ago we went back in the coal business. And I think we put $30 million up and saw it turn into $10 million lickety-split. And so we went into business with the Robertson family – Corby Robinson from Quintana, the biggest coal rights in the United States. Corby put $50 million or $60 million in and saw that become $30 million – keeping ours company. And about four months ago now a group of folks: ourselves, Corby, and the Lundins bought back those assets from the Russians that the Russians had $1.2 billion in.

And there was something about that number - $60 million – they liked. And so they sold it to us for $60 million, down from the $1.2 billion. And I'm not saying that this is something you all should do or that widows and orphans should do or anything like that. But my life has been a lot about buying stuff where I'm going to half or three-quarters of my money if I'm wrong. And I'm going to make 10 or 20 times on my money if I'm write. And I have this strange feeling that I'm too early – probably two years too early.

That seems to be – A lot of you in the room know me. That seems to be my MO. But I keep harkening back to that old thing about you're supposed to buy straw hats in winter. And you're supposed to be brave when everybody else is afraid. And you know I just can't imagine a better lineup of enemies than Obama and the EPA. I've got a sense of humor. I'm going to be looking real hard at the coal business because all the guys who are smarter than me aren't. And an old fat guy like me I could win the 100 meter dash if I get to start on the 40 meter line with nobody else running.

Marin Katusa: Can't we say that about most of the resource sector right now?

Rick Rule: Most of the resource isn't hated. But thank you for that segue Marin because we're going to go to a commodity that people like even less than coal. I mean this is something. It's like if the Ms. America contest was for the ugliest girl in the land. And this girl would win hands down. We're going to talk about uranium now. I mean we've gone – We have truly gone – I don't know what's south of despise but we've gone south of despised. I'd like each of you to give me a couple minutes in terms of where you see the uranium business now and whether you see any hope for it whatever.

And if so, when? And I think I'm going to start with you Sean. I've been picking on Byron.

Sean Brodrick: Sure. You know my subscribers have made a lot of money in uranium. And recently they've lost money in uranium. We keep hearing that there's going to be this tremendous need for uranium nuclear power in Asia. But it keeps getting pushed out further and further. And of course yes the Japanese are actually switching on their reactors again so that's good and all that stuff. You know I think that if you want to take a longshot sure, why not? I think what happened Japan really shook up a lot of people.

You know the Japanese aren't supposed to be any slouches and yet they ended up with multiple meltdowns. So I think that really put a stain on the industry. With that said the new reactors are very safe – or they're supposed to be. And so you know if you want to buy something like say Cameco – which is cheap – then I would buy something like that. If you want to buy one of the little ones – and I know you guys like the junior mining space – then you can go for it. But I think at currently prices I would buy the big one personally.

Nick Hodge: I like the uranium space. I'll be giving a talk about it on this stage tomorrow. I like some of the companies that are here and I think the setup is just too good right? We're in the newsletter business. As Rick said we're early. We're always too early 'cause we see the writing on the wall. We read the news six hours a day. We follow the numbers. And the numbers – I'm telling you – are there. There's a supply deficit looming. By 2017 mind supplies isn't going to be able to keep up with demand.

Yes Japan is restarting two already, five by January they say which is ten percent of their 43 reactors. China is coming on in a big way – something like maybe 65 under construction right now, and hopes for 100 or so more. Everybody wants nuclear right? Argentina just got nukes. Nigeria just got a nuke. Poland has plans for nukes. Bangladesh has plans for nukes. It's not going anywhere. It's clean. You talk about how much coal is hated.

Uranium is clean. It doesn't produce a single ton, a single pound of methane gas or carbon dioxide. And it's safe. You know that sounds silly to say but uranium nuclear energy is the safest form of power the world has ever seen. It has less injuries and deaths per kilowatt hour of electricity generated than any other form of electricity ever. It's safe and I think the setup is just there for the clean energy future that's coming and the transition that's coming in Asia and really around the rest of the world.

So I like uranium. I like Cameco. I like Fission. I like Denison. I like UEC which Amir was just talking about in his single talk. Yes I like uranium. I think if you have the guts to wait it out and you have a little bit of dry powder I say buy in tranches. Average in and wait it out. I think it's going to be good.

Rick Rule: Marin?

Marin Katusa: I think uranium is a few years ahead of the other commodities in this deflation for resources. Four things to factor on: the DOE, Obama's changed the historical rules of the DOE. He's actually selling twice their actual limit. And obviously he's doing it at an historical low when you adjust for inflation rather than at a high, 'cause governments will always do the opposite of what you should do. So they've got less than seven years left in what they're selling on right now. That's something to think about.

It took 50 years to build up that stockpile and Obama is going to blow it out in less than 7. Number two, the Japanese reactors, but like I said this is going to be slow. I've done business with the Japanese, Mitsubishi. I've got a good insight with them and everything is very slow. They're very slow. So expect more of that. The big one – the wild card nobody's talking about is – Nazarbayev. He's approaching 80 years old. He's been one ruler for over 45 years in Kazakhstan.

And when he dies all the great men die. I'm not saying he's great but just say in his country they call him great. There's going to be a power vacuum. And when that power vacuum happens there's going to be a major power struggle. That will be the big one. That's something that nobody is talking about and I think that's going to be the potential black swan in the industry. Again there are so few companies –

Rick do you remember in the 2007 Casey Conference where we had standing room only, packed. You had something – Within three or four years you had 500 to 700 - 800 exploration companies. And then now you have like 5 producers in the U.S. or less. They've all consolidated. I think there are 3.

Rick Rule: *[inaudible]* in the world.

Marin Katusa: And you've got less than a dozen. There's only one who's unhedged. And now you have maybe 30 exploration companies. So that's a good metric. And they've reinvented themselves. But the difference is these micro – The market caps are like one-twentieth of what they were. And the assets are much more advanced. And there are so few ways to play it. So as an investor even I might have a big winner because there are so few to choose from. So it's a lot easier to play.

Rick Rule: I segue on what Marin just said. There are so few players. At the same time if I have a lump of coal and I put a match to it I can have heat right away. And I can do something with that coal right away even though everybody hates it. And we're not going to burn it – EPA and all that stuff. But I can use that coal right away. If I have a barrel of yellow cake I can't do anything with it. I mean I have to process it into something else. I have to turn it into rods. I have to put it in a nuclear plant.

It takes me 20 years to build a nuclear plant. It takes me billions of dollars and lots of technology and incredibly highly-trained people, and wire fences with security guards and all that kind of stuff to build a nuclear plant. So uranium is investible because you don't have many choices in which to make and so you will probably guess right on some of them if you spread it around. And another way of looking at it too is the thing that uranium is struggling against right now is cheap electricity that comes from cheap natural gas.

You know that's a whole other angle to it. You've got really cheap natural gas that's taking over the power plant market from the coal plants that are going offline. And it's driving that kilowatt hour cost down, down, down to where it's just so difficult to justify the new plants. There's a reason why there are only two or three plants being built in the United States. Yeah you talk about China. They need everything. China is building lots of plants. China will worry about China.

But you know the U.S., Europe – I mean it's so hard to get this stuff done.

So it's an investment conference, lots of junior investors. You will probably guess right on several of the small uranium plays out there. And they're great companies. I've followed some of them for years – some of them. And good people; they know what they're doing. You know they stand on their merits. I say that but in terms of turning that rock in the ground into something that somebody can use to keep the lights on it's a long, long, long supply chain between that yellow cake and those photons coming out of the lightbulbs.

Marin Katusa: But the same could be said for oil. I disagree with that completely. You have your base case which is just what is going on today. The reality is in America today one in five homes in America is powered by nuclear energy. You don't need any more nuclear power plants for this thesis to pan out. You know you look at the growth. Now what you're talking about is the growth globally, and remember they play with different rules than how we play in North America.

Do you think Putin or Jinping or Saudi Arabia is going to go, "Let's talk to the neighbors and let's see what the NGOs everyone –." Yeah right.

Rick Rule: *[laughter]*

Marin Katusa: The emerging markets – You have to take away our mind frame and our mindset in the emerging markets. It's done differently there. But I'm just focusing on the base case. Ignore the growth. If we're looking at growth add an extra zero on all of those companies out of the fact. But I'm just talking just base case production.

Rick Rule: So I'm going to throw everybody a curve ball here. One of the things that I've noticed at 30 years of the New Orleans conference and sadly longer than that in the investment business is the incredible sense of timing, evidenced by newsletter publishers. What I've noticed in 35 years is whatever the most popular package is in the market underperforms. And whatever the package is that doesn't sell does spectacularly well. It's an easy contrarian indicator.

If you look at whatever the best-selling package for whatever the publisher is the point is that that's a thesis that's been so well proven in the last 18 to 24 months. It's so comfortable with the investing public that it's had its run I think. And whatever package gets out there and in fact can't even get written by copywriters is something so thoroughly despised that it's cheap. So I want to throw this out past energy, past resources and I want to ask those of you who know, because I know that your publishers share this information pretty broadly these days –

At least Byron yours does. They even share it with me. What are the best performing packages? What do subscribers want to hear about?

And what are the worst performing packages? We know that coal got pulled. I think that's a wonderful thing for people to hear.

Byron King: The best performing packages in the newsletter industry as I understand it have to do with purifying water. You know the water from the tap is killing you so you should buy this water purifier which if you run the water through it'll eliminate all the electrolytes or whatever that stuff is – Brawndo or whatever that stuff is from that movie. Those promotions are doing fabulous. The healthcare packages tend to do very well.

Rick Rule: Any investment packages or have people given up on investing?

Byron King: It's tough in the investment arena. I will tell you that from the standpoint of Agora Financial which is a very, very large newsletter publishing outfit when I listen into the weekly phone call and when I look at the daily publishing reports and things like that the investment things that are going really, really well are great big macro packages like Jim Rickards.

Rick Rule: Richards, yeah.

Byron King: That the dollar is going to crash and you'd better have gold and silver and all sorts of really hard, tangible assets to back up because we're waiting for the currency crisis. We're waiting for the big dollar crash. We're all going to go to bed one night and we're going to feel pretty good about life. We're going to wake up the next morning and the radio is going to say the banks are closed and all the dollars in your pocket are worthless. And in the next few days the government is going to issue a new form of currency.

And it's going to be something else and it's going to be a North American, Mexican, U.S., Canadian buckaroo or whatever they're going to call it. So those kinds of doomy, gloomy big macro things are selling investment wise, and then the clean water and the health products.

Rick Rule: That's wonderful Byron. That means if past is prologue that happy days are here again. Marin? I know you're away from Casey Research now but I also know that you know a lot of –

Marin Katusa: Or I might expose the secrets. *[laughter]*

Rick Rule: What's working, what's not?

Marin Katusa: Rick and I have very close friends who are some of the biggest newsletter writers in the industry. And the reality is two packages sell: greed and fear.

Rick Rule: But you're doing MacNeil there. Speak specifically what is working?

Marin Katusa: No but *"The End of America"* was by far the greatest package every written in the newsletter package. America has been on a tear for the last four years. The U.S. dollar has been the place to be. I'm not saying it's going to be. So again we tracked sales at Casey and exactly what you're saying, the number of subscriptions we would sell would be investment correlated to the performance because greed brings the masses, the retail in. So those are the ones – the doom ones – the Jim Rickards, the Ron Paul.

Those are selling like hotcakes. I just got back from the conference in Vegas. Vegas is buzzing. New Orleans is buzzing. The American Exchange is doing great. I'm not saying it's going to say but I think the resource packages are not selling.

Rick Rule: Nick?

Nick Hodge: I know the answer to this thoroughly because I run a publishing company and other publishing companies contact me when they have a good promo they want to run. So the things that are selling the best right now are system promos. You've seen Keith Fitzgerald's X System where he tells you to buy a stock whenever the cross is an X – whatever the X is. I don't know what the answer is to that promo. But what that tells me is that people are buying systems 'cause they don't know themselves.

They're trying to get someone else to figure it out for them. Fear is selling through the Rickards package, through the Paul packages. End of America was four or five years ago but fear always sells because people always think the government is coming to take their gold or to take their silver. The dollar is going to die or that there is some black swan event right on the horizon. So fear always sells but that doesn't really tell us anything about the market other than yes America has been on a tear for the past five years.

One other insight is that it's been books that have been selling. The way to get someone into a newsletter subscription via the Rickards package is a book. They're not buying a newsletter anymore.

Marin Katusa: I have a book for you.

Nick Hodge: I have a book as well.

Rick Rule: You can see it works.

Nick Hodge: Our best practice right now is a silver package that gives away Mike Maloney's silver book. So it's silver. And then prior to that it was a uranium promo.

Sean Brodrick: I have no idea because I don't pay any attention to the packages. I just write about things that interest me. I would like to answer a question that we haven't been asked which is what I think will do well for the next five years. Sorry to go all MacNeil Lehrer on you but lithium is something I think people should really be paying attention to. It's picking up. And yes it can get overbought especially in the junior space. I like a company called FMC 'cause it not only does lithium but it also does agriculture and chemicals.

It got whacked hard down in Brazil but I think Brazil is turning around. That'll look really good. Zinc looks good because Glencore imploded. Boy that was spectacular huh? But I mean zinc looks good. So there are some opportunities in zinc. And I'll just use that to get to my last one. One of my colleagues who has been here most of the day told me, "Don't talk about silver. Don't talk about silver. Everyone's talking about silver." I will say that I do like silver.

And there is a silver zinc company called IMPACT Silver down in Mexico. You can check that one out. That's junior enough for you. And I think silver, zinc, and lithium are three things that I'd like to be in for the next five years.

Rick Rule: So starting this time Byron with you because we're towards the end of the evening where is your booth? How can people get in touch with you? What's your newsletter? Or when is the next time you're going to speak? Introduce yourself and say goodnight?

Byron King: Well I'm Byron King. I write a newsletter called *Outstanding Investments*. We're part of Agora Financial. We don't have a booth here. I was a sort of a last minute add on by Brien Lundin who was extremely courteous and asked me if I'd be willing to join the panel. But Outstanding Investment, Agora – A-G-O-R-A Financial.com. Look us up and I will be here for the next three days. If you walk up to me and say hello I might just give you a card with my e-mail on it or something.

Or you can give me your card with your e-mail on it and we can give you a trial subscription to see if you like it.

Rick Rule: Marin?

Marin Katusa: I do not have a booth. I do not sell anything. You can come to my site. I publish weekly research and all my research reports for free. I do it for Dealflow. I run a fund. That's what my bets are. And I tell you what I'm doing. I'm doing the opposite. I'm never going to talk about something that I'm not willing to bet on. And right after this I'm doing a workshop. And as I did last year I always have a surprise member come – a guest. And like last time we stayed until like 11:00 PM at night – Marin Unplugged.

Nick Hodge: I don't have a booth either. I have a website. It's http://www.outsiderclub.com. I'll be on this stage tomorrow talking about Uranium just after 5:00 PM. And then later tomorrow evening around 8:00 PM I have a full workshop upstairs where we'll dive a little bit deeper into uranium and look at some different deposits and companies and recovery methods.

Sean Brodrick: Well we'll make it the quadfecta. I don't have a booth either. But you can read my stuff at http://www.investmentu.com, and http://www.energyandresourcesdigest.com, and http://www.freemarketcafe.com. We have lots of free stuff. And you can read about why I like silver, why I like lithium, why I like pretty much anything at those websites.

Rick Rule: Well and likely it's fly by night so I do have a booth – the Sprott Global booth. I'm easy to find. I'm going to be speaking here in general session at 8:30 AM tomorrow morning where I won't be moderating. I'll be talking about what I'm doing with my own money in this market. I hope to see as many of you as possible there. I'd like to extend a special welcome to the Sprott Global clients here. There are 85 of you as I understand it. And I'd also like to extend a special welcome to the Weiss natural resource course students. Sixty of you are here in the audience.

So ladies and gentlemen thank you very much. I'd like a big round of applause for my panelists. I'd like to see you all tomorrow.

Marc Faber

"Academics At Central Banks Who Don't Understand Economic Problems Will Always Have Solutions"

Moderator: Our final speaker for tonight is Marc Faber. Originally from Zurich, Marc has lived in Hong Kong since 1973. He has a doctoral graduate at the age of 24. He worked for White Weld and Company from 1970 to 1978. From 1978 to 1990, he was the managing director of Drexel Burnham Lambert Limited in Hong Kong. In 1990, he set up his own business, Marc Faber Limited, which acts as an investment advisor and fund manager. Marc is the managing director of Marc Faber Limited and the publisher of the *Gloom, Boom, and Doom Report*, which I'm sure many of you are familiar with.

He is a widely read author, and this newsletter highlights unusual investment opportunities. Marc is the author of several books, including *Tomorrow's Gold, Asia's Age of Discovery*, which was on the Amazon bestseller list for several weeks. A book about Dr. Faber, quote, *Riding the Millennial Storm* by Nury Vittachi was published in 1998. Marc is a regular speaker at investment seminars around the world and is known for his articulate contrarian investment approach.

He is also associated as an advisor with a variety of investment funds. So at this time, our final speaker for this general session, I invite Marc to the podium.

Marc Faber: Thank you very much. Well thank you very much for this very kind introduction, and thank you Brien Lundin for inviting me, and of course thank you very much for deferring your consumption of alcohol for another hour. What I'd like to talk today about is the changes that are occurring in the world at the present time, and I think some people are not fully aware of this. Technical staff, the remote doesn't work. Now it works. So basically, what we're faced with is a western world, and when I talk about the western world, I include Japan, Europe, and the United States that will have a generation of people now that will die poorer than their parents and inflation adjusted or in real terms will earn less than their parents.

On the other hand, we have in emerging economies where 80 percent of the world's population lives, a population that has now a generation that will live substantially better than their parents, and they'll earn more than their parents. I'm thinking here especially of countries that were formally under socialist communist regime or under policies of isolation and socialism like we had in India. These people will live a better life, and so we have a huge shift in the balance of economic power from the western world that is basically tired to a new world that is very aggressive and growing rapidly. I'm here not talking necessarily about the next 12 to 18 months.

I'm just talking here about this shift that has been occurring and that will occur in the long run. Along with this shift in the balance of economic power, you will also have a huge shift in geopolitical power. The new countries, they will have more say, and what's happening is not an absolute decline of western society necessarily, although it could happen, but a relative decline. So if you look at the US say over the last 200 years, probably reached a peak in terms of economic power and political power and military power sometimes in the 1960s relative to the rest of the world.

Because at that time, China hadn't opened up, and the Soviet Union had essentially very little prosperity. So this shift in the balance of economic and political power brings also huge tensions because obviously the established western powers, they don't want – they want to contain the rising powers, and the rising powers want to have more say in economic affairs. Remarkably, this change I'm talking about occurred at the incredible speed partly because as you've heard just now and before of new technologies that can essentially transfer information and knowledge instantly from one place to another. But I also think there are some reasons why the relative decline of the western societies has been so abrupt.

Again, I'm emphasizing the relative decline, and this is because of the continuous interventions by western governments with fiscal and monetary policies into the free market, which as I show demonstrate, have actually retarded economic growth, and in some cases have actually encouraged foreign direct investments in other countries around the world. Just to illustrate some of the things that have happened in the last 10, 20 years, here you have car sales in emerging economies. Twelve years ago, car sales in the developed world were three times higher than in emerging economies. Now they're higher in emerging economies than in the western world.

Or you take industrial production. You can see industrial production over the last 15 years in the western world in Japan, US, Europe is basically flat. In emerging economies since 2003, it's doubled. Or you take crude oil demand over the last 25 years. It's almost doubled in emerging economies where as in the western world, it's largely flat. I'm not saying this is 100 percent reliable economic indicator because there is also conservation in the western world, but nevertheless, it shows there has been tremendous growth in emerging economies. And this is a very remarkable picture because when I move to Hong Kong in 1973, the saying was always if America sneezes, Asia catches a cold because most of the exports from Asia around the world went to the US. Japanese exports, Korean, Taiwanese, Hong Kong, Singapore all went to the US. But over the last 15 years or so, there has been a huge change in the pattern of exports.

It's not that the exports to the US have gone down, but they've gone up substantially more towards other countries. So you can see here emerging market exports to EU, US, and Japan as a percent of total export is coming down from over 50 percent in year 2000 to now 34 percent. And the importance of the emerging world is visible when you look at imports of emerging markets as a percent of global imports. They were here ten years ago. Less then 25 percent were over 40 percent. What it shows is really the weight that emerging economies have within the global economy. Or you take GDP per capita, this is in real terms.

In other words, inflation adjusted. Since 1980 in China its grown roughly 13 times. In the US GDP per capita in real terms and in western Europe is largely flat for the median household, for the median income recipients. It's frequently down. Or you take future growth. Smart phone sales in Asia will grow strongly in the next few years, where as in the western world and in particular in the US because of the market saturation it will hardly move. Or you take as an example, and I'm mentioning this because many people always say, "We the US will not be affected by a slowdown in China," or some multinationals have claimed until recently that they wouldn't be affected.

But the fact is simply in the case of European luxury goods companies, they produce luxury goods, 31 percent of the sales go to China, and altogether, 60 percent go to Asia to the Asian region including Japan, and when China slows down, then obviously the sales of luxury goods around the world also. As a comparison, only 14 percent of luxury goods manufacture sales go to the US. So that shows you how important the emerging world has become relative to the rest of the world.

And most remarkably, I want to attract your attention to this figure, and I'd like you to focus on the second line, which is metals consumption as a percent of global metals consumption. In 1970, China's consumption of industrial metals was just two percent. By 1990, it was five percent. By year 2000, it was 12 percent, and between 2000 and 2012, it grew from 12 percent to 47 percent. In other words, up almost four times. You have to see what the impact is on the world is suddenly a country increases its demand for industrial commodities from 12 percent to 47 percent, and now in many cases to 50 percent.

Basically, it drives up commodity prices dramatically. In particular, half the commodities had been declining since 1981 until about '99. The demand, the incremental demand from China drove up prices, and enriched all over the world the resource producers from Latin America, Africa, Australia, Asia, Central Asia, Middle East, Russia. All these countries that supplied China with raw materials became affluent.

And now the Chinese were actually smart. They started to sell to these countries that became affluent because as they became affluent, they had a huge demand for goods from overseas. Luxury goods from Germany and industrial products from the US, and of course the Chinese also began to supply sophisticated equipment. And so this rise of China which was driven partly by foreign direct investments coming from the US largely, you have to see, the US fed printed money here. They money flowed to China and lifted industrial production, capital spending, employment, incomes, and with that, the Chinese then went and bought commodities in emerging economies that produced raw materials. That drove their growth, and so we had a very positive feedback.

And the rapidly growing economy globally. But now, the demand from China is obviously slowing down. The Chinese will now consume one day 100 percent of all commodities produced. You understand? It's physically not possible. So the demand is now slowing down, but what I also want to show you is because people don't realize that China is not a single country. It's like an empire. And it is huge, four times the population of the US, twice the population of the US and Europe, and it consumes more aluminum and copper than the US, Europe, and Japan combined. That many people don't realize. It's a huge thing.

And India may become one day as well a huge empire with over a billion people in the population that will probably exceed China in say 10, 15 years time. In the case of oil, China is still a minor consumer, and there I see say the demand going up in future more, but obviously at the present time of the economic slowdown about which I shall talk about in a minute, we have essentially also very little increase in demand in China. I mentioned earlier that the Chinese were smart at selling their goods to the resource producers.

You can see here Chinese export destinations as a percent of total exports. It doesn't mean that if here the blue line goes down, which are exports to the US, that exports to the US to decline. In fact, they continue to grow. But relative to all the exports of China, they're going down. Same to the EU. The red line are Chinese exports to commodity producers. They are now larger than the exports to the EU or to the US, and by the way, Korean exports, the commodity producers, are larger than exports to the US and the EU combined.

So what this means is we have a completely different trading system today in the world than existed say until 20 years ago, and certainly existed in the 19th and early part of the 20th century, where essentially all the exports from emerging economies went to the industrialized countries of the west including the US, and they imported from the US and from Europe goods. Now the trade is bypassing to a large extent western Europe, Japan, and the US, and occurring between emerging economies. It's a huge change. China is the largest trading partner of over 120 different countries. The US is only the largest trading partner of 74 different countries. So this is a whole new system, trading system, and geopolitical system.

In my introduction, I mentioned we have to ask ourselves how could this relative decline occur so fast. My view is that there is an optimal size of government. You can see here it's the period of rapid economic growth, 1870 to 1913. By the way, a deflationary environment, but there was strong growth because real wages went up. Doesn't matter that nominal wages go up. It's real wages that matter. And so the purchasing power of people increased, and at that time, no country in Western Europe or the US had government spending, including municipal state and federal that was more than 18 percent. The US until 1913 had total government spending of nine percent of the economy.

And now over the years, government spending as a percent of the economy has risen very strongly. In the US, it's around 40 percent, but the US is not the largest sender in Europe. We have many countries that spend over 50 percent of their economy on government. And so that is negative for economic growth because the larger the government becomes, the more regulation you will have, and the more difficult it will be for entrepreneurs to start businesses. And what it also does, it favors large corporations that can afford an army of lawyers, auditors, tax consultants, and so forth, which small businesses can't afford.

Plus the lows and the regulations have become so cumbersome, you have the tax laws, federal tax laws. It started out with 400 pages. We're now at 73,000 pages. No tax official at the IRS can read that in his lifetime. He would have to live five lifetimes. Every year, there's new tax laws. But the US is not the only one. In Europe, it's the same. So here is essentially very interesting picture. We can all see if you have no government at all, a tribal society say, then you have very little growth. There's no organization.

There's no great capital investment. People live maybe happily. There's no essentially growth. And if you have 100 percent government, and I've been to countries that had 100 percent government involvement in the economy, the former Soviet Union, Eastern Europe, Vietnam, China, it's also a complete catastrophe in terms of economic development. And in addition, it's not as much fun as to live in a tribal society. I can assure you that. So somewhere in between, there's an optimal government spending.

I can tell you in small countries, the government can be bigger. The small countries are run like country clubs, where as large countries fail at having too much government. But basically, around 20 percent of GDP is the ideal size of the government, and after 20 percent of GDP, the structural gross rate is beginning to decline. Once you have 100 percent of the government, usually there's no growth at all, as was the case in China and in the Soviet Union.

So the government has been able to expand, and partly, you have to see this is the viciousness of the system. The government can expand especially in a low interest environment. You have to see the government take the US as an example, has grown from roughly three and a half trillion dollars in the mid 1990s, five trillion a year 2000 to now over 18 trillion, not counting the unfunded liabilities, not counting the unfunded liabilities. And that then is financed by the federal reserve, by central banks that keep interest rates artificial low.

So basically, and you may recall some of you that were here a year ago. We had a panel discussion with Mr. Greenspan. I asked him would he do something else in his life if he would be again elected fed chairman in '86 and stayed on until 2006. Like his usual ways, mumbo jumbo. But I interrupted him and said, "Well you mean to say the fed is not independent." He said, "Mark, I never said the fed was independent." They all work, the government, the treasury, and the fed is one and the same. Like the central banks around the world, they all talk to each other every day. But that is not the worst part that government has become big. The worst part is that as growth slow down, credit was encouraged, and before you heard Doug Casey, I think when you talk about credit and debt, it's very important to distinguish between productive credit and unproductive credit. Say take the US in the 19th century. They borrowed money to build railroads and canals, most of which went bankrupt. Okay. But afterwards, the infrastructure was there.

The bond holders may have lost money, but because the rails that were built and the canals, traffic could move in the United States, and that was an ideal combination that allowed essentially the US to become a very diversified economy where you have centers of production all over the country. And the same happens today in China. Until recently, most of the credit formation was for capital spending, so that is a productive credit. The worst form is essentially consumer credit because you advance future consumption to today, and the credit does not generate the cash flow the way capital spending credit generates a cash flow.

But aside from that, the worst part is the view as the economy structurally slowed down in the late 1990s and early part of the new millennium. That bubbles would help the economy. This is economic selfism at its best broadcasted by the high priest of the New Keynesian Mr. Krugman. He says the housing bubble would be desirable for the economy. I can tell you most economies already for the last 400 years have established that bubbles are a disaster for the majority of people and only benefit a handful of people, but this is precisely the policy they advocate, and so they created the housing bubble, which then burst.

The result of which is that after essentially 2007, you can see real median household tumbled already after 2000. It didn't grow much, but after 2007, it tumbled. Median real household net-worth’s is down substantially, and what you have is the money printing, you understand? Recently, Bernie Sanders was – they interviewed someone on TV, I forgot the show, but they asked someone in New Hampshire, "What do you think of Bernie Sanders?" He said, "Yes, he's very good. We have to take money away from the rich.

Well it's not really the one percent that have become really wealthy. Here you can see the 0.01 percent have become very wealthy because what happens when you print money in a crony capitalistic system, the money doesn't flow into the real economy. It stays in the asset markets. And people that own assets to start with and play the leverage game, they benefit from money printing. Plus after 2007, young people and people that had unfortunately too many debt, they lost everything in the housing crash when the market went down 30 percent, but the rich – and I have nothing against the rich, but I'm just saying they came in in the form of private equity funds and hedge funds and so forth.

They bought thousands of homes. What happened afterwards, they jacked up the rents, young people couldn't afford homes. Home prices recovered through money printing and so forth, and the wealthy people made a lot of money. But the poor people had to go rent, and rents are rising this year by eight percent, and in many US cities, people spend more than 50 percent of their income on rent. More than 50 percent. No wonder they can't afford to buy a car. No wonder many young people live with their parents. They just can't afford it.

So this is important. Money printing creates wealth inequality, and in terms of employment, yeah, the figures look somewhat better, but you have to see it's not only the quantity of people employed, it's also the quality that matters. Here you have manufacturing employment still way down over the last few years. Where as low paying jobs, health – and this I have to say, energy with high paying jobs, but now it's over basically. So that will shrink. But the high paying jobs, construction, and manufacturing is way down.

The problem in this country, and this was highlighted before I think by Doug, people don't save enough, and there is not enough capital spending you can see here. US capital stock as a percent of the economy has been coming down. In other words, what the country should do instead of spending on leisure parks in Las Vegas and New Orleans, they should invest in planned and equipment and infrastructures and research and development. That would boost economic growth in the long run. But you understand, the population nowadays consists mostly of people that are incapable to actually work in manufacturing. They're very capable with their mobile phones and to put their pictures on Facebook, which nobody looks at except themselves.

But to actually go and work, that they're not capable. So this is a huge society problem. I'm not picking on the US. In Europe, it's the same. Nobody wants to work in a factory. They want to be a barman or waitress where they have some fun. We have the economic intervention, so called neo-Keynesian. I can tell you John Maynard Keynes, he would not support the current policies. As little as Milton Friedman would support the current monetary policy. But that aside, we have the equivalent in geopolitics, these are the neo-cons, and they made a huge mistake because they don't – they still live 100 years ago or 50 years ago when the western powers were dominant. But now the world has changed, and it should be clear that the US fear of influence is Canada, Mexico, Latin America, the Caribbean, and the surrounding seas, the Atlantic, the Pacific Ocean, the US, and the sphere of influence of Russia is actually here part of Ukraine and the Black Sea and the Crimea and entry into the Mediterraneans and part here of Central Asia, Georgia, Azerbaijan and so forth.

So that they didn't realize. They provoked Russia. They broke actually contracts to NATO under the hegemony of the US, and they overlooked the fact that actually until the 20th century, there was no Ukraine. A hundred fifty years ago, the border of Russia was the Austrian, Hungarian empire, and with Germany. And by the way, Russia culturally was always closer to Europe than anybody else. And so here, you have Nepal, and this part of Eastern Ukraine, that is the sphere of influence of Russia, and they will not give it up. It's very clear they're going to go to war for that part. They're not going to allow missile bases in that place, and the Crimea is for Russia, strategically important, where as for the US, it has no importance whatsoever.

It is important to Russia because of the Sea of Azov and their ports there. So this has to be clear. Different countries have different sphere of influences, including China, about which I shall talk in a second. So this is going to be messy. It will also be extremely messy in the Middle East. I don't want to talk at length about it, but very clearly Isis is a creation of western powers with Saudi Arabian money basically to be a counter weight to the Shiite Muslims in Iran and Southern Iraq, and that has now really backfired. They created the Frankenstein, and now the monster has become huge and will create problems and problems and problems.

I think the whole area will go up in flames, and eventually, Isis may move into Saudi Arabia from the north here from Iraq and Syria, and from the south from Yemen. I mean the nation building idea may be a noble idea, but not under Hilary Clinton, that I guarantee you. And the worst part of it is you have to see. Basically, by antagonizing and because of the aggression against Putin, Russia has moved much closer to China, and that is precisely what geo-strategists always warned about. In 1905, there was a geo-strategist. He's credited with being the founder of geo-politics, Halford Mackinder, and he said, "Who controls the heartland here?" This from Eastern Europe to far east Russia basically controls the world. And based on his series, a Dutch American geo-strategist in 1945 published books and is credited as being essentially the founder of the containment policies. Said, "No, no, the heartland is not important. What is important is the rim-land here around here."

And this whole discussion came up because the heartland here is a land power. A land mass. Where as Britain and the US were naval powers. So the US had this idea that with the navy of course they could control here the rim land. That is precisely what they wanted to prevent, that two countries like Russia and China would become say not friends, but sharing common interests. Now this will not end well, in my opinion, but it could last a long time. Here in Asia, the area that has now the fastest growth is Indochina. You can see here in the east like a snake is Vietnam. And then southwest Laos, northwest of Vietnam is Cambodia, and then Thailand, Myanmar, India, Bangladesh in the south, Malaysia, Singapore, in the North Yuanan province of China. This region, more than 500 million people will grow very rapidly unquestionably.

But we need peace, and that is a big question mark. Because obviously, this is now a sphere of influence of China. And obviously, the other powers, the US and Japan, Vietnam, the Philippines, Taiwan and so forth, they object to that, also to Korea. So you have the infrastructure construction mainly from China. They decide to build the bridge. It's built in three months. The World Bank decides to build a bridge. Well consultants have to be called, so for the next five years, they travel free and in style in these countries to analyze the project. It takes another five years to implement if at all because some corruption charges will surface.

So in the end, nothing gets done, but the World Bank has spent a lot of money on planning and so forth. Chinese go in and say, "Okay, we build the rail and that's done." Same in Africa. I'm not here expressing a value opinion about China or the US. I'm just saying the fact that China can move very quickly with infrastructure expenditures overseas. Vietnam you can see the exports have done fantastically well compared to emerging market exports, especially since 2010. They've been continuing to rise strongly. You can see here the share of total light manufacturing import in the EU and the US, it started at less than two percent in Vietnam and is now close to eight percent, where as Mexico has maintained a steady share of exports and is actually rather declining than rising.

So all I'm saying is these countries, also Cambodia are rising very rapidly, albeit from a low level. So you have here for instance the GDP of these Myanmar, Cambodia, Laos, Vietnam still very low. Here is Thailand relatively high compared to these regions. The low in comparison to the world. So the gross potential is there. The difficulty for individuals is the investment process.

There's a very high execution risk, and the idea, you send someone to work for you there and live there for a while to find the appropriate opportunities. Vietnam incidentally has the stock market and several funds outstanding. The Vietnam fund listed in New York is not a particularly good vehicle. Hourly wages in China and Mexico you can see. Chinese wages now exceed Mexican wages. I'm bringing this up because there is this slowdown I was referring to in China. The credit bubble is gigantic. You can see here in year 2000, total debt was 120 percent of GDP. We're now close to 300. And shadow banking has gone up five times in the last five years.

So there is a credit bubble. How do you invest in this environment? Well first of all, I think that what has driven global growth is no longer there, namely China, and emerging economies, that is not going to grow or go anywhere for the next say 12 to 24 months. Actually, I could see a situation where it's not going to recover much for much longer. Asset marks. With very few exceptions are grossly inflated, I will show you later on how asset markets were say in the '70s or early '80s and how they are now.

Avoid cash, well maybe cash. Dennis Gartman said this morning that it's super bullish about the US dollar. I don't share this view, and I don't think that short-term rates will go to three percent. The whole economy would collapse at three percent fed fund rate. The ten-years treasury note would yield say close to five percent, and the 30 years over six percent. Mortgages would be back over six and a half percent. You know what that would do to the housing market and to the government debt? Because at the present time, the average cost of the US government debt is less than two percent.

It would go to four percent, and the deficit would go up strongly. Bonds, everybody is negative at T-bonds. I'm not particularly bullish about T-bonds. I mean the maximum you can earn on a treasury ten years is the two percent. But consider the following. You have to think logically. If Mr. Gartman is so bullish about the US dollar, which I'm not, but say the dollar can hold around here, then why would anyone buy a Japanese government bond yielding less than 0.3 percent and not the ten year treasury yielding two percent? Why would someone buy a Swiss government bond with a negative return. In other words, you pay $100,000 after ten years. You get less back. So in that situation, I'm talking relatively speaking, the treasury bonds in the US are not the worst investment. Real estate and stocks in emerging markets, I think they will outperform the US.

Not in the next six months necessarily, although it could be, but say over a ten-year period that would also be the view of Jeremy Grantham of GMO. Southern Wealth Funds, they were expanding rapidly. Now they're no longer expanding and contracting, so a source of demand is no longer there. Diversification, yes, you should diversify and you should diversify the custody of your assets and have assets overseas outside the jurisdiction of the US. And like always, I think that you should own some physical gold. The safe custody will be important, not what the price does, but that you can keep it in the end.

Because the central banks are run by academic professors who basically have nothing to lose. They get the salary. They can be right or wrong, and they're ignorant largely, and they are desperate. They will go out of their way to bankrupt the entire system. That I assure you. Now here, price to sales in the US is at a record. I talked about the inflated asset markets. You see, here is hours needed to buy in S&P. I started to work here in 1970. Throughout my young working life, I could buy with 20 hours of work one S&P.

Now a young person has to spend over 90 hours to buy an S&P, maybe even more. If it's all day long on Facebook. The Japanese market cap is actually interesting what can happen in the world. You see here in 1989, Japan was at one stage actually for a few months over 50 percent of the global stock market capitalization. And then the other markets went up, and Japan languished, and now we're here down at around six percent. Maybe Japanese stocks have a potential, but if they print money in Japan, the Yen will go down and stocks will go up, so it's not true that you make money.

This is the market cap today. Forty-eight percent is the US. I think over the next 20 years, this will shrink meaningfully. Southern Wealth Funds, 2002 they were at $1.2 trillion. They are close to seven trillion now, but now they're shrinking, so the demand for real estate, private equity, hedge funds, equities, bonds is going to go down. Of course maybe the central banks around the world will continue to print money and upset that decline by the Southern Wealth Funds, but it shows that there is a contraction of liquidity in the world. I have to rush because I have 30 seconds left. Emerging markets have grossly underperformed. I think from here on they can outperform because evaluations. The margins in the US corporate margins are at the record where as in Europe they're not that high. So maybe European stocks will outperform US stocks in the next few years.

Doesn't mean that they'll go up. I think all stocks would rather go down than up. Emerging market stocks over longer period of times have done well. They are now not performing well and they may still go lower in US dollar terms, but I think the evaluations are now approaching say a buying range. It's not a strong buy. They're not absolutely inexpensive.

It's just relatively inexpensive. And finally because this discussion came up this morning, I lived in Asia since '73. I can tell you when I arrived in Asia, there was one country that was wealthy, and this was Japan. Already then not very wealthy, but relatively wealthy. And Taiwan and South Korea were very poor. Singapore anyway, Hong Kong too, very, very poor. And today, Singapore is probably the richest country in the world.

And Taiwan and South Korea are very affluent countries. So these all happened from say 1970 up to now. And when I first went to China in 1978, actually across the border from Hong Kong, there was precisely nothing. And today, Shang Shen and the whole Pearl Riverdale including Macao is a huge thing. You have to see 19 until '85, only a million Chinese traveled overseas. By 2000, 12 million Chinese traveled overseas, and now 100 million. You know what will happen to New Orleans if 100 million Chinese descend on New Orleans?

Yes, but this is a new world. I'm not saying it's a good world. I'm not saying it's a bad world. It's a fact, and this is 1997 Shanghai. This is already 17 years after Shanghai really opened up. 1990, '89, there was nothing at all in this whole region here, and now it's like this but much more. So you understand. Economic development in the rest of the world has been mind boggling, and huge changes will occur, but when you have these forces of economic development clashing with each other, the old power, the super power, the US, and the new power China and other countries, it creates huge tensions politically and economically, and we can only hope that there will not be a war. Thank you very much for your attention.

Mickey Fulp
"Why I Remain A Uranium Bull"

Moderator: Our next speaker is going to bring to your attention an underrated topic and one that concerns what could be some extraordinary special situations. Our speaker is Michael, Mickey, Fulp, MercenaryGeologist.com LLC. His topic is why I remain a uranium bull. Mickey Fulp is a certified professional geologist with 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, coal, uranium, oil, gas and water in North and South America, Europe and Asia. Mickey is a high-altitude proficient and is bilingual in English and Spanish. From 2003 to 2006, he made 4 outcrop discoveries in Peru, Nevada, Chile and British Columbia. Mickey is known for his ongoing work as an analyst, writer and speaker and is eminently qualified to bring to your attention the uranium market and what is going on there, which is frequently overlooked. Considering the fact that Mickey is perfectly bilingual in Spanish and English, he will be giving today's speech in Spanish. Mickey. *[laughter]* Mickey. No, uranium is something that is often overlooked in conferences of this type, so it's real nice to have you here on the topic. You can start in Spanish and I'll make – *[laughter]*.

Mickey Fulp: *Buenos tardes*. It's good to see y'all again, it's good to be back in New Orleans. Bear with me a minute while I get my props together here. I am the mercenary geologist. These are the ways you can reach me. My website, what happened here? MercenaryGeologist.com, MercenaryGeologist.fm, that's 24/7 streaming radio of all my interviews, I do quite a few interviews, something at 150 a year, and at Twitter you can join 51,000 Twitter followers, @MercenaryGeo, and I have no idea what's going on with this signal here.

A disclaimer. Whoa. Nothing I can say here today can be construed as an offer or solicitation to buy or sell any monetary instrument, standard disclaimer. And I'm having all sorts of problems with this clicker here. Can't seem to get it to go. Gentlemen, can somebody help me with the clicker here?

Why I remain a uranium bull. Of course you know the date and where we are. Here's a six-year rearview mirror of my positions in uranium. I first turned bullish in January of 2009 as – okay, I see. I'm sorry, folks, what's going on is the monitor here is going in and out, so I'm going to have to look at the screen. It just went blank on my monitor. And I was a year and a half early. It took a year and a half before the uranium price started to go up. But it did go up. By August of 2010, it started to move about $40 spot price. I come out with a piece at that time called *Uranium, The New Green Metal*, because it is green energy.

By November of 2010, I was standing in front of Liz Claman at Fox Business and I must say, she's one stunning woman, and talking about uranium as the next big thing. I also did that in February of 2011, about 3 weeks before Fukushima happened. The tsunami at Fukushima caused uranium, and not only uranium crash, but a Toronto Venture Exchange crash, which I've documented in another mercenary musing I did. It was the beginning of the bear market in junior resource stocks. By June of this year, I started talking again about why I remain a uranium bull.

And it's simply because of uranium supply-demand fundamentals. In 2014, 175 million pounds of demand, we mined 148 million pounds, we had 43 million pounds of secondary supplies, which give us a 60-million-pound surplus. As opposed to in 2010, pre-Fukushima, when we had a two-million-pound deficit, and that explains exactly why the uranium price is depressed at this time.

However, during this four or five year period, mine conversion and enrichment supplies have all increased. We see an increasing supply from enrichment and conversion. And also we've been affected by Obama's – the Obama administration and its 7 million pounds per year of U308 equivalent in government surplus sales. That was at 5 million pounds for most of the late 2000, 2000 and early 2010s and that was continually violated this agreement they have with Uranium Producers of America, and so they upped it this year. That's designed to provide 800 jobs to the Portsmouth, Ohio cleanup.

Uranium sales, long-term contracts compose about 70 to 85 percent of the market. Short-term trades only about 15 to 30 percent. So that would be the term market and the spot price. The off take contract price right now, that's as of June, it's now $44 a pound, spot market price is hanging in at about $37 a pound. So despite the fact that spot market only supplies about 15 to 30 percent per year, it is what really controls the uranium market, and especially equities market and people's perception of the health of the uranium mining industry.

Uranium spot sales, this is a graph of spot sales over the last, what, 25 years I guess now. And you will see in 2014, it looks like we're going to come in about the same as 20 – or 2015 about the same as 2014, 2013, however, notice the increase in UF6 conversion, uranium conversion, and notice that increase this year. And that was exactly 3 million pounds that the Obama administration dumped on the market in April, which cratered the price from $40 back to $35. So the Obama administration continually talks out of both sides of its mouth regarding uranium.

Here's a graph showing spot prices. You'll notice all my slides are credited to UX Consulting out of Atlanta, Georgia. I thank them for the permission to plot their – to use their charts.

My sources, UX Consulting and also the World Nuclear Association. And as I mentioned, the spot market drives – spot price drives the stock market. 15 months ago, we had a 28 pound spot price. Now we're at 37. That's about a 30 percent gain, yet uranium equities have lagged behind. What causes uranium spot price increases? Well, it's simply the fact that you've got more buyers than sellers. This is supply-demand fundamentals. Until traders and speculators come back into the market, and there were two big banks left the market in 2014, the uranium price is likely to be somewhat depressed. However, we still have stockpiling by the Chinese and that's ongoing.

There's a question if the Japanese are selling their inventories, because right now, there's only 2 of 50 operable nuclear reactors in Japan that are producing electricity and this has to do with Japanese restarts, what's the timing on that. That's very difficult to know. But we have been – because of these low prices, we have been increasingly seen supply delays, disruptions, destruction, we've had lots of projects come off, we've had lots of projects postponed or outright canceled, and then also the Russian-Ukrainian is of concern for the uranium market, and I'll explain that a bit here.

Uranium mine production in 2014, I would urge you to take a look at Kazakhstan, supplied something well on the order of over 40 percent of the market and if you look at the top 10 countries, you have only 3 or 4 that are friendly to the West, there are Canada and Australia, certainly, you've got the US in there, but I daresay that the other 6 countries are not particularly friendly to the West. And that leads to the uncertainty of Western world supply.

We have unfriendly, corrupt, and/or unstable governments that now supply six of the top ten producers. 62 percent of the world's uranium production in 2014 was from countries that I consider unfriendly to the United States. Kazakhstan, Niger, we've had a coup there within the last seven or eight years and massive corruption. Arriva, the largest uranium company on the globe, has shut down one of their mines in Niger. And then we got Russia and Putin, not very friendly. Uzbekistan, part of the ex-Soviet Union. Ukraine, part of the ex-Soviet Union, now in a civil war with Russia. And, of course, China.

In the US, every year we use 51 million pounds of uranium, yet we only produce – last year we produced 5 million pounds that's going down this year because of a continually – continuing depressed price of uranium. In 1980, right at that time that Three Mile Island happened, the US was the largest uranium producer and exporter of uranium in the world. Now we barely produce not quite even ten percent of our needs.

Uranium story remains the same, however. Nuclear energy, 14 percent of the world's electricity is supplied by nuclear energy. That means that 1 out of 7 people on the globe, when they – if they can turn on a light, and 25 percent of the people on the – on earth still go to bed in the dark, but for the 75 percent of us that turn on the light switch, 1 of 7 of us worldwide is dependent on nuclear energy. In the US, it's one out of five. One out of five of every light switches we turn on is supplied by uranium electricity.

There are 437 nuclear power plants operable. That is the same number or actually a couple more pre-Fukushima. There are 66 under construction and another 172 ordered or planned.

This leads to an increased demand for yellow cake and we project everyone, every analyst in this game is projecting three to four year growth, year over year.

But where's the new production going to come from? The conventional underground, say the Athabasca Basin or underground mines, sandstone uranium in Niger or New Mexico or other large sandstone uranium deposits, these are high-cost mines. New mines will require 65 to 80 pound uranium to be put into production to be economic. We need more low-cost mines, and of course, that's going to be ISR, in-situ recovery, which now comprises 45 percent of annual production. But most of that is from Kazakhstan, and then also open pit heap leach mines, such as the Gas Hills in Wyoming. Most mines right now, even the ISR mines, I – let me say that again, I didn't quite get that right. Even the cheapest ISR mines in the world are basically breaking even at the current spot price of uranium.

So where's this new uranium going to come from? We have sovereign stockpiles, even the DOE's stockpiles are dwindling. We have major projects that have been shelved just one after another after another in Africa, in Canada, in Niger, et cetera, et cetera. The Russia, US, for a long time we were living in the US, 25 percent of our uranium came from the megatons to megawatts program. That ended in 2013. There is a new agreement now, a ten-year agreement. But that's only for 50 percent of what were supplied with and that's not Russia dismantling bombs anymore, it's basically their ability to construct more enrichment facilities.

Recycling and reprocessing are really the answer long term to all this. Mix-oxide fuels, thorium, et cetera. But those technologies, although they're increasing, are way off on the horizon, therefore new mines must come on stream.

Where are the new uranium mines going to come from? Kazakhstan ISR has grown, it's flattened out. The real question in the world is is this production sustainable. Now supplying 41 percent of the world's uranium. These ISR mines are much like shale oil, shale gas wells. They have very steep decline curves. So what we've seen in Kazakhstan is they move from the low-hanging fruit in the northern part of the country to deeper and harder toe extract and lower grade resources to the south. The Athabasca Basin, certainly the world's premier deposits, they're very high grade, they are very large, but they have extremely high capex, hard to finance in the current paradigm of the world's economy, and very long lead times.

Niger, underground, certainly there are world-class sandstone uranium deposits in Niger. However, the geopolitical situation, I mean, this – they've had about a half a dozen instances over the last two years of terrorism and people killed at producing uranium mines, Islamic terrorism spilling over the border from Mali. Namibia open pit, certainly some really large deposits there, however they are very low grade. One of the world's largest mines, Rio Tinto's Rössing mine, mines about 400 ppm gold – or uranium per ton, and they lose money. The current deposits known in Namibia and the ones that – Langer Heinrich and a couple of others that are in development, are about half that grade. So they aren't very economic.

Western US, we have some really great mines here, we have lots of deposits that are ISR amenable, but they tend to be very small. So that's not going to make a big dent in our demand. We have some of the world's best underground deposits, underground mining, especially in the Grants Mineral Belt, 90 miles from where I live in Albuquerque. But these are very long lead times with no production on the horizon and requiring about $80 – $65 to $80 a pound to be economic.

Australia, open pit, certainly those are unconformity deposits, much like the Athabasca, but once again, there are geopolitical attitudes and government interference in Australia. The politics is very convoluted, the – currently they have a rule they can only have three uranium mines in production in the country at any one time, and then there's aboriginal issues in the Northern Territory where these world-class deposits occur.

So we're in a bit of a quandary here, let's go back to the US. US future production, well certainly ISR ongoing in Wyoming, ongoing in south Texas, soon to be in South Dakota, Arizona, Utah, Colorado, underground mines, very – some very high-grade deposits, especially the Arizona breccia pipes. Check out Energy Fuels, one of the exhibitors here. Gas Hills, Sheep Mountain, Wyoming, potential for open pit heap leach there. That, once again, is energy fuels. And then the Grants Mineral Belt, which we've already mentioned. Underground mines, some of the best in the world, but when will they go back in production, we're not really sure. And there's still opposition to ISR in New Mexico.

So why do I remain a uranium bull with all these obstacles? Well, it's simply supply-demand fundamentals. There's a 20 to 30 percent yearly mine supply deficit. That's not going to go away. In fact, it's likely to increase. We have 66 reactors under construction right now. To start up a nuclear reactor and get it to go critical requires about one and a half times its annual uranium demand, so to start one up, you've got to juice it up about 50 percent more than you do to maintain it. We have 172 plants ordered, which basically means they are financed and the foundation has been poured, and then 312 proposed. But I daresay of that – the first two, that's doing the math, 238 reactors coming on stream sometime in the next 1 to 10 years.

Being a contrarian, a speculator, my investing philosophy is simply to get into uranium now. There's six or seven companies exhibiting here. Wild cards in the uranium game, it's not quite all mine supply. Department of Energy spot sales, bomb dismantling, despite Obama's promise to rid the world of nuclear weapons by 2015, nothing's happened on that. Japanese restarts. Recycling and reprocessing. Ten years down the road, the fast breeders, the small modular reactors, thorium. And then, of course, another black swan event and hopefully there will never be another Fukushima.

We'll skip that one as I'm running out of time. Bear with me here while I get my props together. Timbuk3, 1986, I study nuclear science, I love my classes, I got a crazy teacher, he wears dark glasses, things are going great, they're only getting better, I'm doing all right, getting good grades, my future's so bright, I've got to wear shades.

I urge you to take a look at the six or seven uranium companies, but bear in mind that small cap and micro cap companies are risky business. Beware of frogs masquerading as princes. Thank you very much.

Dennis Gartman

"Gold, Inflation And The Fed: Is It Turnaround Time?"

Moderator: Dennis Gartman is a good friend of this New Orleans conference for several years. He's been involved in the capital markets for over 40 years, since the August of '74 after graduate work at the North Carolina State University. His Gartman Letter is very influential, and by that I mean his clients of the Gartman Letter include many banks, brokerage firms, mutual funds, hedge funds, energy trading companies, and grain trading companies.

In recent years, he has served as an outside director of the Kansas City Board of Trade from 2006 to 2008. And if you do watch CNBC, you'll hear him and see him often as an expert commentator. You heard his comments this morning. He says he's not a gold bug but he owns a load of gold and Euros and yen and that's one chart that's going from, like he says, lower left to upper right, his specialty. He's going to talk today about gold inflation and the Fed. Is it turnaround time? Please welcome Dennis Gartman.

Dennis Gartman: I always tell groups before which I speak to be careful about applauding for the speaker until you've heard him. You may regret it by the time he's finished. My name is Dennis Gartman. And I'm a trader. I made my living trading for my own account for the last almost 50 years. Hard to believe. 45 years. Had a seat on the Chicago Board of Trade back in the 1970s. Got rich three times. Got broke two and a half times. Enjoyed it in both directions. Lost my first wife to a margin call. Those things happen.

I always tell the story that when I was there on the floor of the Board of Trade you had it was called having a seat. Why they called a seat is still quite beyond me because you stood up all day yelling and screaming. The fellow who stood to the right of me, Brian O'Dougherty, played defensive tackle for my beloved North Carolina State. He was 6'7, 285 pounds, basically black and blued the right side of my ribs, and as he's yelling and screaming all day, the fellow who stood to the left of me was bigger than Brian was on the right of me, and he black and blued the left side of my ribs in as he's yelling and screaming all day.

And the fellow who stood behind me, John Ott, was a spitter. Very difficult way to make a living. And I'm always amused by people who want to know what does the floor think? Having been a floor trader, I can tell you the floor doesn't think. Probably some of the dumbest people I've ever met were floor traders. All we were taught was it's six bids, sell it at seven. Oh, seven bid, sell it at eight. That's all you were taught. Nothing more than that.

And you were very mechanical. To show you an example of the stupidity that can exist on the exchange, we used to think that Goldman Sachs back in those days – this was the 1970s – the Fed would come in at 10:35 every morning and either do repos or reverses to change monetary policy at the margin. And we would all be trading in the pit, six bid at seven, and we'd be watching over to the side for the Goldman Sachs desk, because we thought Goldman Sachs had a faster phone than anybody else did, and that they would know what the Fed was doing before anybody else did.

And I'll never forget one day we're all there six bid at seven, six bid at seven, and this kid on the phone says, "Matches." Now, the only other thing you're taught as a floor trader is when the Fed does match sales, bonds go down. That was the total extent of the wisdom you were supposed to have. Matched sales, bonds go down. Sell it at six, sell it at five, sell it at four. The matches. Sell it at three, sell it at even. Break the buck. We're hitting stops. We're having a big time.

And we watch and listen to the guy from Goldman Sachs who says, "Matches? We're not even allowed to smoke down here." Next thing you knew, bonds go flying to the upside, and the next day they, in the *Wall Street Journal*, had to explain why the bond market got so turbulent midday. That's the wisdom of the floor.

What I really want to talk about today, and, as I said, I lost my first wife to a margin call – my wife of the last 25 years, god bless her, poor woman, drew the shortest straw imaginable to be married to me. Before I came here today, I said, "Sweetheart, can you imagine your husband is on television? I'm going to be speaking to this august group today. In your wildest dreams, did you ever think this would happen?" And she said, as I left the hotel room, "Remember we've been married 25 years, it's been 26 since you've been in my wildest dreams." Which somehow harsh but nonetheless true.

I want to talk about what I see going on. And I'm going to make this very quick, because I have to catch an airplane. I want to talk about what's going on, what the Fed is doing, what's going on around the world, and where I think we can perhaps make some money. And the first thing I want to talk about is the dollar. You heard me talk about it earlier this morning and I will talk about it again. I believe that we are in a period of extraordinarily strong US dollar environs. And I say that because our monetary authorities have already gone through QE1 and QE2.

You can argue what the Fed has done with QEs one and two. You can make all the explanations or all the declarations or all the assertions that you wish. But nonetheless we have gone through that process. Whether you like it or not, that has been the reality. What you have to understand is that the Federal Reserve Bank – and if there's only one monetary aggregate I will look at, I watch – on Thursday afternoons, when the Federal Reserve Bank of St. Louis – the keeper of the keys, as far as I believe as far as monetarism is concerned – reports on the adjusted monetary base, I like to tell people that the adjusted monetary base, for those of you who are cooks or chefs, it is the stock from which all of the other soups of the monetary aggregates are derived.

It's basically the Fed's holdings of Treasury securities. There's an adjustment for reserve requirements, and there's an adjustment for the cash that is held on hands at banks and in your accounts. The adjusted monetary base. The adjusted monetary base grew from $800 billion, six or seven years ago, to $4 trillion a year ago. Now, the adjusted monetary base – if you're a real monetarist, you believe that the adjusted monetary base every year should grow by population, plus some adjustment for non-inflationary growth in the economy.

If the population is growing by two percent, and you'd like to see the economy grow by three percent, then perhaps the monetary base should grow by five percent. There's no magic here. There's nothing esoteric about it. That's probably what should happen. And under QEs one and two, the base grew far too rapidly. But that's over. Since October of last year, the monetary base has grown not a whit. It has not grown at all. The Federal Reserve Bank is not adding to the supply of reserves. It is not buying Treasury securities any longer.

That's one of the reasons why the dollar has gotten stronger over the course of the past year. On the other hand, the monetary authorities in Europe and the monetary authority in Japan have no choice but to expand reserves as aggressively as they can. Why? Their demographics. This is a very difficult concept to understand. Their demographics suck. Their economy. Their populations are imploding. We'll get to that in just a minute.

But given demographics that are declining on balance, growth is absolutely not possible. They need to have some growth. They have no choice. And they are expanding reserves in their systems. They are now going full force into their own experiments with quantitative easing. In that environment, under those circumstances, given those events, given the demographics involved, if our monetary base is going sideways, and their monetary bases are expanding at a very peculiarly adroit and upward sloping pace, it would seem logical to expect the dollar to continue to rise in value. It has been. It shall continue to do so.

The ECB has said they will continue their experiment in aggressive monetary ease for at least another year. The Bank of Japan has said, too, that they will continue to expand their supply of reserves by some 60 trillion yen per month, which is a big number, until at least September of next year. I expect both of them will have to extend their QEs and do their own QE two whether they like it or not. We are not. They are. You need to understand that. And that's going to continue to drive the dollar higher.

Two. Beyond that you will hear people tell you – the gold bugs especially – that the dollar I under attack as far as the world's reserve currency is concerned. If you learn anything from me today, understand one thing. That is bunk. That is not going to happen. The United States dollar is the world's reserve currency. It has been the world's reserve currency since at least the early 1940s. The reserve currency status always goes to the economy, to the country whose military power is the strongest. We are. We have been. We shall continue to be. There is nobody who is going to usurp that.

Go back through history at least through the modern age. Go back through at least the 15th and 16th century. The first reserve currency of the world in the modern world was from Portugal. They were the dominant military power. They were superseded by Spain, which became the dominant world power, the dominant navy, the dominant military power of the next century. They were defeated by the British at the Armada. That time on through at least the middle of the 20th century, when the sun never sat upon the British Empire, when the British Navy did in fact rule the waves, when Rule Britannia was the hallmark of the world, the British pound sterling became and remained the world's reserve currency.

Since 1945, or actually more precisely since about 1957 when the UK and France lost a war against Egypt over the Suez Canal, since that time the United States Dollar has been without equivocation the world's reserve currency. If you think we're going to lose that position of authority, I tell you to remember we have at this time ten aircraft carriers in the United States, we're building another one soon, and we may build a twelfth. We have ten.

China has one. They bought it from Ukraine. That's all you need to know. They have in order to take off from their aircraft carrier they have a slope on theirs. Our guys go straight off the front end. They have to give theirs a jump to get off. Two. After them, the only other people who have more than two one aircraft carrier is Italy. Italy has two. One of which doesn't work anymore. France has two. France? Two? Those are the best.

I posit to you that every morning two things happen. The American President wakes up and asks the question, "Where are my aircraft carriers?" and I posit to you that the rest of the world leaders wake up every morning and ask the question, "Where are America's aircraft carriers?" Until we lose that dominant power, and we aren't, and we won't, and there's nobody that's even coming close, the US dollar is going to remain the reserve currency of the world.

In that environment you are going to want to gain and continue to have exposure to the US dollar. You do not want to own Japanese yen. You do not want to own the Euro. Let's take a look at Japan. And let's take a look at Germany from demographic circumstances. Because I'm a believer that demographics drive the world. If you have declining populations, you have imploding countries, you have imploding economies. You've heard me say this before, I'll say it again. The Japanese government has said to the world that the Japanese population will fall by half within 25 years. Fall by half within 25 years.

In a country whose population is going to fall in half, where the women have literally dropped out of the marriage pool, where those who are still being married are having children instead of 22, 23, are having children at 30 and 31 and 32, where the United Nations says that in order for a population to grow women have to have at least 2.1 children per woman to keep that population rising, where that birthrate in Japan is at 1.1 and falling, there is nothing that can happen to Japan but watch its population implode.

Secondly, for Japan you have to understand they could – the only other methodology of allowing populations to grow is through immigration, and the Japanese are racist. They simply will not allow immigration to occur. In that sort of environment, in that circumstance, what is your propensity to put money at risk to own the Japanese yen? The only way out, the only thing they can do as their population gets smaller and their population gets older, quickly, is devalue the value of that their currency, to make whatever it is they export more valuable, more readily purchasable.

You heard me say earlier this morning when I first started trading foreign exchange in 1974, I can remember trading the dollar yen at 365 yen to the dollar. For me to imagine the dollar yen today trading at 120 to go to 150 or to go to 200 is not that great a leap. We have come in the Japanese yen from 50 yen to the dollar and we reached 50 yen to the dollar I think 15 years ago when if you remember everybody was told Japan was going to become the dominant economic force in the world. Such nonsense I have never heard again. Was utterly ludicrous to begin with at that point. Still ludicrous to consider it now. The Japanese yen has to go to 150 if not 200 yen.

If the demographics in Japan are ill, the demographics in Europe are more ill still. Look at the birthrate in Italy. It is under one. Half of what they need to grow their society. The Germany birthing rate is 1.2 in Belgium it's 1.1. In Luxembourg it's 1.3. Every country in Europe has birthrates below the replacement rate. Not only are they getting smaller, they are getting older. The only thing that's going to help Europe is the fact that immigration is taking place. And that's a tenuous circumstance, because they're getting immigration from the places that they'd really rather not have immigrants come from. Obviously, the Middle East. That's another story from another time.

In that environment, the European Central Bank, too, has no choice. It has to expand reserves at a very aggressive pace. It has no choice. It must do that in order to make its goods and services reasonably priced in the world market. Secondly, concerning Europe, it is astonishing to me that it has held together this long. I'm stunned that the European economic community still is extant. I'm stunned still that the Euro itself continues to be extant.

We've seen the problems that have become to the fore in Greece. If I were the Greek President, if I were Mr. Tsipras, I would have told the Germans, who are continuously asking me to become more and more and more austere, can you imagine an austerity program when your unemployment rate is 25 percent and rising? To demand austerity, to demand a balanced budget in that environment is ludicrous. It is nonsense.

And if I were Mr. Tsipras, I would have dropped out of the Euro long ago, because the only business that I have that is viable is my tourism. You are keeping me in an Euro that is egregiously overvalued. The only way I can make my tourist trade come back is to drop out of the Euro, take back my drachma, devalue most of the prices that I have, and thereby entice people to come back to my trade, come back to my country as a tourist.

In that environment, in that political circumstance, and, one after another in the European countries we are seeing separatist movements popping up everywhere. Most of you here don't have never heard of who the Lega Nord, but it is a group in Northern Italy who is running and now has 30 percent of the Parliament in Rome. The Northern League wants to create its own country called Padania that separates from the rest of Italy.

You've seen a separatist movement erupt and come very close to hoving off in Spain, where Barcelona wants to leave. Why does Padania in Northern Italy and Barcelona in Spain – why are there separatist movements? Because they are tired of being the places where they are taxed the highest, where they're the most productive, where they send the most taxes back to Madrid or Rome and get the least back. These are going on all over Europe.

We thought we had a separatist problem in Canada not too long ago. It is nothing compared to the circumstances prevailing in Europe at this time. Under those circumstances I see no reason, no ability, no possible circumstance where the Euro can do anything but continuously decline. Do I see it going under parity to the US dollar? Absolutely. Do I see the Euro going under 80, 90 to the US dollar? Absolutely. Can I see?

Can I recognize? Can I imagine the Euro getting to 75 cents relative to the US dollar, and, over the course of the next five years, I can imagine that very, very easily. I am not a gold bug. I don't like gold bugs. I don't believe in gold bugging theory. I'm not a believer in that there are conspiracies out there working to keep the price of gold down. Under that circumstance, given that perspective, I'm actually finding myself to be bullish of gold. I'm bullish of gold only in terms of currencies I think are going to decline in value. More importantly, currencies that are already declining in value.

When I'm on television, people laugh at me because I try to keep things as simple as possible, but I always say I want to buy things that are moving from the lower left to the upper right. I want to sell the things moving from the upper left to the lower right. One of my favorite friends in the business, Paul Tutor Jones, was once asked who's the best trader he's ever seen? Paul always says it's his four year old nephew, Bobby. Because he can hold a chart in front of Bobby and say, "Bobby, what's that doing?" And he'll see something moving from the lower left to the upper right. And Bobby will say, "That's going up Uncle Paul." And Uncle Paul will say, "That's right, we should buy that."

That's what you should be thinking of. Given the present circumstances that prevail, the Euro is going down. It's moving from the upper left to the lower right. The Japanese yen is going down, moving from the upper left to the lower right. The dollar is going up. Moving from the lower left to the upper right. Why would you want to fund a purchase of gold in a currency that is rising when you have the ability to buy gold in currencies that are falling?

So when we were asked earlier today what was the best trade for the coming year, my response was I think it's abundantly clear I would like to own gold, which I see as nothing more than another currency, funded in terms of currencies falling in value. What do I think the Fed is going to be doing and what is the Fed doing and how has the Fed handled things? You heard me say earlier today I take exception to everybody who takes the Fed to task for having been expansionary with GE, with QE one and QE two.

Quite honestly, in 2007, I was frightened for the economy. I was frightened for the republic. I was frightened the whole thing was going to come to a crashing end. I got scared. And I don't scare that easy. As an ex floor trader, I don't frighten that easy, but for that time, I was frightened to the point I actually had my wife go out and get money and bring it to the house and put it in a safe and we got gold and put it into a safe because I was fearful the whole thing was going to collapse.

And thank goodness Dr. Bernanke stood up and said, "You may argue with me, you may call me Helicopter Ben, you may not like what I'm going to do, but I'm the adult in the room, and I know that my duty at this point is to do one thing. My duty is to liquefy the banking system. Doing what I have to do, force-feeding reserves into the system in order to keep this thing from imploding." And he did. Did he overstay his welcome? Should we have had QE two? Probably not. But thank goodness that we had QE one. Because we were this close. We were this close to going over the edge.

We were this close to doing what we did in the 1930s here in the United States when people were asking the government, in the midst of a very serious recession, to turn it into a depression, because we were asking the government in 1933 – Andrew Melon, the Secretary of Treasury at the time said what we need to do is liquidate and raise taxes to balance the budget. And that was the talk we had here in 2007 and 2008. Those of us on the far – I shouldn't say those of us.

I am somewhat to the right of Genghis Khan, politically, but when it comes to economic exigencies, when it comes to the reality of the circumstance, the talk about balancing the budget and tightening monetary policy, and allowing the situation that prevailed at the time to continue made utter and complete nonsense, and Bernanke did exactly the right thing.

Has the Fed overstayed its welcome? Absolutely. Should they have gone through with QE two? Probably not. Should they have tightened monetary policy a year ago? Probably so. Should we already have the overnight Fed funds rate at 1.5 or 2 percent? Probably we should. But with the rest of the world tenuously holding on, we talked this morning about China, and everybody was talking about the fact that things in China are slowing. I tend to disagree.

But some of the statistics would seem to indicate that. Clearly Europe is not growing. At best the European GDP growth is one percent maybe. And in that environment, for the first time, now we have our Federal Reserve Bank actually looking at – and I'm not sure that they should be, but they are doing exactly this – looking at the circumstances prevailing outside our shores, and saying maybe we're not going to tighten monetary policy, maybe we're not going to have liftoff, maybe we're not going to take the overnight Fed funds rate to 25 basis points, then to 50 basis points, then to 75 basis points, for some period of time into the future.

Perhaps they have kicked the ball down the field a bit too often. And we can argue with that. But the reality is eventually, perhaps sometime midyear next year, the Fed will see the unemployment rate – and you can argue with the statistics of unemployment – but clearly the decline in weekly jobless numbers to a 45 year if I'm not mistaken 45 year low yesterday – tells us that the economy in the States here is doing okay, thank you very much.

It ain't great. It ain't superior. It's not the numbers we saw in the past. It's not what we saw and got used to during the Regan administration. But we're doing okay. And probably the Fed will tighten sometime next year. What affect shall that have upon stock prices? Write this down. The stock market has been bullish since 2009. The trend is from the lower left to the upper right. Every smart person you know has tried to call a top. Every time I tried to call a top, the market blew up directly in my face and I had no choice but to get long again.

It's continuing to move from the lower left to the upper right. Every time you got out of what you owned you wish you hadn't, and you had to buy it back higher. This past May we had a nice, very serious – I keep track of ten stock markets. I call it my international index. I keep it very simple. And that international index has a 19 percent decline from early May into first week of October. We had panic selling the first Friday of October when the employment statistics report came out and it was less than people had hoped for, and the Dow opened 250 points lower after being down after my world index had been down 19 percent, and suddenly the selling abated.

It was as if there was no more selling to be done. The public does not own stock. The public is not involved in this market. And until the public becomes enamored of it, until the public is openly involved in equities, until it gets to the point – and I remember this time when a friend of mine who lived just down the street – he and his wife were very low – lower middle class. Quit their jobs in 2006 because they thought they could make more money trading stocks than they could by going to do their job every day. As soon as I heard that, I started to get concerned.

Because then the public was in. The public has been out since 2009. The public is not involved in the stock market. And until the public gets involved in the stock market, prices are going to continue to go from the lower left to the upper right. So should you err in the right of being bullish in equities? The answer is yes. Remember Paul Tutor Jones's four year old nephew, Bobby.

What else do I want to talk about? The political circumstances that prevail around the world. What are things that keep me up at night? Things that keep me up at night are Islam. And the things that keep me up at night are Russia. Islam wants to kill us. It is politically incorrect to say so, but that's what they intend to do. If there's a problem that Europe is facing, it is the immigration of hundreds of thousands of young men, probably 99 percent of which are really decent men who intend to find work because they cannot find it in the Middle East and send money back to their families to support them.

But probably one parent of which intends to do serious damage to Europe. That's a problem. That keeps me up at night. The other thing that keeps me up at night are the Russians. Let's understand who we are dealing with when we are dealing with Mr. Putin. Mr. Putin was KGB. And my old statement is always the same. Once KGB, always KGB. You do not become a colonel in KGB by being a decent, compassionate, fine young man. You become a colonel in KGB by putting electrical prods onto people.

You become a colonel in KGB by stuffing bamboo shoots under people's fingernails and driving them in. You become colonel in KGB by being an evil, nasty human being. We must also remember that Mr. Putin has surrounded himself with hard to believe you would never guess former members of the KGB. The fellow that he named to be head of Rosneft, the largest oil company in Russia, fellow whose name you should get to recognize, Igor Sechin, maybe the most dangerous man in the world, was his superior at the KGB.

This is the gentleman he lifted to become head of Rosneft, Russia's largest oil company. They keep me up at night. Why? The question is what is Russia is doing in Syria? The answer is very simple. Russia has always wanted to have and will always want to get, if it can finally get one, and it finally has one, a warm water port somewhere in the world. Syria gave Russia a warm water port in a place called Tartus. Look up Tartus in Syria on the map in the Mediterranean. Russia intends fully to exploit that, will never give that back.

Russia's only other warm water port was Sevastopol on the Black Sea, and for those of you who are challenged geographically, in order to get a boat out of the Black Sea, you must go through the straits by Istanbul. It's only two miles wide. And we would block that in a New York minute. The Russians knew that and their intention was – their intention is – their intention has been – and they have succeeded in getting a warm water port finally in Tartus.

He's a bully. He also knows his economy is imploding. He knows better than anybody that his population is declining. He knows he has a terrible, terrible problem with drunkenness. He knows he has a society where the lifespan is growing smaller and smaller. He knows that the only way he can stay in power is bread and circuses just like the Caesars of Rome used to do. When you have economic problems at home, divert people's attention. If there's a person out there to be fearful of, be fearful of that. What's good out there?

Agriculture and energy are good out there. The one thing you can count on in this world is over the course of the last 45 years, 50 years, almost 100 years, every single year, year in, year out, drought in, drought out, we grow more corn, more wheat, more soybeans, more cotton, more sorghum on the same acre of land that we grew last year we will grow more next year. We will grow more than that ten years from now. We will grow more than that 20 years from now. The trend is clearly as far as agriculture is concerned from the lower left to the upper right. And if anything has changed in this world, it's technology in agriculture.

Everybody hears about the fact that we're going to have cars very soon that drive themselves. They have had tractors in agriculture that drive themselves for years. Now we don't worry that much about getting our crops in ahead of a frost because our tractors are guided by GPS systems that stay out in the field 24/7, can bring the crop in, in half the time it used to take to get the crop in. More importantly than that, we now have machines fertilizing equipment that go through large fields, that can change because of GPS looking down on that crop and ascertaining how well that crop is preceding today compared to historical circumstances, and we can change the fertilization of that machine for the next 20 feet, for the next 50 feet, for the next 250 feet, add or subtract an amount of phosphate, add or subtract the amount of nitrogen.

We no longer pollute the rivers. We fertilize to perfection. And this is technology. When I was in undergraduate school in the 1960s, they told me the world was going to starve. That we couldn't feed the population. They told me at the same time we'd run out of crude oil by 1984. Since then, starvation has been absolutely done away with in the world. People starve not because there isn't enough food now. When people starve it's because the food we are able to grow and send doesn't get to them. It gets stolen. It gets taken by government leaders. It rots on the docks.

But we grow it. And we can feed more and more people. Be optimistic about the finding of energy. Again, when I was in undergraduate school, they told me by 1984 we would be out of energy. We would run out of crude oil. These were the people who believed in global cooling back then. The same people who believe in climate change and global warming now. They told me lies now. They are telling me lies now. But they told me we'd be out of crude oil by 1984. I don't know about you. I've driven a car since 1984.

I've flown in an airplane since 1984. I've heated and cooled my house since 1984. And you know what's interesting? There are four times more proven reserves of crude oil in the ground today than there was then. And I'll guarantee you this. 15 years from now there will be four times more amounts of crude oil found in the ground then than there is today. The manner in which we are able to find crude oil.

We used to think that a crude oil or natural gas supply underground was finite in shape, looked like a football looked like a ball, very finite, very well defined. And until about ten years ago, when we drilled with science we had at the time, when we sent our soda straw into the ground, our hit rates were maybe 50 percent and if we got lucky we hit the top of it. And there was the pressure that would drive crude oil to the ceiling. In the last 15 years, with seismic technology, which gives us a view underground, we now realize those pools are note finite in shape but they look like your hand with fingers that can extend for miles.

And what's really fascinating is now we send one drill down and our hit rates are now 90-95 percent. People still hit – people still drill dry, but the drill rates are so much better than they used to be. And now when we hit, when we send that soda straw down into the ground with one drill rig, we bend it. And we send off numerous numbers of pipes off into different directions, and we frack. We break up the rock. And we free reserves that ten years ago we couldn't get. Fracking has changed the world.

Fracking has changed the United States. Very soon we are going to go from being a net importer of crude energy – we are almost to being a net exporter now if you count coal into it, if you count natural gas into it, and if you count crude oil into it, we are probably within weeks of being net exporters, and soon we will be net exporters of crude oil in and of itself.

In that circumstance, and let us understand, unless God was segregationist, unless God made only frackable land to be found in the United States, and I doubt that to be true, if we have found that much more gas, that much more crude oil in the course of the last ten years, if we found the Marcellus Shale that extends from West Virginia up to New York, if we found the Permian and expanded upon it, if we found the Bakken, if we found those places, do you not think that frackable circumstances prevail in Russia, in China, across Africa?

Won't we export that knowledge and wisdom that we have learned on how to find that crude oil that in the past we didn't know existed and now we do? Under that environment, I think it's very difficult to believe that crude oil prices can ever rally substantively beyond $65.00 or $70.00 at best for WTI.

Because as soon as it gets to those levels, wells that have already been spurred in, but have been shuttered in, will be opened up again. New areas will be expanded upon. And in that circumstance, where energy becomes even more abundant than it is now, how strong does that make the economy?

So, to wrap it up, because I have a plane to catch, and I told myself I'd be off of here at 2:25 or 2:30 at the latest, we are in an environment with a strong US dollar. We are the world's reserve currency. We are not going to give that up. I think you want to own gold, but I don't think you want to own it in dollar terms. I think you want to own it in Euro terms or yen terms. I think you want to own stocks, because it's still a bull market and prices are still going from the lower left to the upper right. The Fed is going to tighten monetary policy, but not anytime soon.

And thank God for what's happening at the universities around the country that gave us ever increasing amount of agricultural production, and ever increasing amounts of energy. That's my story. I'm sticking with it. As my old friend Paul Jones says, trading and investing is like falling in love. You put your arms around that idea and hold her tight. But if she shows you the first sign of disrespect, throw her overboard and disavow any association whatsoever. That's my story and I'm sticking with it. Thank you for your time. Thank you for your consideration.

I've got three minutes. If there's anybody that has a question, I'd be more than happy to try and answer them. Otherwise, I will turn this over to the next one. Always the toughest thing to be, the first person to ask a question.

Audience: *[inaudible]*

Dennis Gartman: If that's how you wish to do the trade, I could not argue with that. If that's how you wish to do the trade, I could not argue with that. I see that as being essentially the same trade. So I shall not argue with that. Okay? Anything else? Yes, sir?

Audience: What is the future of the Federal Reserve?

Dennis Gartman: Whether you like it or not, it's here to stay. You may not like it. It's here to stay. Is it going to be audited? Probably. Will it be – can it possibly be any more transparent than it has been in the course of the past several years? I don't see how. But it's here to stay. It's not going to go anywhere anytime soon. If I had my druthers, I'd rather see the Federal Reserve Bank turned into a very mechanistic circumstance where the adjusted monetary bases simply increased by population plus some hope for non-inflationary growth, and that every week, week in, week out, that the Fed did exactly the same thing, bought X amount of Treasury securities to make sure that the base grew at that same pace – that I think would be the best of all worlds. But is the Fed going to go anywhere? No. The Fed is here to stay. Get used to it. Last question.

Audience: Where are we heading? Inflationary environment or deflationary environment?

Dennis Gartman: Write this down. Yes *[laughter]*. Yes. We are probably going to have inflationary circumstances regarding labor. Labor is probably going to get tighter. And we're probably going to have labor problems here in the United States. So that may be inflationary. Commodity prices however I am hard pressed to see where commodity values are going to rise dramatically. And, under most circumstances, with a strong dollar, it's probably going to be a deflationary circumstance. So I don't think you're going to have an abundant inflation as we had in the '70s and '80s that is all encompassing.

Nor do I think we're going to have an all-encompassing deflation. I think you're going to have some areas, crude oil prices I'm afraid are not going to inflate. I think on balance they're going to deflate. I think labor probably inflates. So the answer to your question is yes, okay? Sorry for that answer. Thank you for your time. Good luck. Good trading. One last thing. The secret to investing – this is what you need to write down. Do more of that which is working. Do less of that which is not. If you buy something at $10.00 and it goes to $15.00, buy more. If you buy something at $10.00 and it goes to $5.00, stop buying. Find out what other people know that you don't know.

If it goes to $20.00, buy more. If it goes to $25.00, buy more. Hey, guys, if you use that lesson and take it to life, it will serve you well. If taking flowers to your wife or girlfriend gets you lucky more often, take her flowers on a more frequent basis. Do more of that which is working, less of that which is not. Good luck and good trading.

Global Investing Panel

Gary: But before then, we have our global investing panel, and I'm gonna ask them to come out – they have already come out. We've already heard from Frank Holmes earlier this morning. This afternoon, you will hear the main speeches of Doug Casey and Dennis Gartman, and as the MC of the panel, Adrian Day, one of the pioneers in global investing for Americans, writing a book on the subject 35 years ago and several books since then, he will be conducting the panel as MC. So, Adrian Day, take it away.

Adrian Day: Well, thank you very much. Gary. Thank you, ladies and gentlemen. And Gary, thank you for mentioning my second book, actually, but I need to mention that Gary did a lot of help on that book. In fact, it was Gary that came up with the title – *Investing Without Borders* – that I thought was a fabulous title. So, thank you, Gary.

Anyway, the panel today, we're gonna be talking – this is always an exciting panel. We're gonna be talking about, well, the world – primarily, global economics and global markets. We have an outstanding panel, and I'll start on my immediate left, which is – yeah, my immediate left, which is your left – it gets confusing –

Gary: Maximum/minimum, left and right – those things always get me confused.

Adrian Day: Dennis Gartman. As they used to say, "No, not that left. The other left." Dennis Gartman – well, I'm sure most of you know, he's been at this show many years now. He writes the eponymous *Daily Newsletter.* Gets up, I think, at 2:00 in the morning, is it?

Dennis Gartman: 1:00.

Adrian Day: 1:00 in the morning. He gets up at 1:00 in the morning every day, Monday to Friday, to write that newsletter. Next to him is Dr. Marc Faber. He's from Switzerland, originally. Worked in Hong Kong for many years, but now lives in Thailand. He's the editor of *Gloom, Boom, and Doom* – or is it *Boom, Doom, and Gloom?*

Marc Faber: *Gloom, Boom, and Doom.*

Adrian Day: Yeah. One of them, anyway – a report which I highly recommend. Next to him is Frank Holmes. Frank spoke this morning, as Gary just mentioned. Frank, from Canada originally, runs the U.S. global mutual funds down in San Antonio, Texas. Mostly open end – many global funds, as well as gold funds, natural resource funds.

And, I think he's told us – and he will probably tell us again – recently launched an ETF.

And then next to him is Doug Casey – again, an old friend of the show. And Doug, as you all know, he's the writer of a bestseller. He edits a newsletter, *Crisis Investing.* Now lives in Argentina. So, we have a very global panel with both practical and theoretical experience.

Normally, the moderator's job is to make sure that the panel flows and that there's no awkward silences. With this crew, my job is to actually shut them up, make sure we finish on time. So, let's start maybe by asking a question but I think everyone's talking about. I'd like to hear whether it's really that significant. But Federal Reserve and interest rates – why aren't they raising interest rates? Will they raise interest rates?

And what impact will that have on the U.S. but also, on other economies and markets? Who wants to take that one? Dennis?

Dennis Gartman: Of course they will raise interest rates. Sometime in the future. It's not going to be anytime soon. They have made it abundantly clear that they are reticent about doing so. They're data driven.

I tend to believe that that's absolutely the case. There was a great hue and cry last week – or earlier this week – when the FOMC made the non-decision decision to bump the – I love the term "liftoff" of the overnight Fed funds rate until sometime later, perhaps in December. But the Fed doesn't really like to be Scrooge. It doesn't like to raise rates at December meetings. It will probably kick the can forward again.

And the only thing that I can say is that I've been at this for 40 years, and if I've learned anything, once the Fed begins to embark upon a new policy – if it has stopped lowering rates and begins to raise them, if it has stopped raising rates and begins to lower them – that it will move rates much farther for a much longer period of time than almost anyone wants to imagine. So, you'll hear a great number of people next year, when the Fed does begin the process of lifting off the overnight Fed funds rate, saying it'll be a one-off circumstance. That's not true at all. And I think we'll be surprised how far rates will go. They really do wish to get rates back to some more normal, perhaps, the Fed funds rate to three percent over some period of time.

It may take several years to do so, but they're reticent to raise rates right now, and it's not gonna happen this year. But it will happen, and – mark this down – it'll happen when it happens and not a moment before.

Adrian Day: Go ahead, Marc. Anyone else?

Doug Casey: Well, let me make a comment. I don't really care what the Fed thinks it's going to do. I want to draw it – your attention – that the Fed should be abolished. It serves no useful purpose. That's the first thing you've got to think about, so stop trying to parse what they may or may not do.

These people are basically the same kind of people that go to work for the post office, except they dress in better suits and they went to better colleges. They have no essential understanding of real economics. They're all just political hacks that have been appointed to play with the nation's paper currency. Whatever they do, it's going to be the wrong thing, but they've painted themselves into a corner by creating trillions of new currency units since the crisis of 2007 started. And it's gonna end very badly.

There's nothing they can do about it at this point.

Dennis Gartman: You all may applaud for that, but the fact of the matter is – it has succeeded over the course of the past nine – what, seven years or so. Whether you like it or not, the Fed is here. It's not going to be abolished. It's not going anywhere, and you might as well learn to deal with that harsh reality. They are here.

They're going to be here. And learn how to deal with it.

Doug Casey: I was making a moral statement, not a practical statement, though, Dennis. You're quite correct.

Adrian Day: Frank? Marc?

Marc Faber: Well, of course I completely disagree with Dennis. I think the Fed –

Dennis Gartman: That's the first time.

[Laughter]

Marc Faber: I don't think that the Fed will move aggressively on rates for the simple reason that they have coordinated monetary policies with foreign central banks. There is no currency war. I want to emphasize that. And I'd just like to quote the Fed itself. "As the U.S. Central Bank, the Federal Reserve also has extensive and well-established relationships with the central banks and financial supervisors of other countries" – which enables it to coordinate its actions with those of other countries when managing institutional financial crisis, and supervising institutions with a substantial international presence. The Fed talks every day to the Bank of Japan, the Bank of England, the ECB, and they coordinate monetary affairs.

So, they told the Bank of Japan, "Now, it's up to you to monetize and bring to money." The result is that the Yen goes down and the U.S. dollar goes up. And now, the Fed, given the weakness in overseas economies and the strength of the U.S. dollar, will think, "Well, it wouldn't be a good idea to increase rates a lot." And so I believe that in order to maintain some credibility – and that is really it; maybe half a percent credibility since they lost already 99.999 percent – I think they move a quarter of a point and then they'll see that the global economy weakens. And the weakness overseas will affect the U.S. economy as well, and then they won't move any higher.

And if ever they go to three percent Fed fund rate, I assure you that at that time, consumer prices will rise at an annual rate of say, six to seven percent. So, they'll keep interest rates actually negative in real terms, inflation adjusted. Personally, I think next year, they'll move to negative interest rates since already $2 trillion worth of bonds in Europe are trading at negative interest rates.

Frank Holmes: I'd just like to add that – in fact, I would say that we've had an interest rate hike. When you look at interest rates, there's the nominal rate, which everyone sees in the paper. And more significant to gold and the flow of funds is real interest rates. So, what is the government paying on a 10-year government bond, take away the monthly CPI number – is that positive or is that negative? And what is that trend?

And anytime you've had a 500 basis points real rates move, emerging markets and commodities fall. So, let's go back to September 2011. Gold hits 1900. The 10-year government bond was paying you -3 percent of you bought that government bond. It's went to +2.5 percent yield.

So, that's a 550 basis point swing. And what happened to the dollar? The dollar soared 20 percent. So, every 10 percent move in the dollar is the equivalent to 100 basis points moved in Fed funds. This is all based on macro-regressional studies of looking for these patterns where you're almost fooled because this nominal rate is flat.

The Fed funds is flat. But money moves around that world on real rates of return. And central banks around – they're increasing their exposure to gold because they're seeing the only way to stimulate economic activity at this stage is by offering – devaluing countries' currency with negative real rates of return. And I agree with Marc – that I think you're gonna see – we're gonna witness real rates changing where they're gonna become not as positive. They're gonna slightly go negative.

Adrian Day: Okay. Well, let's switch gears and go to the other side of the world and look at China for a second. There's been a lot of predictions and talk about the Chinese market crashing because of the all the ghost cities and so on and so on. What's your outlook for the Chinese economy, and also, separately, perhaps the Chinese stock market? That's a different issue, but what's your outlook for the China economy?

Is it going to slow dramatically? Is there a recession ahead? And what are the implications? That's important. Who wants to take that? Frank?

Frank Holmes: Marc lives there. What do you think, Marc?

Adrian Day: Marc?

Marc Faber: Well, you're as well informed as I am, so you could also comment about it. But I have this view. I think already 18 months ago, it was quite evident that the Chinese economy was going to slow down very considerably. We have a huge credit bubble in China as a percent of the economy. Credit has gone up by more than 50 percent since 2010.

Shadow-banking credit is up 5 times since 2010. And these are frequently lower quality credits. So, basically, if you study economic history, no country has had this kind of credit expansion within such a short period of time. And now, it has become very obvious that the Chinese economy is not growing at 6.8 percent or 6.9 percent as the government claims. Just as an aside, railroad freight traffic is down 17 percent year on year.

Now, some people will say, "Well, the manufacturing sector is not growing, but it's been taken over by the service sector." There's some truth in that, because in an emerging economy, society starts, as it should, with the man working and the wife staying at home washing the clothes, cooking, looking after the children and all that. And then, as modern society overtakes, the wife goes out and works because they can't make ends meet, and then they hire people to look after all this. So, the service sector is natural expanding in every emerging economy, but it doesn't contribute to growth – to real growth – as much as manufacturing. And my estimate is that the Chinese economy – also, for demographic reasons – will grow at maximum, say, four percent trend line in future.

And at the present time, the growth rate is probably less than four percent, and that has, obviously, a huge impact on all the resource producing countries in the world since China is a large import of industrial commodities. And in turn, this weakness backfires on China – the weakness in the resource producing economies – because they are large importers of goods from China, and of course, also from the U.S. and from Europe. So, you have essentially, a global contraction at the present time. The most emerging economies – there's no growth to speak of.

Dennis Gartman: I think one of the things you have to understand is one of the most important changes in global society has occurred in the last 24 hours with the announcement by the government in China that they have rescinded the overtly dismal decision put into effect in, what? 1977, if I'm not mistaken, to only allow one baby to be born per family. And they have rescinded that, finally. It is now an official document. They had, at the margin – at the edges – allowed a few people to have more than one child, and can you imagine the number of baby girls that had been killed over the course of the past 35 years in China?

The fact that they're going to allow two children or more per family, I think is one of the greatest growth circumstances that we have seen. Think of the number of houses that are going to have to be built. Think of the numbers of baby carriages that are going to have to be purchased. Think of the milk that's going to have to be bought. Think of the additional food that will have to be imported.

Think of the growth that goes into a society that finally begins to allow its population to grow once again. I will – I have been to China a number of times. I don't live in China, but I've only been there four times, and every time I come back, I stand more in awe of what's going on. Let us remember the greatest migration in the history of mankind is taking place from the western provinces of China to the eastern provinces. Has China made mistakes? Yes.

Are there places that are over-bought? Yes. Has their banking system probably expanded a little too aggressively? Yes. But they have leaped from the 14th century to the 21st century and they're never gonna go back.

So, I look optimistically in broad terms against pertaining to what's happening in China. And I think the decision arrived at by Beijing the last 24 hours should be applauded. Instead of killing baby girls, they're gonna be growing them. Instead of allowing young men to not have the civilizing influence of young women, they're going to be allowing it. It's going to change society in China dramatically, and it's going to change the world, and it just went into effect yesterday.

Adrian Day: Doug?

Doug Casey: Well, like Marc, I lived in Hong Kong for years. I bought an apartment during the China crisis in Hong Kong in 1986. I sold it a few years ago for 20 times what I paid for it. That gives you an idea of the nature of the boom in the Orient. And what's happened in China since Deng Xiaopingin 1980 has been one of the very greatest economic events in the entire history of the world.

It's been a wonderful, fantastic – the growth there is real. That's the good news. The bad news is that there have been huge distortions and misallocations of capital that have been cranked in to this very rapid expansion, which has been directed, to some degree, by the state where these banks have asked to lend money on all kinds of uneconomic projects. These things will have to be unwound. Maybe they're starting to be unwound now.

So, I think it's gonna be rough times in China for the near future, assuming that the U.S. doesn't provoke a war with them, also.

Adrian Day: Frank.

Frank Holmes: So, when you look at just data and trends, manufacturing has turned down. And manufacturing in America's very critical versus say, GDP. If you look at most of the profits in the S&P 500, they come from industrial section energy which uses a lot of industrial transportation. This is where profits come from. But the GDP and the consumer – so someone is working at GAP store is not making much as equivalent or close to someone who's working loading coal or fuel onto a train.

And it's recognizing we've had that shift, and that shift is just coming through in China where if you look at the internet, you look at housing, the financial sector – it's tremendous growth in particular, that consumer. And that's what the government's trying to do – is to promote that change. And I also think that there's no communist country that's ever had negative GDP. I just think they just can't say so. And this is where the lies come from, and that's something that's just very consistent.

But as for leadership, the new leader came in with a hammer and went after corruption. And it didn't matter if you were an ant or you were a lion – if you were corrupt, you were gonna get thrown in jail. And there was excess taking place. Now, the difficulty is, is he makes these announcements on the soap road. "And this will be a $65 billion project and another one that's $22 billion."

The government officials are so afraid that they have a $3 billion decision – "I'm not gonna make that decision because I may turn around and be thrown in prison." So, he has to come out with a – I guess a new policy to move forward, because there's all these projects that are sitting there that can't get executed because people are too fearful.

Adrian Day: The question I want sort of – I mean, it seems to me that at the moment – and all of you seem to agree to some degree, varying degrees – the Chinese economy is still overall growing. Manufacturing is down – admittedly, significantly – and we do have these misallocations and distortions that Doug talked about. But is the unwinding of these distortions going to lead to a recession or worse or might the growth rate simply go from the 11 and 14 percent to 7 to 4? Let's face it – four percent growth for a country as big as China is pretty meaningful growth. And I read recently that the six percent that someone was talking about is, in absolute terms, worth more than 11 percent in 2007 because of the growth that's come. So, is China going to continue to grow or are we likely to see a serious recession?

Dennis Gartman: Your last point's the important one. People seem to forget that the Chinese economy has – let's simply say it's doubled in the course of the last 15 years. GDP probably has doubled in the last 15 years. Well, 15 percent growth – which is probably what we had for a period of time – 15 years ago is now equivalent to about 7 percent growth. We're probably going to slow that to five percent growth.

But that's still in – when you talk about the circumstances of large numbers, that's still a very important circumstance for the rest of the word. So, yes, I'm amused by my friends in the business who say China's slowing because the growth is 6.9 percent. And isn't that a funny number? I think if you can get Chinese GDP growth within five percent plus or minus, you've done an excellent job of forecasting. But it's probably something in excess of five percent and it's probably gonna continue for a long period of time.

And again – I think that that decision that was announced just this morning or yesterday afternoon is a remarkable decision and one that is going to allow for continued growth for a long period of time going forward. Remember – China, for years and years and years, if you lived 50 miles to the west of Beijing, 50 miles to the west of Baoding, you had no idea. Your life – the life that you led, the life that your grandparents led, the life that your grandparents' grandparents led, had not changed much in several hundred years until the last 20 years. And then you have moved parabolically. It's probably going to continue.

So, I'm very optimistic about things in China. I think Doug had a very important circumstance or a very important statement though. Unless the United States does something untoward and suddenly decides that China is an enemy and provokes some sort of military activity – that's the thing that keeps me awake at night. But what are the odds of that happening? Minimal, I think.

Frank Holmes: I also think, Adrian, when we look at America, we define a recession – it's two quarters of negative returns. When you look at 80 percent of the world's population – the IMF, and other organizations, the World Bank – look at 2 percent GDP growth as a recession.

Adrian Day: So, when you look at those numbers, the world is in a recession – it's a global recession. And what I see is that global PMIs – and I've written about this extensively – that there's a high correlation of commodity demand both positive and negative if the one month PMI – with global PMI, it's above the three months – you see oil prices, copper prices all start to rise. And what PMI is is a forecast six months out by manufacturers of what's they're gonna manufacture. So, if Doug gives me a big order to produce 100,000 of motors, I'm gonna have to get a lot of copper. So, therefore, I go place copper.

And then I'm gonna use a lot of electricity to make the copper motors for that contract, so now I'm bullish when they get this report. And it's a helpful way of looking forward, whereas GDP is looking out their rearview mirror what's behind you. And global PMIs go through these big downturns – it's like a cosign wave – up and down, and we're coming into a trough. And historically, they'll be a global stimulus package to get this back up so that the PMIs turn up. So, I think this time next year, it'll be an election year and we're probably gonna see things much rosier globally.

Adrian Day: Okay, well, let's ask this. We've already talked about the impact on commodities of, let's say, a slowing rate of growth in China. Obviously, that slowing rate of growth in China's also had a significant impact on the emerging economies and markets, particularly those in Asia outside of Japan – we'll ignore Japan for the time being. I think emerging markets, stock markets, emerging country – emerging economy stock markets are down about what? Nearly 30 percent this year? 27-28 percent this year.

A lot of the currencies – even the Singapore dollar is down significantly. Do you think it's time – well, what do you see as the outlook for these emerging economies in Asia? And do you think it's time to be buying in the markets? Marc?

Marc Faber: Well, as I said, I think that the Chinese economy, at the moment, is growing at maximum four percent, and that does not mean that I'm negative about what has happened in China over the last 30 years. The first time I went to China was in 1980, and there was nothing. It was just the start of the open door policy. And he first time I went to Shanghai was in '89, and I have a slide in my presentation for later that shows Shanghai in '97 and then compared to today. But basically, at the time, there was really nothing in Shanghai.

And if there is one great admirer of the achievements of China in terms of economic growth, then it's me. But we have to be objective, and those recognize when the official statistics do not much the reality. I mentioned earlier on the freight movements in China, on rails that are down 17 percent, electricity consumption in industries is down. Exports are down. Imports are down meaningfully, partly also because of the declining commodity prices. I agree with that.

But basically, growth at the present time is dismal. The second point about China we have to understand is we're talking about a country that has four times the population of the U.S. or more. It has like the U.S. In the U.S., you have states, and in China, you have provinces. In China, there are many provinces that are as large as France or Italy, and that are growing rapidly. And other provinces in other sectors of the economy could be in recession.

Say, in the U.S. you had a recession in California in the early 1990s, but other part of the countries were growing. So, the same can happen in China. I can give you one place where there has been a massive contraction and that is Macau. GDP's down from big to _____. Something like 30 percent.

And it's probably bottoming out. And Macau gaining shares are probably at relatively attractive – depends on your outlook for the markets. So, I agree with all of you to some extent, but the impact at the present time of the slowdown in China is very meaningful on many corporations – and you can ask Yum! Brands, and you can ask McDonalds about their sales, and these are service-oriented companies. Or you can ask Caterpillar, for instance, or IBM and so forth. They will tell you about their sales in China and their earnings in China.

Or you can ask Mercedes Benz or Volkswagen. Car sales, for the first time in I don't remember how many years, are down at the present time. So, there has been a slowdown and it affects the whole world meaningfully because China was really the driver of economic growth driven in China by credit post 2009 recession. So, I would actually look at emerging economies in the light or relative to the U.S. market, they are inexpensive. And say if you take a 10 years, you will probably make more money in emerging economies than in the U.S.

In particular, I'm thinking here of Indochina, Vietnam, Cambodia, Laos, Myanmar. But in the near term, especially if the U.S. dollar continues to strengthen or remain strong, money will flow out of emerging economies into U.S. dollar assets until there is a gross, over-evaluation of U.S. assets against emerging economies, and then the money will flow back.

Adrian Day: Yeah. Well, you mentioned the dollar. Let's talk about the dollar for a second because that's obviously critical. If you're investing internationally, investing globally, what happens to the value of the currencies is critical. What do people think about the dollar going forward? You know, 6 months, 12 months – what's the outlook?

Dennis Gartman: I'm so ridiculously bullish on the dollar it's frightening. I think that we are – to keep it in baseball terms here; we are in the middle of the World Series. I think we're in about the fourth or the fifth inning of what obviously will be a nine-inning ballgame. I think we'll be surprised at how strong shall the dollar be. And all of my good friends in the business have been denigrating the dollar for the past several years and it keeps blowing up in their face.

I think it's – the monetary authorities here in the United States, despite the fact of QE one and QE two, expanded the balance sheet of the Fed from $800 billion to $4 trillion. But over the course of the past 14 months, the adjusted monetary base has not grown at all. In fact, it's declined. We are not growing the dollar value of the dollar or the amount of dollars in the system, whereas the Japanese and the ECB are clearly erring upon the side of aggressive monetary ease. I think in that instance, the dollar goes demonstrably higher, and I think it will – as it goes higher, it will be met by a great wailing and gnashing of teeth on the part of the industries here in the United States.

The farmers will be objectively and abjectly disdainful of that strength, however, they will get used to it. It will make them better. And I think we'll be surprised how far the dollar goes before it's done.

Marc Faber: Dennis, may I ask you –

Dennis Gartman: Yes.

Marc Faber: – since you're so optimistic about the U.S. dollar, say, in a years' time, what would your target be against the Euro and the Yen? Or would they move in similar ways and the dollar appreciates against other currencies? Can you clarify this for us?

Dennis Gartman: Sure. Absolutely. When I first started trading foreign exchange in 1974, I can remember trading spot dollar Yen at 365 Yen to the dollar. For me to believe that we can see spot dollar Yen trade at 150 or maybe even 200 over the course of the next three years is easy for me to understand. It's easy for me to see.

So, I think that we'll see at least 150 over the course of the next two years, Yen dollar and perhaps 200 Yen to the dollar over the course of the next five years. The Euro? I think clearly it's going well under parity to the U.S. dollar and I wouldn't be surprised if over the course of the next five years that we see it trade $0.85. So, those are my numbers and I'll stand by them.

Adrian Day: And are there any, what we'll call, peripheral currencies that you like? You know, Norway or Sweden or Singapore or...

Dennis Gartman: I'll leave that to people wiser than I to make decisions on those peripheral currencies.

Adrian Day: Frank?

Frank Holmes: Doug and I were talking earlier – I think we're seeing so much quick political leadership changes for emerging Europe fund. Poland swung to the right, but it's interesting 'cause it's like a socialist's right with the invasion by the EU trying to force 200,000 Syrians into Poland. There is protest, and they swung for – it's interesting to see that dynamic. Same thing in Canada. The NDP party thought they were gonna have a major position, but they pushed for women to be able to become citizens by wearing their Burqa and there was an outrage on that.

And you see that Justin Trudeau wins by a landslide. You've seen these issues. Now, we were just talking about Argentina, and Argentina's been washed out, but it appears that as a political place, it's been always just in turmoil, but it looks like the mayor is gonna win the election. And that would be significant as a great country to take a look at in our portfolio, because you can buy companies so inexpensively there. What do you think, Doug? You live there.

Doug Casey: I do. Argentina is unique in Latin America in many ways, which I guess this isn't the appropriate time to go into that. And I think Dennis' comments are most interesting. For the last couple of months, I've been short the Euro and I've been short the – what the hell is that – the Yen. But I've been long the Canadian dollar and long the Australian dollar.

And the way I've done this and the way I'd consider doing it – if you want to play this to make it practical – is I like to sell options. I don't buy options. I sell options. And so I've been short calls against the Euro and the Yen and short puts against the Australian and Canadian. It's worked out okay so far, because all these currencies kind of move together, but they don't all move exactly together.

Dennis Gartman: Foreign exchange traders are raised from their incipiency to be "crossers" as we call it. We tend to cross one currency relative to another. So, we tend to think in terms of the Canadian versus Yen or the Aussi versus Yen. I think with this decision on the part of the Chinese authorities, I think this is gonna be terribly beneficial to the Chinese economy, and therefore terribly beneficial to the Australian dollar. So, I can imagine being long with the Aussi dollar and short of Japanese Yen for the next several years.

Frank Holmes: Well, it's interesting that you say that. We do these correlation analysis, and the biggest correlation for the Columbian peso, the Canadian dollar, the Norwegian krone, is oil prices – and the Russian ruble. There's a 92 percent correlation. Now, when it comes to Australia, it's iron ore. The Australian dollar's fallen more than the Canadian dollar because iron ore has fallen more, hence, so a larger source of foreign currency.

And the other differential is interest rates. So, what are they paying on interest rates, real rates, relative the U.S.? So, they're all pretty well unattractive relative to the U.S., so that makes it even more difficult. So, one has to deduce where – what do they export the most when you look at that country's currency? Peru, which I'm going to tomorrow, it's copper.

The correlation of the sol, their currency, to copper prices is 90 some odd percent. So, if you see a pickup – and earlier this year, we saw a pickup in the Russian ruble – why? Because we saw Brent go above its 20-day moving average. And it's amazing to see. Immediately, you see the Russian oil stocks, and then they roll over.

So, it's – when you play these currencies – and we do this for our gold funds – and one of the big parts of having top-performing gold funds, particular this year, we've been shorting all our Canadian holdings to currency hedge. So, we love these stocks, but only in Canadian dollar terms. And it's amazing to see that that's helped overall in that performance. Now, in Australia, some of these gold producers are up 800 percent. Unbelievable moves.

And gold, in Australian terms, is up 33 percent. So, it's down in dollar terms – and Dennis and I were talking about this earlier – that there's so many plays in gold as a currency with these other countries. So, as soon as they go to these negative rates policies, you want to long gold in that country's currency.

Doug Casey: Yeah. This works with a lot of commodities, actually. I've lived in New Zealand for years and the New Zealand currencies, the big exports there, are dairy and lumber – probably the two biggest ones. So, I'm trying to figure out what to do on that. Frank and I are involved in the cattle business in Argentina – haven't made any money on it yet, but that's – so, there's – all these commodities have effects on the currencies, depending on what the country's doing in those commodities.

Adrian Day: Right. Let's – Frank, you mentioned the refugee business in Europe, and we had five minutes from Bob Meyer on the platform yesterday about the politics of that, so I won't get into that. But do you think this refugee crisis has any fundamental, economic impact for Europe? Is it important from an economic point of view?

Frank Holmes: I think it's a big drain on the social welfare system, 'cause immediately, you have all these predominantly men. There's something like, 95 percent are men, even though *60 Minutes* tries to look like it's all couples with little children. In fact, there's very little in those data points. But I think there's a big social stress, and the cost for security, the cost for police, the cost for – so, I think that will be a huge burden. But what's interesting – does this mean Trump gets into power?

Does it mean what took place in Poland, that people are so upset about these immigration rules being pushed down, will people all of a sudden say the same thing with people coming from Mexico and El Salvador in America? They want a politician who's gonna stop that. So, it's different factors, but people are very, very protectionists. And I think that that's an important part on this theme. So, how do you make money with it is the interesting second derivative – what we have to do as money managers.

But I do know that when Justin Trudeau became the prime minister, immediately, you could see all the infrastructure stocks start to take off. And the big reason for that is because he's promised to have huge deficit spending for infrastructure to retool and rebuild Canada. So, from that end, where do you make money in Europe, et cetera, is gonna from probably security, besides cyber security.

Adrian Day: Well, you mentioned the U.S. election – maybe each of you can say which potential or likely presidential winner is going to have the biggest effect on markets. How should we be thinking about investments from the point of view of a Hillary election – which won't happen – or Trump? What will these people mean for the markets?

Frank Holmes: If Hillary gets in, I think you want to have lots of tax-free bonds.

[Laughter]

I think it was Marc Lichtenstein that had a report showing all the politicians and what their tax breaks are going to do, and clearly, she had the highest tax rates and tax increases. So, that would be – and then, what industries she's gonna go after. So, I talked this morning about the jet's ETF we created, but she's anti the airline industry because what they're charging and healthcare. So, one just has to be sensitive because government policies are a precursor to change. And they provide tremendous risks and opportunities.

That ability – that's why I'm so curious about Argentina. With the new government policies there and new leadership, that country could be a huge winner in Latin America.

Adrian Day: Are the assets cheap there in Argentina right now?

Doug Casey: Argentina is probably – if you buy your currency on the black market, which everybody does – you don't use credit cards down there 'cause you pay the official rate – it's probably one of the very cheapest countries in the world for a high standard of living. It's really, really, very cheap. But I'll make a comment about this, about the elections. I disagree with what Dennis said about good times next year. I think we're gonna be entering the – well, we're gonna be well into the trailing edge of the financial hurricane.

People are gonna be angry. Whoever is the incumbent, whether it's his fault or not, gets blamed. Therefore, the Democrats are out. They'll vote for somebody new, the Republicans, and since Trump has certainty – and in times of economic chaos, what the – I don't have my finger on the pulse of the hoy-paloy, so I don't know what the people in the trailor parks are really thinking, but they're going to be scared and they're going to want certainty. And they're going to want a guy who's certain he knows what he's doing.

So, I think Trump is gonna actually get the nomination. And if he runs – even against Hillary, who hopefully will be in jail by that time, but –

[Laughter]

I actually think Trump is going – has an excellent chance at being the next president because he's certain and that's what people are gonna want in times of chaos, which we'll be in by this time next year.

[Crosstalk]

Adrian Day: Sorry, I did not understand – who did you say, "hopefully is in jail"? Hillary?

Doug Casey: Yes.

Adrian Day: Or Trump.

Doug Casey: Well, all of them belong in jail of course, but...

Adrian Day: And what impact – I mean to be serious – what impact might a Trump presidency have on markets – both the U.S. and global markets?

Dennis Gartman: I think he will frighten the world so dramatically. He's an interesting fellow, but I don't want him anywhere near the black box. I just don't. My wife is a great supporter of him and I love my lovely bride, but I am frightened by the gentleman, to be blunt. Who's gonna win?

If you'd have asked me a year ago – and I'm usually pretty good at political forecasting – and if you'd have asked me a year ago, the fellow who made the most sense, who had the greatest – on paper, made the most sense – was John Kassich from Ohio. But he has done such a terrible job. I was told a year and a half ago to be very careful about supporting Mister Kassich 'cause he's a rather prickly human being and he's proven that on the debates. He's come across very badly. So, he's probably not going to win it.

I hope that Mister Trump does not get it. Mister Christie is an interesting young man, but he's probably a little bit too young. But the fellow who seems to have the most traction at this point is – although he's awfully young and I wish my president were 50 or 55 so that he's seen enough – but Mister Rubio seems to be doing an awfully good job. And so, if you had to ask me right now, I'd say give it to Mister Rubio. He will bring the Hispanic vote along with him.

He's, I think, a reasonably well ordered conservative, I think he's fiscally responsible, and I suspect right now, he will probably be the nominee. And if he is – and your point, Doug, about Miss Clinton not going to jail – I think there's a greater probability that she will be indicted than you can imagine. The FBI is still clearly on the case and they're not being frightened away from it. Right now, she's probably gonna be the nominee, but the hierarchy within the Democratic Party is scared to death that she will win the nomination and then be indicted somewhere along the line. But she'll probably win the nomination.

Doug Casey: Dennis, I'm surprised, though, that you put your finger on Kassich and Christie. These are very glib talkers, but they're totally unprincipled fascists. They really should be in the Democratic Party.

Dennis Gartman: I never said – John Kassich probably would have felt a little more comfortable in the Democratic party of years previous of Scoop Jackson and the others, but clearly, he is not a Democrat at this point. And, as I said, sometimes you have to understand who has the greater probability of being elected. On paper, John Kassich looked to be, on paper, the best candidate. But clearly, he's not gonna make it.

Adrian Day: Well, I tell you what – let's wrap this panel up as we normally do with some specific recommendations – or big picture recommendations if you like. So, I'd like each person in turn to take about a minute and a half, if possible, and just tell us what they would recommend people do right now with their money. It can be very broad picture asset allocation or it can be specific markets and even specific stocks, if you want.

Dennis Gartman: All right. I'll start since I'm here. I think the monetary authorities in Japan and the ECB have no choice but to continue their expansionary policies. I think the political circumstances in Europe demand that they do. The immigration circumstances that are taking place have to be met by expansionary policies, and, at the same time, I find myself – I'm not normally a gold bug. I'm not a gold bug, and I have no intention of owning gold in U.S. dollar terms.

But I do have every intention, and I have a – I'll be as transparent as possible – I do have a monetary circumstance impending here or incumbent here. I think owning gold funded in Euro terms, owning gold funded in Yen terms, is the best trade for the next several years. If you have owned gold – don't hold me to the numbers because I don't have them in front of me right now, but if you've owned gold in U.S. dollar terms over the course of the last two years, you're down, I think, 11-12-13 percent. If you've owned gold funded in Yen terms, you're up about 24 percent. And if you've owned gold funded in Euro terms, you're up about nine percent.

Now, I only went to North Carolina State. I didn't go to Harvard or Yale, but I think being up is better than being down. But I could be wrong and I'm willing to argue that fact. Take a look at owning GEUR – gold predicated in Euros – or GYEN – gold predicated in Yen. I trade only from my own account and I've got about 60 percent of my own money in gold Euro and gold Yen.

It is my – they are my ETFs. They are listed in the New York Stock Exchange, to be transparent, and I do get paid as a percentage of the assets under management. So, you might as well know that up front, but I have my own money in gold Euros and gold Yen, and I see every reason to think that that's gonna continue.

Adrian Day: Great. Okay. Thank you. Marc?

Marc Faber: Well, as I indicated earlier, I think that the Indochinese economy has a tremendous potential. Exports in Cambodia, admittedly from a low level, were up 20 percent. And as I shall explain later on today, basically, there's a lot of money flowing into China for political reasons. The Chinese want to obviously colonize, essentially, Indochina. Not politically, but economically.

And at the same time, the Japanese, the Koreans, and the U.S. do not want that to happen. So, everybody's pouring money into the region and that leads to very strong inflow of foreign direct investments, and those are now more and more equity investments in the case of Vietnam. One of the largest companies in Vietnam, incidentally – I've just written about this because I've been mentioning that company for a long time – Vietnam dairy product is up 50 percent in U.S. dollar terms this year. It's one of the largest companies listed there. Secondly, I would look at India.

I don't think that stocks are that inexpensive, and I think that the country has numerous problems, but the corporate sector is relatively well around. And the country, in my opinion, can grow, I'd say, conservatively. Indians would disagree with my view, but it can grow at conservatively five-six percent. Indian optimists, they think it's more like eight percent per anum, but I have my reservations about that. And then, like always, I will invest and continue to invest in gold, platinum, silver, and in real estate – mostly in Asia.

But I was recently in Los Angeles and also, in the U.S., not every real estate is the same. So, you have, in the U.S. cities, where the downtown center used to be dilapidated like in Detroit or Los Angeles, and because of changes in society and people no longer having cars, they wish to live, actually, in downtown areas. And suddenly, you have a huge boom in these dilapidated areas where, say, a new hotel opens up or a new shop or a new restaurant. And that then draws a lot of other people around. And we have to see. The U.S. is a huge country, and young people might not want to live in the suburbs anymore.

It's like also in Europe. In the high-end areas, the young people don't feel comfortable. They want to live somewhere where they can go down with the elevator and walk into the next bar or whatever for whatever purpose to meet men or girls or both and so forth. So, it's a changing lifestyle.

Adrian Day: Frank?

Frank Holmes: I think the biggest thing I'll recommend to all of you – I saw a wonderful movie called *The Bridge of Lies* with Tom Hanks. And anyone that's American will feel great watching the movie. It's based on a true story and it's a fantastic movie. Spielberg was the director, and that's my real important recommendation.

Adrian Day: That's your investment recommendation?

Frank Holmes: It's my real –

Marc Faber: *The Bridge of Lies.*

Frank Holmes: *The Bridge of Lies.* As you know, as a gold fund manager, I've always advocated that people have a 10 percent weighting in gold and gold stocks and rebalance each year, and I think that gold stocks are down own standard deviation. If you look over a 12-month rolling basis, when they're ever down 35 percent, our gold funds – particular U.S. gold shares, U.S.VSP – it's off about 22 percent. So, it outperforms the gold equity ETFs of the index. And I think that this will be a bottom year for a lot of the gold mining companies as they write down and written off things and consolidated that any pop in the price of gold will have a huge impact on their performance.

The other one is near term. It's a fund that – near term is NEARX. Near-x. It's where I have a lot of my money for cash and it is our of 25,000 mutual funds in America, only 25 have been up for every year for 20 years in a row. So, that's two stock market crashes and that's two surges of interest rates.

This fund has always been positive. Touch wood it will continue that. And it's a stable, short-term, tax-free fund that uses a quant model for when to deploy cash.

Adrian Day: Is it drawn by Madoff?

Frank Holmes: No. Full transparency. And that's the biggest part – what Madoff didn't have. Transparency. So, I think from that end – and when you look at stocks, all of you, when you look at 10-year government bond at 206, everything in the world gets priced.

All infrastructure, all mining, all pipelines get priced off a 10-year government bond. And you can go and buy so many world-class companies in America and abroad with dividends over the 10-year government bond and growing. They're growing at three percent to eight percent a year. In fact, divid increases in the U.S. this year are up 15 percent, and the airlines industry, because they're making so much money, their divid increase – they have an 88 increase this year. So, there are opportunities in a low interest rate environment.

And if you look back in the past five years, growing dividend paying companies have far out-performed in the market.

Adrian Day: Yeah. Doug?

Doug Casey: Well, this is a global panel, and I think that as dangerous as the markets are at this point – after all, it's been a bond bull market for 30 – almost 35 years now. I hate to buy at the end of a bull market like that. The most important danger that you face is not an investment danger; it's a political danger. So, you should diversify your assets out of your home country. You should own real estate in a foreign country.

You should have a crib in a foreign country, no matter what a foreign country, and there's lots of good choices. So, that's number one. Diversify politically while it's possible, because we're having creeping foreign exchange controls here in the U.S. and as things get bad, the government always blames somebody else. Well, they're gonna blame rich people this time around. They're gonna blame foreigners.

Either way, it's gonna be harder and harder to transfer your cash out of the country. So, that's number one. And number two – especially at this time – you can't go wrong buying gold – especially gold in your own possession. And some silver, too, would be very good. So, that's very simple advice – diversify politically and make sure you have a lot of gold. And I'd have more than 10 percent, Frank. I think you're under-weighting it.

Adrian Day: Well, thank you very much. We have run out of time. Just to remind everybody, Dennis is speaking, I think at 1:30, and then later on this afternoon is Doug Casey followed by Marc Faber. I'd like to thank the panelists, but particularly thank them for being so well behaved.

Nick Hodge
"The Uranium Bull Cometh"

Moderator: Our next speaker is Nick Hodge. He's founder and president of the Outsider Club, become well known for his call it like you see it approach to money policy. The author of two bestselling books on energy investing, his insights have led to numerous appearances on television and at various outlets on the web. As an investment director of Early Advantage, Nick has led tens of thousands of investors to 10 triple-digit wins, and over 200 double-digit wins in the sector. Today he's going to talk about the uranium bull cometh, welcome back, Nick Hodge.

Nick Hodge: I actually very much like the pet space, too. I'm in the millennial group he was talking about and I don't have any kids either, but I have two dogs and there's a couple companies out there right now that I like pet space, one is Truepanion, it's a pet insurer, and there's also one called Aratana Therapeutics that trades under the ticker PETX and they're developing cancer therapies for canine lymphoma and feline lymphoma.

I tell you this because I'm a generalist and I heard him talking about the pet space, which I know a little bit about, and I just wanted to let you know that I look at all things, the pet space, the paper space, the timber space, the energy space, the water space, and when I see something that I really like, I hone in on it. And I see something I really like in the uranium space right now.

My name is Nick Hodge, my free newsletter is the Outsider Club. There's about 330,000 people that get that daily from myself and my other analysts. And as Gary said, my pay service is called Early Advantage. But today we're going to talk about why the uranium bull cometh. We're going to start from way up and look at the macro picture for uranium globally. I know Mickey Fulp did that yesterday, I apologize in advance if I'm a bit repetitive. Hopefully the audience has changed a bit, and hopefully I can drive home some of those points.

I'm also very contrary and I'm libertarian and so by nature I'm drawn to things that other people hate. And people hate uranium right now, the sector is down 87 percent in 5 years, as evidenced by an ETF called the Global X Uranium ETF that trades under the ticker URA and holds a basket of uranium producers and explorers.

As you can see there, it's lost 87 percent of its equity value in the past 5 years. Now, that's a hated sector by definition. I mean, that's a lot of lost value. The red line is the S&P, up 56 percent in the same time. Ouch. If you think gold is bad, gold is only down 73 percent in the past 5 years, as represented by GDX, a basket of miners. That same uranium ETF I just showed you is down much further than that. So far more hated than the yellow metal.

Why? Well, this tidal wave that hit in Fukushima, Japan, after the earthquake in March, 2011, we all know this. And because of headlines like this, Germany says after that Fukushima disaster that we're going to phase out all our nuclear plants by 2022. I say yeah right to that. So here's the truth of the matter, which stands starkly against what you would hear otherwise from other sources in the uranium sector, especially from those headlines like we just saw in Germany.

So the truth of the matter is this. The country that experienced the disaster is going back to nuclear power because it's safe and it's clean and no one died in that disaster and it's base load power. They've already restarted two nuclear reactors, they say that seven more are going to follow soon. And they say that 5 of their 43 reactors will be online by the end of January 2016.

So I view that as a psychological hurdle, if the country that experienced the disaster and the partial nuclear meltdown can get back to this, and you'll see the bottom bullet point there says they've pledge to have uranium as – or nuclear energy as 22 percent of their mix as far out as 2030, then why wouldn't everybody else turn to this?

Here's some more truth. There's still nine German reactors operating, despite that they say they're closing them down, because they can't. It's clean, base-load power, it's very expensive to decommission a nuclear power plant. They thought it was going to cost 34 billion to decommission their nukes and the price tag is already at 75 billion. I would argue that it's cheaper and safer and greener to keep the nuclear reactors running in Germany than it is to shut them down.

The truth of the matter is also this, there's more reactors under construction now than there were before the disaster. There are more reactors ordered or planned right now than there were before the disaster. And so I think that that incident is firmly behind us and the industry is so hated that of course, we could lose the remaining 15 percent of equity value, but I don't think that's going to happen.

There's some of those points in visual context or visual form, I stole this slide from Uranium Energy Corp, who has a booth here, just showing you there's more reactors under construction now than there were before, there's more reactors ordered or planned now than there were before, and there's fewer operable reactors, which means we really need to bring some online, which many countries are trying to do.

I'm going to run through some of those countries for you right now. This is Argentina. They want to build three nuclear reactors. They've committed $20 billion to do that, getting 2 from the Chinese and one from the Russians. The UAE wants nuclear, they've commissioned four from South Korea, who won the bid at a cost of $40 billion. Nigeria is getting a nuclear reactor, they're getting it from the Russians, 4 of them at a cost of $80 billion, that's a turkey contract where Russia will provide not only the reactor but the management and the fuel. Saudi Arabia, the king of oil, wants nuclear energy. They're tired of burning oil and run generators, they're – want clean, base-load power and they want to sell the oil to the West and to Europe. They say they're going to build 16 nuclear reactors over the next 2 decades. They've already put ink to paper with countries like Arriva in France and the Chinese and Kepco in South Korea, and that's the Korean electric power company.

India wants nuclear in a big, big way. That's a country of almost a billion people. They already have six nuclear reactors, but many of their people don’t even have access to flushable toilets, let alone electricity. In fact, Narendra right there won the last election, you know what his platform was? A toilet in every home, that's how he won the election. They need really base-load power in a huge way, so they already have 6, they've signed with Russia for 12 more at $3 billion a piece. Earlier this year they announced a deal with Cameco to supply some couple million pounds of uranium, which buoyed the sector earlier this year for about a month or so, and they've also announced the creation of a uranium strategic reserve.

This is the elephant, China, they already have 26, they're building 23, they want nearly 200 more. This is a recent headline from Bloomberg, Asia's $800 billion nuclear splurge to unlock uranium mother lode. I couldn't write a headline like that. Everybody gets a nuke. Turkey, six planned, four proposed. Starting construction in 2016, $42 billion. Belarus wants two, already started. Vietnam, four, starting construction in the next three years. Bangladesh, one under construction, two planned. Did you know Bangladesh had a nuclear reactor? *[Laughter]* Poland, two planned. Jordan, two planned. 24 billion, 10 billion. Where's the fuel going to come from?

China right now needs 8,100 tons of uranium annually. They only produce 1,500. France needs 9,230 tons. They produce zilch. South Korea doesn't produce any, they need 5,200 – or 5,022 tons. India. You see the US, let me make a point about this. We need – we have the largest operable nuclear fleet in the world, 99 operable reactors that consume 18,692 tons of uranium annually and we only produce 1,835. That's a worse situation than we were in ten years ago with being reliant on Middle Eastern oil, and wait till you see the countries we're dependent on.

All this to say a supply deficit looms. This is a Morningstar chart. They believe there's going to be a material supply deficit starting as early as 2017 and a cumulative deficit by 2020. Let me see if I can get this laser pointer to work. This yellow is new mines that need to come online, starting as early as right there.

How are we going to get that to happen? This chart is two years old, I'm sorry. I can tell you the more updated numbers. Kazakhstan is up from 33 percent to 41 percent. 41 percent of the market relying on a single country, that's insane. If you take out Canada, United States and Australia, the rest of the countries produce 71 percent. That means you're 71 percent, nearly three quarters reliant for electricity that produces 1 in 5 homes here, you're relying on countries like Malawi and China and Uzbekistan and Russia and Namibia and Niger. They're taking people hostage at uranium mines in Niger, you're going to rely on them for your lights? France does. That's stupid.

A big Morningstar report came out earlier this year saying that basically a material supply deficit is looming, which I just said, but I wanted to share with you some of their key takeaways. Obviously we need higher prices to spur additional mine development, because mine supply is going to have to make up for that gap, the secondary supply agreements with the decommissioning nuclear warheads from Russia has come to an end.

So we're going to have a 1,700-ton deficit in the next 5 years. And in order for new mines to come online, the price needs to be $75 a pound in 2015 terms, it sits at $36 today. So they say prices can start to rise as early as 2017 because utilities have to come in and refuel for the next nuclear fuel cycle, but that's really already starting now, earlier this year Exelon, which is the largest nuclear utility in the largest nuclear market on earth, North America, they came back into the market and buoyed the price a little bit early this year. But everyone else remains a little tepid, Southern, Duke, First. But they're going to have to come into the market soon and there's not that much uranium available, and when they do, it could be a great catalyst for higher uranium prices.

There's plenty of uranium in the ground, hundreds of millions of pounds, just not enough mines. We should invest in the companies that are going to build those. So Morningstar says demand for new reactors is going to rise almost half, 40 percent in the next 10 years. And that that will translate into 2.8 percent annual growth, and that might not sound like much, but when copper was growing at 2.8 percent annually, it was enough to drive copper up 336 percent. That's just to show you where uranium is today at $36 a pound, those words say what I just said.

So a 336 percent increase in the price of uranium would mean $156 a pound U. That's expensive. The last time uranium rose half that much from 2010 to 2011, comparable equities like Denison and Cameco and UEC, Uranium Energy Corp, and Laramide went up by a multiple of that. Because the miners, especially the juniors, are levered to the price of the underlying commodity. So if we can get a 336 percent rise, as opposed to a 60 percent rise, do the math.

All right, I'm going to riff on this slide for a little bit, it's my last one. What to look for. If you want juniors, you need to look for deposits, I think. Land is great, prospective land packages are great, it's fun to own ten of them, but I'd rather own one awesome, colossal, high-grade, shallow asset.

I also want people that have done it before to be running that. I don't want some managerial CEO to be running a prospect generator, I want someone who's sold a uranium asset, I want someone who's taken a uranium asset into production. The people are as important as the grades and the depth.

I look for robust economics. If it's a project that's not producing yet, we need to look for low, all-in sustaining costs, low capex costs or at least an avenue to get that capex paid for by a partner or potential buyout. We need to look at location, we don't want mines in Niger, we don't want mines in Malawi, we want mines in North America, and there's lots of good ones around. And we also want them to be high grade and relatively shallow, at least in my opinion. I can rattle off a couple companies that I've looked at and that are here, that fit some of these criteria.

Uranium Energy Corp, I had a great meeting with Scott Melbye earlier this – earlier today, actually, we talked for an hour. He fits all these criteria here, he and his company. They have proven deposits, they have robust economics, they do in-situ recovery. That's cheaper than conventional recovery. They have Amir Adnani at the head, who is one of *Fortune*'s 40 to watch under 40. He was Iranian born and got a uranium mine into production in south Texas. I imagine that's pretty difficult. And Scott used to head up Cameco North America and Uranium One, has sold uranium to the Chinese. Those are the kind of companies I like.

I like Fission Uranium. They're probably the best uranium discovery of the past quarter century up in the Athabasca, it sits just 50 meters below the surface and they fit holes grading nearly 30 percent uranium. To put that in context, we mine uranium in Africa that's less than half a percent. They've sold assets before, they've sold their Waterbury asset to Denison, the shareholders just voted down a potential takeover, actually, or a merger with Denison, and I think that's the best unmined uranium deposit in the world. The PEA came out recently, said they can produce for $14 a pound. So I think that's a robust asset and it's got some good leadership, especially the guy running the rigs, Ross McElroy, who was – won the PDAC award for prospector of the year last year, and why not, when you find a uranium deposit like that.

What is the symbol? It's FCU on the Toronto Stock Exchange or FCUUF over the counter. And then of course I like Denison, I like Cameco, the guys that have been around, Denison has the Wheeler River deposit, that's high grade. They also own a mill asset that generates some cash. That's DML in Canada, it's DNN in the United States. Across the hall there's CanAlaska. They own a ton of prospective land packages in Canada and elsewhere, you should go over there and talk to them, and also Energy Fuels is across the hall. They're producing right now not only conventionally but from in-situ deposits, in-situ recovery.

And so the companies I just mentioned are all primed, the – they've hit the primer bulb like four times, the economics are there, the deposits are there, we need to wait for the cycle to kick in, and it's going to happen, because the US utilities alone need to come back in and start buying for the next cycle. You have the litany of countries I listed off earlier that are coming online soon, building nuclear plants right now, and they've got to buy fuel for that. And generally nuclear is just being looked to more so than coal and even natural gas to some respect, despite how cheap it is, because it's a clean, green, base-load source of power.

Look, Japan was reliant on natural gas after Fukushima and they didn't like that so much. So I think the uranium bull cometh. I'm Nick Hodge, the website is OutsiderClub.com and if I could take just one second, there's a lovely lady outside in the hallway selling wine, it's very good wine, made by some of the best vintners around in northern California, and every 12 bottles they sell, someone gets a wheelchair that really, really needs it. So if you like wine, go taste it. Thank you.

Frank Holmes
"JETS: A Case Study On The Creation Of A Smart Beta ETF"

Moderator: Now I rushed up here and didn't bring with me the biography of Frank Holmes but I don't think I need to bring it up because he is an old friend of the New Orleans Investment Conference and his fund family is one of the pioneer investors in the gold field back in the '70s. And they were an important element of these conferences in the '70s and '80s and beyond.

So Frank Holmes today is going to speak on "JETS: A Case Study on the Creation of a smart beta ETF." Please welcome an old friend of the New Orleans conference Frank Holmes.

Frank Holmes: Thank you, Gary. Good morning, good morning, good morning. So today I'm going to walk you through an evolution that is taking place in the investment world. It's the creation of these ETFs. In the past five years they've grown 500 percent. In fact they're gathering $5 for every dollar that was going into mutual funds. So there is a big, big change. So we came up with our first what they call smart beta. And what smart beta means is rules-based.

So I sat down with all the top airlines analysts and said, "What do you look at to pick a stock? Why would you choose stock A or B in the airline industry?" And so I got a list of factors and I compiled them and then I started doing what's called data mining, and that's how the world has changed so quickly with data mining. And I started going back and looking at these factors and then looking at the – so the right balance of these factors.

And when you do this sort of quantum approach for rules discipline and the creation of a fund run around this it has to be adopting, and it has to be adjusting, and it has to do with rising interest rates or falling interest rates. It has to do with falling oil prices and rising oil prices. And it has to be able to outperform what index is out there. And the only other index was the New York Stock Exchange has a global airline index.

And since we're investing globally I thought it was appropriate to focus on global JETS, but also I created this product because I got so fed up with the cost and the gouging of flying. Have you all noticed this, just the grief we all have to go through? And I said, "Stop complaining. How do I make money with it?" They've got to be making lots of money, and I'm going to walk you through sort of this thought process that we did. And it's remarkable. It does adopt, it does adjust, it doesn't have massive turnover. But it does catch the most important factors that drive superior performance in a company.

So U.S. Global, we're a money manager based in San Antonio, Texas. You'll be able to determine with my accent that I'm a Tex-Can, I'm originally from Canada, I live in Texas and I say, "Ya'll come back, eh?"

So every day there are over 102,000 flights around the world. And by 2026 the forecast that aviation will contribute a trillion dollars to the global GDP. And commercial aviation represents – this is a stunning number: directly and indirectly 8.4 percent of all jobs in the U.S., of which most are higher-paying jobs, union-based jobs. Two million people fly every day in the U.S. Unless your plan was a small plane and there's bad weather, so they cancel those, the bigger jets, the 747s, they fly those. But however it creates a sort of cascading down that everyone gets jammed on their flights. So bad weather in Portland, if you have this experience, immediately change your flight, but make sure you just don't change the flight by the time it's the size of the aircraft.

New experience to share with you in flying: I have flown over 8 million miles on just American Airlines alone. So the worldwide 747 fleet has logged more than 48 billion miles; that's equivalent to over 101,000 trips to the moon and back. Barron's continue to recommend this, and they do this on a screen using FactSet as a model of which stocks are the cheapest cash flow multiples with the highest returns on invested capital. And the airlines industry shows up on a regular basis of being so inexpensive.

Now there used to be an ETF in this space, and I'm going to try to walk you through with it. First of all, their name, stock symbol was FAA. Who would ever have an ETF in the name of a government agency? So I think that was troubling times. And also the industry was going through bankruptcies, and there was lots of turmoil in the industry, and historically whenever an industry's gone through lots of reconstruction and bankruptcies it's the best time to buy those stocks. And they shut it down just at the time that the industries start to take off.

Now this will give you an idea – if you can remember all these airlines and how they've consolidated, that in this particular construction of this ETF, American Airlines, Delta, United and Southwest, are the dominant in revenue and dominant in cash flow for the industry.

Now what they did during this period of going through bankruptcy is they took away inches from your seats. And now only did they do that, they took away seats in the planes that were in business class and they repositioned so they got more seats, they changed the bathrooms, and actually some planes had three; they took them away and gave you two.
And the reason for this is to get more revenue per flight.

You also saw during this period it started improving the free cash flow, before oil fell. So the dividend yield on these stocks have been growing at 88 percent, whereas trucks and trains are 14 percent. And when you take a look, on a relative basis, price to earnings and price to book they're still, like I mentioned earlier, the least expensive in the transport sector. And during this period of bankruptcy and turmoil the debts started to climb and they were able to roll over their debt, especially after 2008, at substantially more attractive rates.

But the global ancillary revenue, the stuff that really irritates you that they charge you for one bag and then two bags, then they charge you $25 to change your ticket – now it's $200 to change your ticket, all these things where if you add them up that before the price of oil fell the revenue globally went from $2.4 billion in 2007 to $31 billion. So a big part of the turn in this industry in the consolidation was taking place before oil fell. Now they're having record quarters of $5 billion in earnings a quarter.

Ancillary revenue went up 12 times. So I mentioned to you earlier they took away four inches from your seat, then they give it back to you, and it's called premium seating. And that's an extra

$150. So it's remarkable what they did to survive during those bankruptcy days. And they've been investing intelligently in some of the best parts in technology, in particular for lost bags. Lost bags saved the industry, by better technology, $18 billion.
If the weather is bad, you're frustrated. But if they lose your bag you blame them. You can't blame Mother Nature.

And so what is the best part of the industry is they did plow hundreds of millions of dollars into technology and so the incidence of lost baggage dropped by 60 percent. And that's important for anyone, especially if you're a road warrior like I am: tomorrow I fly to Peru and then I'm there for four days then I fly to Australia. So lost baggage is a real pain.

Now the other thing that's interesting is how mobile apps have changed dramatically. In the only six years the iPad has been around, and now with all the phones and the iPhones and every other Android you were able to put all your airlines and your tickets and your passwords and everything else under this system. So more and more people are using smart phones to travel with.

There's 104,000 pilots in the United States. And there's a pilot shortage. And that's another reason that's very significant is there was a tragic accident in Buffalo and the family went and pushed Congress to change the laws. And do you remember Malcolm Gladwell's book, *10,000 Hours*, the significance of it? Well they found that those incidences where they were having problems of pilots where they did not have enough commercial hours flying. So they raised the bar and the standard, but then they found a problem and said the FAA used to force pilots to return, retire at 60. So they were going to have basically they have to cancel 18,000 flights a day of retiring. So now they found that they're healthier, which we all are, and they're more sensitive and aware of our health, pilots now retirement was pushed to 65. And still this idea that you have to have at least 3,500 miles of flying experience, of hours flying was a game changer.

But at the beginning they thought they would get all these young pilots from the Air Force. The only problem now with the Air Force is that 60 percent of the kids fly drones. They don't fly planes. So they have actually an acute shortage of pilots. And in Korea, in South Korea and Japan they have elevated the age to 67. So 34 percent of current pilots are retiring by 2021.

But what's positive about the industry besides trading at cheap prices on earnings and cash flow is this expansion of the global middle class. By 2009 it was estimated 1.8 billion; by 2020 3.2 billion. And I'd share with you in China it's so important to recognize that America has about 145 million workers. That's 10 percent of the population of China. That ten percent of the workers of China are making over $100,000 a year. So that number is so significant for global travel and it's growing. And we're seeing signs between the big outlet mall between San Antonio, where I live, and Austin, Texas, as signs are now in Chines for credit cards, for tourism. Spain, five years ago, changed the rules that if you wanted to go to Europe for the Chinese you had to go through an embassy. You can go through Germany, France, Italy, Belgium, etc. The Spaniards made it the fastest process to get your trip to Europe out of China. Luxury goods sales jumped 25 percent; Paris minus two. So this idea of catering to this and this rise of the middle class is significant for this industry.

So there's tremendous opportunities in emerging markets. And I mentioned this on the tourism but airlines like Turkish Air are now – they fly to 150 destinations and they dominate all through Europe. And you can fly from Houston, L.A., Seattle, Washington, New York and you can fly business class what it costs you on United economy to fly Turkish Air. They're all new planes.

Boeing has a seven-year production backlog and they continue to get great contracts from the Chinese.

Now when we went to create this – this is the quant model approach – about to talk of the analyst I mentioned earlier, is that when you create what they call the rules discipline smart beta it's important that you look, not just – you don't pick 50 stocks and then equally weight them because if you do that you don't get better performance. Lots of evidence by professors and researchers have shown that if you take the S&P500 and you equally weight it 500 names and you just equally weight them and you rebalance each quarter you'll outperform market cap S&P500. You'll outperform it enough, but after taxes you'll be a lost trade. However, if you do put that into a retirement there are benefits from equally weighting.

So there's all this tremendous amount of research that has gone into, and engineering to understand capital markets and how things respond and flow. And what we found here is that we created this called Strata System where we have four stocks that are basically 48 percent off this index. And that's United, American and Southwest and Delta. And with that we have Boeing as a layer underneath it, and then we have – and you can see at the bottom the foreign names are 20 names at one percent each. And this idea of rebalancing once a quarter catches the volatility but lowers the risk from currency swings.

The models created are under Prado's Law: 80 percent of the holdings are American; 20 percent are foreign. Twenty percent of the names are only one percent. And as I mentioned earlier you get more names are global but they're capped at one percent so therefore you lower your currency volatility risk. And with that we went back up to 20 years in this sort of detailed analysis to show how robust it is. And I'm so thrilled because since May of this year it's outperformed after fees the index.

Now coming back to this idea of why ETFs are so significant in the growth of assets. When you have a small account – so our average gold fund investor is $1,500. We have the most direct investors in our gold fund. To have a transfer agency and do all the reporting, the tax reporting, give you your monthly statements, your quarterly statements, etc. and a tremendous rise of regulatory costs it costs 100 basis points just to have that account for $1,500. It costs more than $15 for that account.

Then you add on, if you want to be on Schwab and you want to buy in Schwab or TD Waterhouse, that's where you like to trade stocks, etc. or buy it as a mutual fund, if you don't want to have a fee for that charge with Schwab we have to pay 40 basis points. So that gets layers onto the fund. So now you're at 140 basis points before any money management.

So money management fees are 100 basis points, from 50 to 100 basis points, you're running at almost 200 basis points, 240 basis points to have a mutual fund. But when you come across with an ETF you don't have the TA fee; it doesn't exist. So automatically you're 100 basis points ahead for a small investor. And you don't have some of these other cost structures so you're able to have a product that is a lot cheaper to be listed.

And the other thing that's happened with FATCA and all these other rules of money laundering, which used to be – they originally came out with the Patriot Act to go after drug lords and now Al Qaeda has now been expanded to go after every citizen. And the cost of that becomes extremely expensive. And part of that process that prohibited outsiders from buying mutual funds in America. So even if you're American, you moved – in the military to Frankfurt it becomes extremely difficult to own your fund in America with all these laws and rules.

However, you could all buy ETFs. They trade on the New York Stock Exchange or NASDAQ, and that's how the formation of capital has morphed. It's the cost-competitiveness, even though you have flash crashes, even though in a big rising day the underlying stocks in that ETF would trade at a premium; in a big following day they traded at discounts. That doesn't happen with active mutual funds. You do get the best fair value pricing that's out there. That doesn't matter. People want the instant liquidity and it's the ease of being able to trade on your mobile like flying an airplane.

And that's how capital markets are morphing and changing. There's different sets of rules that are necessary; liquidity is very important. So the idea of junior gold mining stocks, etc. it becomes next to impossible for them to raise capital. And we see that if they're midcap and they're in the GDXJ then automatically they can soar or they can collapse by just the fund flows. And so some of these little junior stocks, which I know many people that own, is they'll be whipsawed all over, has nothing to do with the discovery, nothing. Has nothing to do with management. Has to do with money going into or out of that ETF where that ETF owns a big position of that stock. That's how this capital continues to evolve and change.

So I feel the mutual fund business is being Uberized. If you think of it as a product and you had a taxicab business, it's going to continue to grow that way. In the small cap, the very microcap mining space, it's going to have to reinvent the formation of capital. It will sift out that the great geologist, great properties, they're the only ones that are going to be able to survive going forward. This is where the future is.

And the idea of this concept of what they call smart beta, which really is rules-based investing: "I will only buy stocks if they have these characteristics". So with that what do we look at? Well, the index weighting is the top four domestic names I mentioned. Then we have the five domestic names that would be Jet Blue – they would show up in there, Virgin Atlantic, etc. As long as they have the highest cash flow returns on invested capital they're the leaders in the pack in growth and sales per share. And then we have the next four domestic airline industries. So that's where Boeing would show up. And then I mentioned earlier top 20 foreign industry names.

What's interesting is that when you leave America you can get airports. Airports are gatekeepers like toll bridges. So in Mexico some of the best places for destinations for tourism are public companies – this is New York – but they're airports. Beijing has an airport. Thailand Bangkok is a public company; it's an airport. So you can go and be able to participate as an infrastructure play and McCrory has one of their infrastructure and has airline airports in it and it jumped to 80 percent last year, to give you an idea of the significance of this asset class.

So smart beta value drivers. So what are they? Passenger load. Sales growth, as I mentioned earlier, cash flow and operating income. But they're really consumed with how many people are in that plane each time it takes off. So it's called yield management: the more revenue they can get per seat and the more seats they can get into that space of a plane the more dollar value they have for that jet to fly. And with that you find that the airlines, they all seem to use the same what's called yield management algorithms that goose up the prices as you get closer.

And basically I'll give you the simple model: soon as they sell two seat for $100 the next two are $110, the next two $120, next two seats $130. And so as soon as go over 80 percent of the flight's full then the flight starts jumping $200 a seat. And they maximize the timelines. So the idea of data management has truly evolved in both this business and hotels.

So industry diversification is important with this particular ETF and its global diversification give it that appeal for global growth, and this is a visual, the eligible airlines from around the world that we sift and sort for only 33 names; 20 of them are foreign at one percent each, and the remaining sum are the 13 are in America.

So if you're interested in looking at the industry and you fly often and you want to try to get back some of your money for the cost they're charging you I think it's quite interesting to take a look at JETS EFT. You could also do cover writing on it. That's another factor that amazed me: you can't do it in mutual fund, that you can create a product in three weeks. The volume was so great and the liquidity was so great in this particular ETF that options were trading on it.

The volatility is high like a gold stock. It's a non-event plus or minus 35 percent over any rolling 12-month period. The factors that drive that are predominantly the price of oil because there's inverse relationship in the capital markets. So my time is up. I want to thank you all and hopefully safe flying and I'll be going on later on this morning to talk about gold in some of the other panels. Thank you.

Tommy Humphreys
"How To Level The Playing Field For Junior Mining Investors"

Well, I think we're all interested in an equal chance to make money, if not get an edge, so our next speaker is very appropriate to that goal. It's Mr. Tommy Humphreys, and the speech is "How to Level the Playing Field for Junior Mining Investors." Tommy Humphreys is the Vancouver, Canada-based founder and editor of CEO.CA, a leading research service and messaging application for junior resource investors. CEO.CA interviews hundreds of junior resource companies each year and conducts site visits on behalf of subscribers. You can download the CEO.CA app for Android and iOS. So, Tommy, please come forward.

Thank you. It's great to have the little app plug, and I'm honored to be here. I'm Tommy Humphreys, the founder of CEO.CA and based in Vancouver. CEO.CA is a community and a publication dedicated to the junior sector. Some of you might be familiar with that, and to the uninitiated, I hope you take a visit and learn a bit about what we're doing.

It's an honor to be at the New Orleans Investment Conference. I've attended before. This is my first time speaking, and I would like to thank Brien Lundin for having me and Tracy, for organizing, and to all the attendees who so are often more informed than the speakers.

So I wanna give a bit of an introduction on myself and the Canadian market before getting into some stock picks. I do have two very speculative stock ideas and three more blue-chip juniors to discuss, although blue chip and junior is a bit of a oxymoron. I'm 30 years old next week, and I've been trading stocks since the Internet boom of the late '90s. I'm not gonna tell you I was smart enough to make money in that era. I was caddie and a referee of hockey games as a kid, and I learned quickly how to put good money after bad buying tech stocks.

And as a kid, I was obsessed with all things to do with the Web. I remember when the CD burners came out, I absolutely had a flip out and chat apps, in particular. I was obsessed with talking about stocks and wrestling. Not much has changed. I still spend 18 hours a day talking about stocks. And unfortunately, I'm not a wrestling fan as much anymore.

I had a huge benefit as a kid to have a father in the investment business. My dad, along with four uncles, were all stockbrokers. This gave me the vocabulary and connections to have a chance in the market. My mom was actually a broker, too, earlier in her career, but she quit to raise a family. As my siblings and I got older, my mom bravely sprang into action and launched a career as a writer, radio, and TV personality. My Internet chat addiction, capital markets dad, and media mom helps me a lot in my job as the CEO.CA editor, today.

Several thousand passionate investors and mining and energy entrepreneurs are on the CEO.CA app every day sharing information about mostly junior stocks. I'm confident it's the most useful new information service through the Canadian venture market in the last 20 years, and, easily, it's most addictive. It was hard enough for me to turn the phone off to write the speech, and I'm here now and miss it a little bit.

But in addition to running the chat app, I'm interviewing fund managers and CEOs constantly, and so are a few other compatriots at CEO.CA. I do this for our publication and sometimes in *Globe and Mail* and *Financial Post*. But really, it's about, for me, I love to meet the people and get a sense for how they're gonna move these stories forward, and you can subscribe. Everything is free on CEO.CA if you're interested.

So I wanna just chat a bit about the Canadian venture market. It's traditionally been the best source of funding for mineral exploration. As you know probably in the audience – it's a sophisticated crowd – mining companies outsource the risk of finding mines to juniors, and obviously, exploration is much more science, and mining is much more a engineering exercise. But the TSX Venture market, in my opinion, and the Canadian Securities Exchange, the CSE, are wonderful markets. And crowdfunding has become a very popular mean these days, but I don't think crowdfunding is as good as the Canadian venture market.

I don't wanna over simplify it, but the venture market in Canada is home to hope-and-dream companies, not unlike those in Silicon Valley. But in Silicon Valley, they're hoarded among private investors and venture capitalists. And in Canada, they're public, and everybody has a chance all around the world. The Canadian venture exchanges are not like the pink sheets in the U.S.A. All Canadian public companies file financial statements and all material information on http://cdars.com, which makes these companies, in my opinion, incredibly transparent to all investors.

These penny stocks are also highly speculative and should be treated as high-risk venture capital investments. My unqualified opinion is no investor should have more than ten percent of their wealth in this sector, and that ten percent should be spread out among a basket of positions. And like technology venture capital, returns in the sector are dominated by power loss. I don't know which one is gonna work, sometimes. Sometimes, it's the one you least expect. But if you're betting the whole farm on one story, watch out. It'll hurt.

The TSX Venture is better than crowdfunding because it offers liquidity to investors Monday to Friday. You can actually sell if you don't like what management is doing, and these companies are traditionally funded by institutions who can't come in in the open market. The retail investor, like you and I, we set the price in the market, and the institutional investors are funding the companies privately. So what that means is sometimes you have situations where an institution, they participate in a private placement at 20 cents, and small trades take place when the CEO is on vacation or when the markets quiet at a fraction of that cost. So I think retail investors can do well in this space, picking up small positions and being nimble around the institutional players.

The market price, Monday to Friday, gives a very sobering assessment to the CEOs in the sector. Private sector valuations have never been higher, and public markets have arguably never been lower. But I think that the public space is much better because of the CDAR and the transparency, and the prices are cheap, so…

Obviously, a TSX Venture exchange is heavily weighted to commodities, and, as a result, the last 4 years have been a disaster, and the sector is down probably 90 percent. As a result, I think there is peak pessimism in this sector and that there are a lot of opportunities because very few people are paying attention to it.

Small markets and small stocks also give investors an opportunity to have alpha. I don't think I can add much value on blue-chip names and fixed-income securities, but we can get to know these small mining and energy companies better than the street by working hard, doing our own work.

There are challenges with the market. It's $250,000.00 to $500,000.00 a year to run a public company, just the privilege of being public. And when the market sucks like now, that's expensive cost in dilution.

Another major issue with the system is there are shell packagers and company creators that are flogging the flavor of the month and trying to take public what's hot today. And you'll find that 90 percent of the – well, the status irrelevant, but the bad actors and the bad companies are the ones that have the biggest promotion budgets, and they're the ones you hear about the most. And so they really cloud the space with, I think, bad information, whereas the solid teams, I think, are flying under the radar.

A few important lessons I have learned over this young career in this space I wanna share with you, and the first is really obvious, and it's just to be skeptical of everything, including the promoters and especially the speakers at the conferences and the analysts. You know the old Goldman Sachs saying, "No conflict, no interest." Well, that's especially true in this sector, and there's nobody on a message board talking about a junior stock that doesn't have a conflict. And there's nobody in a conference talking about a stock that doesn't either.

So this is a libertarian-bent conference, and I don't need to tell you probably, but you really have to fight for yourself and be skeptical of everything because this space is just so easy to be drawn to people with conviction. And when you enter in this business, you see people with the highest conviction. And it makes so much, and it's easy to be gravitated towards them. But I think that the wiser people are full of doubts, and so just be very wary about what you're hearing about at the shows. And obviously, you gotta fend for yourself.

One more small lesson before I get into some of the stocks is I was traveling in the Democratic Republic of Congo in early 2014, and my mate in the jeep was a guy named Sam Riggall who was a Rio Tinto executive before joining Robert Friedland's team at Ivanhoe Mines. And he told me a story which was somewhat profound and also very simple in that his first day on the job as an executive at Rio Tinto, and he was number two to the CEO, and he said that he was taken and sat down and told a story.

And that story was – do you know those double-decker buses in London, the red ones? Well, mining investors and executives are the little boy on the second deck driving the wheel, and the person who's really driving downstairs is the commodity price. And no forecasters have any clue where commodity prices are headed. So the best we can do is pick sincere management teams and good assets and people who are working hard, and a time like today, you can have some confidence that your value is there because you're obviously paying, sometimes, 10 or 20 percent of the valuations of 3 or 4 years ago. But I don't have any answers on commodity stocks – or commodity prices.

So another point was when you hear about a security in this space, and you should never rush in and buy your entire position on one day. They're so volatile, and you need to have a little bit of extra ammo if a share is cratering so you can average down or at least be in a position to. You also wanna buy the stock not when you hear about from me on the stage or somebody with charisma and chutzpah.

You wanna buy it when the CEO is on vacation and sell it when he's telling the story seven days a week. So, obviously, playing things like tax loss, selling in the Christmas season, and the summer doldrums are nice time to add to your positions. But don't jump out of bed and buy your whole position in one day. That's been my experience.

So the bad information, the misinformation that's out there, I'm trying to address this and satisfy my own need as a speculator in this sector through our app, which is called CEO.CA in iTunes and Google Play. It's the first real-time messaging application built for junior resource investors. And because we're building it in 2015, not 1995, we've got all the bells and whistles of tablet-friendly, mobile-friendly, push alerts, e-mail subscriptions.

And I think we're building a really cool and useful community. We like to call it "the investment conference in your pocket," but several thousand people are using it every day, and I'm seeing it grow. It's only launched in January 1st of this year, but there's a fantastic community of people that are making it credible. Like, one of them is myself, and I work very hard at that. But there is mining engineers, geologists, promoters, brokers, newsletter writers, and retail investors alike having a discussion of mining and energy news 24 hours a day but particularly during North American market hours.

The other thing that's useful about it is I've got a subscription from SEDI, Canada's insider trade reporting system, that every night at midnight that Canada's insider trades are reported to our app. So if you subscribe to a company, say, Brien Lundin Gold, you would get an e-mail or a notification in your text message tray when a CEO is buying the stock or selling it and other insider trades are taking place.

So you've got a combination of community chat, which is gossip, and insider trades in the streams of our app, and I think that that gives people a chance to know more. And there's some very smart people in the room. Not all the information is great, but there's usually some nuggets every day, and I would really stress, as I said earlier, you have to be "buyer beware" with all information in the market, and it's no different on CEO.CA. Be skeptical and verify everything independently, but you will find and learn and engage and interact and meet people there.

So every day, we listen to the users, and we're iterating and trying to build a better product. And I am about to turn 30 next week, and I'm planning to do this for another 20 years, so please join us early on and watch. And I look forward to hearing from you in the app.

I'd like to talk about a few of the companies in the CEO.CA stable. These are companies that I own and, some of 'em, done business with in the past. We sell advertising and make corporate videos sometimes, and so I just wanna be forewarned that I'm very biased.

I'm gonna start with the two most speculative stocks that I'm interested in, right now. And the first just came to me because you know these stock contest apps or games where – bet a stock against your friend? Well, you can't win buying something blue chip. John Kaiser taught me, "You need to pick a penny dreadful and take a flyer on it, and put up your money and pray," are his quote.

So I wanna tell you about a 1.5-cent stock that's broke, and it's kinda screwed up. It's called Northern Uranium – UNO. I think they have a fantastic uranium property in Northern Manitoba. It's got high-grade boulders at surface and great smoke for uranium discovery and an absolutely piddly market cap. The CEO is a sincere, solid guy, and Chuck Fipke, who's a Canadian diamond mining legend, keeps funding it, but they never have more than a couple month's cash in the bank.

I don't know if the share structure is gonna survive without a rollback, but it's so cheap. And I think they have potential to find something great, and it's just if you wanted to have an absolute flyer, that would be one to consider. Definitely not one for Grandma's retirement money or anything too serious.

The next story is another very speculative name. The speculative ones I think you should watch. Obviously, all the juniors are speculative, but Royce Resources is this company. Its symbol is ROY. It's not trading today. It will be, probably, in two or three weeks – conflicted, as two of my very good friends are involved and insiders and put it together.

In the summer, we took a couple of vacations together – weekends away, and this young millennial CEO, or the new CEO of Royce, is a guy named Brian Paes-Braga. He'll be here tomorrow. He's just the most enthusiastic and positive guy I've ever met in this space, and I think he has a huge potential as a promoter.

And he's obsessed with lithium, and he was able to acquire some claims around North America's only producing lithium brine mine. And they financed a company with serious help from Frank Giustra, who's a resource tycoon, a 57-year-old that's done hundreds of these companies, and I like what they've done with the price. It's a $3.5 million market cap at launch and a couple million bucks in the bank.

And I think it's gonna do well as a story stock. I think they need to put more meat on the bone, and I think there's a good chance that they can promote it and maybe acquire other assets, and the asset they have is interesting. So it's a story stock and a speculative one, but I think it's priced well and just, anecdotally, something that I like sentiment-wise.

Like my Web developers are kids like me, and they've never owned a mining share, but they're very interested in this battery movement. And when I told them about lithium and graphite and cobalt, the three inputs for batteries, they got very excited about this. The only stock that they own is Tesla. And what these securities need is as broader audience.

So I like Royce, which it's going to be renamed something to do with lithium – Lithium X or something like that. It's not public. I don't know yet, but I think it's gotta chance as a story stock – obviously, very speculative.

The other – and now, I wanna talk about some more significant assets – is NexGen Energy, and its symbol is NXE. I was active in the market on Monday buying this. I knew the company when it was private, and I've been a shareholder before they made their discovery. But they fluked out, and they have found a huge high-grade uranium resource in Athabasca Basin, Saskatchewan. It's immediately adjacent to Fission's Triple R project.

I like Arrow better because it's simple basement-hosted rock. An analyst, a hedge fund manager that I interviewed yesterday and published an interview this morning, said he had done a hand-drawn model that took him several weeks to complete. And he says there's 200 million pounds of uranium and in spitting distance of being a lot bigger, and I think it's valued at less than a $1.00 per pound in the ground if you believe there's 200 million pounds there.

The last take-outs in the uranium space were $8.00 to $11.00 per pound. So there's a lot of leverage. It's a discovery stock, but Warren Irwin, the hedge fund manager I interviewed, he went on the record – first interview in ten years – talking about it. And I think it is probably the best discovery stock on the Canadian market, right now, and it hasn't had a parabolic move yet. So if you wanted to learn more about…

I wanna talk about NovaCopper for a second, here. They're an exhibitor at the conference. They control the Ambler Mining District in Alaska, and this is a fantastic copper, zinc, VMS project that's a district. They've got the Ambler deposit, which is significant in its own right and the Bornite deposit 25 kilometers away. They have incredible shareholders, state partners, First Nations partners.

It's a longer-term story, but it's incredibly cheap – roughly, $40 million market cap, right now, or $40 million enterprise value. And I think it's gonna been the biggest copper stock of the next cycle, so that's a longer-term play. The CEO, Rick Van Nieuwenhuyse, is here, and I really encourage you guys to get to know him because he's incredibly sincere and plays a long game and doesn't do 50 of these juniors.

The shareholders registry in this company is incredible. I'd love to see them drill and be more active, but they're not being paid for it today. But that's a long-term story you should know about, and it's one that I own and have been buying recently.

The last company is Sabina Gold & Silver, and it's another exhibitor here. As a Canadian, I'm proud of this stock, and I'm proud to promote it. They've got a incredible project in Nunavut that's got over 5.3 million ounces of measured indicated gold that's greater than 6 grams per ton. It's very large. It's very high grade.

It's in Northern Canada, but they've published two feasibility studies, which I think address the remote concerns. It's had over $500 million or roughly $500 million invested in it, had a market cap of $1 billion in 2011, and you can pick it up for about 10 percent of that that, now. The stock's had a move in the last month, but I think has a long way to go.

There's only ten quality stories for gold majors to own and, in my opinion, to replenish their portfolios, and these high-quality gold developers, like Sabina, which are high grade, large scale, and in an excellent jurisdiction, I think, are obvious takeout candidates. The new Sabina CEO, Bruce McLeod, is here. He's active in the market. I get 'cause, in my app, I get the insider trade alerts. He's buying the stock in the market in the last few days. I really love that story as a long-term play on gold, and Bruce is here and somebody you should meet – Sabina Gold & Silver – SBB. Both Sabina and NovaCopper trade on the big board. They're larger, more credible companies. NextGen, I think, is heading that way.

So I just wanna encourage everybody, again, to please try the CEO.CA app on your smartphone, and visit https://chat.ceo.ca on your Web bar, and I'm there to take questions almost 16 or 18 hours a day. Just to conclude, I want you guys to be skeptical, and bet where you can afford to lose in this space. But I do think our best time's ahead of us, and please join CEO.CA, and I'll be around the show for the new few days.

And actually, we'll be doing a tour tomorrow morning of some of the exhibitors at 9:30 if anybody would like to come. But thanks very much for having me, and it's a honor to be here. Appreciate your time. Thank you.

Thank you.

Douglas Kass
"Apocalypse Now?"

Moderator: Our next speaker is Douglas Kass. Doug is the president of Seabreeze Partners Management, Inc. and Seabreeze manages a hedge fund and individual managed accounts. He has lectured at Harvard University Business School, Yale University School of Management, Northwestern's Kellogg School of Management and at Florida Atlantic University. His very important book — and I can strongly recommend it — is *Doug Kass on the Market: a Life on the Street*. And this we released by the very distinguished publishing house, John Wily last year.

Since 2003 Doug has served as a guest host on CNBC's Squawk Box. Over the years he has appeared frequently on "Fast Money", "Street Times", and on Jim Kramer's "Mad Money". Doug's speech title this morning leaves no uncertainty or questioning. His title is: "Apocalypse Now". Doug?

All of a sudden everyone's sneaking up on me from that side.

Douglas Kass: Paranoia – perhaps the subject of this conference.

[Off mic conversation]

This stinks: my son went to Tulane – trust me, I know the French Quarter. I thought I was going to have a great time. I lecture in Bob Schiller's course at Yale School of Management, both undergraduate and business school. So recently I figured I'd take the shortcut and use my lecture for the speech. Then I had – where's Laura Stein, raise your hand – where is she?

Laura Stein: Right here.

Douglas Kass: Oh hi, sweetheart. So then I had dinner with Laura and she told me about this conference and I attended a couple meetings. I had breakfast with Newmarket Gold, all these resource companies. And I realized that lecture I gave at Yale and I was going to give here is totally irrelevant.

So instead of going to the French Quarter last night, after I had a really great dinner with Laura, thank you very much – and she paid, which was cool – I never had a woman pay for me – I ripped up the speech, didn't go to the French Quarter with Marc Faber, and wrote the speech, probably one o'clock, two o'clock in the morning – literally just wrote it. And it's not going to be what I expected to say but it is relevant to this conference.

So apropos to Halloween my brief, 30-minute talk is going to take a bunch of strange and unexpected turns. It's going to be split into a variety of topics, starting with my rendition of "Take Me Out to the Ballgame", where I will be using baseball as a metaphor, basically, for the markets. These are some of the things that Laura and I discussed over dinner.

Then I'm going to turn and discuss our conference's three horsemen of the market apocalypse. I will then move back to baseball, after all it's World Series time. I was watching the Mets win last night over KC, and talk about some lessons that gold investors might learn from my cousin, Sandy Koufax, who of course was a hall of fame pitcher for the Los Angeles Dodgers.

Then I'll ask the foremost important questions, not to be confused with the questions that are asked at my family's Passover Seder dinner. I'll then discuss something you'll all enjoy, the market's Orwellian backdrop today, specifically Big Brother, the quants, and Big Father – I'll have a lot to say about the Big Father, the business media – not much of it being positive.

Next I'll have a discussion of the growing chasm between financial asset prices and the real economy, which has continued to widen. My remarks are going to be the polar opposite of Peter's wonderful remarks, and Dennis Gartman, my old friend. Then I will discuss, in all likelihood, why the domestic economy will remain subpar in terms of growth. And then I'll end, finally, with the top ten reasons why the U.S. stock market is probably a better short today than it was at the May high.

To start with, it is a very rare morning indeed that I give a speech in a conference like this in which I am not the most skeptical, embarrassed commentator in the room. And over the last two or three days I'm surrounded by a denizen of gold bugs, libertarians, hard dollar investors who find comfort, not like myself, in finding the next big stock equity short, but in finding the most obscure and leveraged Canadian junior gold mining company that has the potential to rise tenfold in price.

Now I know it's Halloween today and I guess it makes sense because I can see this morning all the monsters and golden goblins in the audience that have assembled. I for one am going to be a Rollup for Halloween tonight, or perhaps I'll come as Prince Valiant, as in Valiant Pharmaceuticals. But I'll have a little more on rollups in a few minutes.

This is World Series time and I'm a baseball aficionado. Maybe being a Koufax and having a cousin named Sandy Koufax does it to one. So when I think about some of the conference participants such as Doug Kassey, Marc Faber, Peter Schiff, to me they resemble Tinkers to Evers to Chance. Does anyone know who they are? They're the famous Chicago Cubs double play combination at the turn of the last century. But Casey's, Faber's and Schiff's uniforms are gold on gold – not the Chicago Cubs uniform, which is blue on white.

Back in the early 1900s when this double play duo was the rage of major league baseball a New York reporter by the name of Franklin Pierce Adams wrote a poem on the way to a game in the polo grounds entitled, "Baseball's Sad Lexicon" which was published in the Always in Good Humor column in the New York evening mail. The power of the poem and Adams' immortalizing words turned a trio of relatively modest ballplayers into hall of famers, and into the enduring icons of the Cub's last world championship.

The double play team known as the Three Horsemen of the Apocalypse of the National League of 1906 to 1910 led the Cubs during those five seasons to 530 winning games, 4 pennants, 2 consecutive World Series in I believe 1907 and 1908. While the three Cub infielders were good hitters, especially in the dead-ball era, it was in the field as thieving accessories to those meal-ticket pitchers where they made their mark and earned their legend.

In his poem Adams immortalized these three muses of the Chicago Cubs infield. Three thorns were eternally vexed, the author's beloved New York Giants. It seems appropriate to immortalize three others who have already spoken at this conference: Casey, Schiff and Faber, our three horsemen of the economic and market apocalypse, by using Adams' brief, 50-word poem as a template. This is especially appropriate since we're in the middle of this year's edition of the World Series of major league baseball.

Now while the Cubs, once again, not surprisingly, suffered a terrible defeat, I now will modify Adams' poem, "Baseball's Sad Lexicon" today in order to bring it up to date, make it relevant to the theme of the talks I've heard in the conference. And here it goes.

I call the "The Market's Sad Lexicon".

These are the saddest of possible words:
"Tinkers Evers to Chance".
Trio of bear cubs, and fleeter than birds:
Casey and Faber and Schiff.
Ruthlessly pricking our gonfalon bubble.
Making a Giant hit into double –
Words that are heavy with nothing but trouble:
"Casey to Faber to Schiff".

Let me start by observing that this conference reminds me of the great country western music title: "She's got the gold mine, and I got the shaft". Now I've made a career in finding the next equity bubble; many of you have made a career and made your bones in finding the next big thing in Canadian gold mining. I try to fire fast balls at the stocks of Berkshire Hathaway, Tesla, Netflix, while many in this conference fire fast balls at emerging market debt and the U.S. dollar.

In actuality I've been a bear on gold since 2011 and I've debated by cautious view numerous occasions on precious metals on CNBC with Peter Schiff. You just have to go to YouTube. We have some very volatile debates. But recently, actually in the last two months, I made an about face on gold as an obvious response to today's central banking tomfoolery – I suppose you can say on gold. To paraphrase Mae West: "I used to be Snow White, but I recently drifted."

Regardless, my cousin, Sandy Koufax, would be proud of Schiff, Kassey and Faber. They have stuck it out. Yes, the last four years have been rough on the precious metal, as I mentioned to you: you've taken the shaft. But let's recall that my cousin, Sandy Koufax, he started out as a pretty wild pitcher. He had little control at the start of his career in the mid-'50s. But by 1961 it all changed four or five years later.

It was in the final four seasons, from 1962 to 1966, not the first five seasons, four seasons – for example gold being weak since '11 that earned Sandy his reputation as probably being the greatest left hand pitcher in modern baseball history. He pitched no-hitters in all of those four years. His average seasonal record was 24 and 7 with an ERA of 1.86. He also averaged 300 innings pitched, 308 strikeouts per season, and he striked out an amazing 382 batters in 1965.

But his most remarkable stat of that period was the average 22 complete games per season. Again, in his last season, in 1966, with terrible pain from an arthritic shoulder and arm his record was 27 and 9, earned run average 173, five shutouts, 27 complete games, 323 innings pitched and 320 strikeouts. So there's hope yet for gold investors who have been in rough sledding for the last four years. And I suspect with all this central bank nonsense that the price of precious metals could be on a better trajectory in the time ahead, just like Sandy's career was in the last four or five years of his career.

But I'm not here to discuss gold or baseball; most of you have a lot more knowledge at least on gold than I have. As an equity investor I begin every day by asking four questions. Number one: in a paperless and cloudy world are investors and citizens alike as safe as the markets assume we are? Number two: in a flat networked and interconnected world is it even possible for America to be an oasis of prosperity, as Peter suggests, and a driver or engine of global economic growth? Three: With geopolitical coordination of the G8 at an all-time low, if the wheels do come off how slow and inept will the reaction be?

Now I end the day with the following question: after six years of zero interest policy and quantitative easing the global economy is still in a condition that precludes a meager 25 basis point increase by the fed. What does that say about the foundation of future economic growth when a zero-bound rate setting is failing to generate self-sustaining growth and escape velocity in the U.S.?

If you answer these four questions honestly you almost certainly must conclude that the outlook for our global equity markets is FUBAR: screwed up beyond recognition, and that the consensus prospects for worldwide economic growth and profits are inflated, and evaluations and market levels are overpriced, possibly meaningful so.

Market participants, to quote my Grandma Koufax, are in a sour pickle from Katz's delicatessen on Houston Street. The markets and global economy has never faced such a wide array of possible outcomes, many of them adverse. Yet market participants seem afflicted with a lot of memory and the believe that only positive outcomes might survive.

My Malthusian view seems justified based upon the ever-weakening and wobbly global economic outlook, and by still elevated valuations. Despite the ongoing propaganda reinforcing America's cleanest sheets in the economic brothel in the world, the fact is there is a reason why the Fed has folded, why Draghi is doubling down, why China has cut interest rates, and why Kuroda will likely unleash even more QE.

It appears the trap that central bankers has set for themselves by enabling massive asset inflation in the face of what is now the longest streak of economic weakness and data disappointment on record now seems likely to prove their impotence and insanity. Things are going much worse than people think.

A year ago inflation breakevens were around 1.55 percent. On Friday they were closing in on 1.10 percent – deflation. A year ago S&P profits were at $114 annualized rate, and estimates for this year were $136 a share. But today profits are running at only $107 a share rate. Goldman Sachs consensus estimate is for $109; that's a $37 a share reduction year over year. And the U.S. stock market, as Peter mentioned, is at all-time highs. Corporate profit margins are beginning to take a sharp hit, and corporate profits are now down by over five percent, despite the financial engineering of share buybacks.

As to the U.S. market for it to rise from here in my view the earnings will have to broaden out, or PE multiples will have to expand. The latter seems unlikely. And I will discuss this in the body of my talk. The bottom line is that we've had this elixir of liquidity and zero interest rates and it's beginning to fade in impact and in terms of confidence now.

Over the course of the last few months I've compares the stock market to the world of George Orwell's novel, *1984,* in which things have become broken and dangerous. I wrote, "We live in a dystopian world whose markets, currency, commodities, stocks and bonds have morphed into an Orwellian backdrop of omnipresent government intervention and manipulation that is increasingly dictated by the investment community. In recalling this year's stock market action and the intermittent flash crashes that we've seen, especially at the end of August, it should be clear to most that the market mechanism is broken.

Back to George Orwell who wrote, quote: "The party seeks power entirely for its own sake. It's not interested in the good of others; it's only interested in power" close quotes. And like the protagonist in the novel, Winston Smith, I secretly hate the party that is the Quants. And we both dream about rebelling against Big Brother.

The Quants have broken our markets and imposed huge and underestimated risk to the markets. While our machine-driven market structure gets far less attention than the Fed's monetary policy, it is no less important to identify what I think is unrecognized. And the structural risk facing traders and investors in this brave new work, or so-called modern market. So understand that risk we have to wrestle with the investment strategies that few of us see but all of us feel, strategies that traffic in the invisible threads of the market, like volatility and correlation and other derivative dimensions.

Just as dark matter, which as the name implies, can't be seen with the visible light, or in any other electromagnetic radiation but is perceived only through its gravitational effects, makes up some enormous portion of our investing universe. So do Quant's dark strategies. They're invisible to the majority of investors, but they make up this enormous portion of modern markets. Regardless of what the Fed does or doesn't do, regardless of how, when or if it lift offs if rates occurs, it's impossible to ignore derivative market dimensions and the vast sums of capital that flow along these dimensions.

How vast? Now one knows for sure. Like dark matter in astrophysics we see these dark strategies primarily through the gravitational pull on obvious invisible securities like stocks and bonds and their more commonly visible dimensions like price and volume. But three massive structural shifts or the past decade: the concentration of investible capital with mega allocators, the development of very powerful machine intelligence, and the explosion in derivative trading activity provide enough circumstantial evidence to convince me that well more than half of the average daily trading activity in a global market originates within derivative dimensional strategies and that a significant portion of global capital allocated to the public market finds its way into these strategies.

Let me stick with that last structural change, the explosive growth in derivative trading activity, as it provides most clearly and best the connection of this dark strategy that we can use as a teachable moment, and how the invisible market dimensions exert such a powerful force over every portfolio, like it or not.

In 2004 we would consistently see something like 100,000 option quotes posted on U.S. exchanges on any given day. This year we see as many as 18 billion quotes in a single day. Now obviously this option activity isn't being generated by humans. There are millions of fundamental analysts saying, "Gee, I think there's an interesting catalyst for General Electric that might happen in the next 30 days, so I think I'll buy myself 10,000 December GE coal options and see what happens."

This quantum change, looking at the 100,000 daily option posts quoted daily compared to 18 billion today is analogous to the main event in the World Series of poker. The rules and the cards and the game behavior hasn't changed one bit, but the amount of players and the institutions are totally different. It's now a larger game.

Back in 1976 there were 22 entrants of the main event, in poker's main World Series. It was won by Texas Dolly, Doyle Bronson. He took away $220,000 as the first prize. Eleven years ago there were 840 contestants, Chris Moneymaker won the $2.5 million prize. Last year Martin Jacobson won the $10 million prize amid 7,000 contestants.
So I suppose you could say progress in Texas Hold'em and then high frequency trading activity is cumulative.

Everyone seems to want to be involved with poker and derivatives trading strategy; the game is bigger, much bigger. Poker is no longer a low profile sport dominated by a few pros; today everyone is in the act. And so it is with the Quants' dark investment strategies. The impact of gamma trading risk parity has changed over the past decade in exactly the same way that the meaning of Las Vegas poker has changed. These things seem to never go back to where they came.

These billions of machine generated quotes from machine-driven strategies, almost all of which see the world on a human invisible wavelength of volatility rather than the human visible wavelength of price or through the lens of income statements or balance sheets. There's only one reason why machine-driven option strategies have exploded in popularity over the last decade: they work – for now. But volatility, like love, is a many-splendored thing.

The definition of gamma hasn't changed but its meaning has. And there's a threat, both to the guys who have been trading options for 20 years and to the guys who wouldn't know a straddle from a hole in the wall. Remember, price trend follows strategies. And as we saw at the end of September on the downside there is a positive feedback loop between all these strategies. Gamma hedging of derivatives caused higher market volatility in September, which in turn led to selling and risk parity portfolios, and we saw the resulting downward price action invited by commodity trading pools and other price-trending strategies who we're shorting. Recently we have seen the feedback loop to the upside, and it's no wonder financial assets seem no longer to correlate with the real economy.

If the market's Big Brother is the Quants the market's Big Father is the business media. Now remember, I'm a guest host on CNBC, on Squawk Box, on Bloomberg all the time, so I'm one of these idiots I'm talking about. So many of us listen to CNBC, Fox Business Network, Bloomberg all day as if it's Muzak, you know, that annoying music in the elevator. We're constantly bombarded and indulged by the patronizing and self-confident business media.

But I'm here to tell you that most of the commentators travel very much on the surface. They're miles long but only an inch or two deep in their market debate, discourses and analysis. They're filled with rehearsed and memorized sound bites characterized by limited analytical rigor, providing limited value-added content. When they're wrong, which is more often than not, they are what I describe as sweepers: they sweep their losses under the rugs and you'll never hear about the losers on Fast Money and on Squawk Box.

Actually it seems that most talking heads that parade are nearly ever wrong after the fact. But as Warren Buffett once said: "Hindsight is always 20/20." Commentators in the business media make it seem easy. I go back to baseball. I think Mickey Mantle said it the best when he said, quote: "I never knew how easy the game of baseball was until I got into the broadcasting booth." And importantly, unlike Jeff's – you know, we had a surfer on, that kid was freaking awesome that was on before, the 13-year-old who's a surfer – unlike Jeff Spicoli in Fast Times at Ridgemont High" played by Sean Penn – who told Mr. Hand, his instructor, he didn't know why he shamelessly wastes the classroom's time by being late, too few talking heads admit they don't know.

Actually, "I don't know" is a sign of a true professional. If one lacks the confidence to say, "I don't know," they're probably bullshit artists. Unfortunately, saying "I don't know" is far too rare in our mercenary media and investment world, in which everyone seems to be selling something. I'm not selling anything and I don't know a lot. And while I'm being critical of talking heads most perma-bulls, and for this matter, perma-bears, are equally moronic. Neither are moneymakers. What they are are attention getters.

Think back – I often do – what dogma has cost you in your investment career and learn from it. But I digress, and let me get back to the point of my brief talk this morning, that the equity markets might be a better short today than they were at the May 2015 highs.

The idea that an economy that performs so poorly that it keeps the Fed on the sidelines – and that's good for stocks – is one that can only be based on recent history, one that reverts back to the '08 crisis. For if one looks even a bit further back it becomes pretty obvious that if the economy is headed for recession there isn't an interest rate low enough to prevent it. The Fed was cutting rates furiously as we entered both of the last two recessions before 2008. And the only think that will prevent that from being true in the beginning of the next recession is that the Fed has wasted their chances to get off zero bound. The fact that the market has pushed the Feds' first rate hike out to December or March of next year is not contrary to recent action, or what Peter said, "Good news for investors."

Our policy makers and partisan and feuding lawmakers on the fiscal side and our central bankers on the Fed on our monetary side are either inert, as is the case of our fiscal authorities, or confused and indecisive, as is the case of our monetary authorities.

Physical inertia and the seeds of partisanship have forced policy on the shoulders of global central bankers who have not proven up to the task. Stock nonetheless have levitated to almost the highest levels in six years.

The results of policy impotency has been a consistent downgrading of global economic growth. Forecasts now, for the fourth year in a row, are lower, as the sightings of secular stagnation come closer into focus. So there are a number of contributing factors that are likely to lead to subpar domestic economic growth and I'll briefly give you four of them.

Number one, back in 2011 I wrote an editorial in Barron's called the Turn of Screwflation, in which I described the screwflation of the middle class in which the costs of the necessities of life has steadily advanced while salaries and wages have failed to keep up. Events have conspired as well to create a structural disequilibrium in the labor market. This disequilibrium has hurt the

average Joe whose jobs opportunities have been reduced or displaced by globalization, technological innovation. They've suffered from a skills mismatch, and by expensive regulatory burdens which are thrown on corporations that have forced employers to make part-time workers and temporary employees a more permanent part of the workforce, and to discourage investment in plant and equipment.
This has led to a record poor labor participation rate, while the unemployment rate remains deceptively low.

An expectation that growth will slow smaller labor force growth and slower productivity growth reduces investment and boosts the incentives to save and to reduce personal consumption expenditures.

Number to: trickle-down economics has not tricked anyone. It certainly hasn't trickled down to the middle class. Instead it has improved, as Peter mentioned, the net worths of those with large balance sheets consisting of real estate and stocks. Increases in inequality has increased the share of income going to capital and corporate retained earnings. The chasm of inequality is now growing grotesque in dimension and in division. So few have so much. The presidential election next year will very much center around this issue.

Number three: lower interest rates have now backfired. As I remarked, it has disadvantaged savers, has caused cash to be hoarded, and postponed personal expenditures.

Four: reductions in the prices of capital goods and the quantity of physical capital needed to operate a business. Think of Facebook having more than five times the market value of GM, as an example. The BRICs have taken a brick and they have exported lower commodities, deflation, and slowing economic activity and reduced profitability to the developed world.

And the U.S. is simply not strong enough to pick up the rest of the world. The notion that we are an oasis of prosperity is a fairy tale made up by strategists and by the perma-bull fraternity. I think a very wild ride lies ahead for stocks. Indeed I would argue, as I said, this market is probably a better short than it was at the May high. So let me give you very briefly, because I only have a couple of minutes, 10 reasons why.

Number one, growth versus deflation. Economic growth is worsening, and deflationary fears have increased since may. There are rising signposts of numerous economic peaks in housing and autos – just look at the purchasing manage index reports over the last few months. Global economic growth, believed to be on a self-sustaining or an escape velocity track five months ago, is clearly worsening its glide path, as Brazil, China and others falter.

The IMF, leading economists and others have downgraded global economic growth prospects consistently since April. Meanwhile deflationary fears have risen to. Weak profits. I've discussed that – I'm not going to repeat this because I only have a brief period of time – that S&P earnings for 2015, a year ago, $136 a share and Goldman Sachs is using $110.

Excessive valuations. As a result of the aforementioned slowing grown and earnings in the economy and earnings evaluations are really no lower than they were in May. If I'm correct that the worsening profit picture and the ratcheting down of 2015 will lead to a ratcheting down in 2016 this will serve to raise prospective valuations even further.

Nowhere are valuations beyond the pale, as in the private equity unicorns of Silicon Valley. A very good example is a biotech outfit, Theranos, founded by the $5 billion woman: 30-year-old

Elizabeth Holmes, who has just learned that even for the head of a high-profile, secretive Silicon Valley company valued at $9-1/2 billion a light will eventually illuminate dark places.

Ms. Holmes formed Theranos when she was 18 years old at Stanford in 2003 to provide health tests from a few drops of blood, rather than what gushes out into several tubes. She ingeniously convinced Oracle's Larry Ellison to invest $400 million in the company and enlisted two former secretaries of state, a former U.S. defense secretary, and the former chairman of the senate armed services committee to join her board.

The past month *The Wall Street Journal* reported claims that the company's proprietary technology, whose co-investor committed suicide two years ago after telling his wife that it wasn't effective, is used only in a small fraction of the company's test, with others performed using standard laboratory equipment in a way that produced inaccurate results. Former employees of Theranos told the newspaper that they had been instructed to deal with regulatory checks on its test results in a way that might amount to cheating.

One glance of the so-called 100+ unicorns in Silicon Valley, those private technology companies valued at more than $1 billion, illustrates this point. A handful of these companies will become the great, enduring companies of tomorrow. But a good number have seen the flimsiest of edifices. Forget the fact that some of these valuations are illusory because the most recent investors have structured their investments as debt but at all name, meaning they stand to profit even if the company is worth far less.

Reason number four: numerous peaks. My crystal ball sees numerous peaks. Peak stock edges, of course, stock prices, peak hedge funds, peak global bond prices, peak liquidity, peak price earnings multiples, peak profit margins, peak market breadth, peak M&A, peak activism, peak complacency, peak private tech valuations just discussed, peak confidence in global central bank policies, peak in global growth expectations, peak autos, peak housing, peak commercial real estate, peak China, peak Apple, even peak Buffett, peak Icahn and even peak Trump.

Reason number five: ZIRP is DOA. The tailwind of monetary largesse is over. And the federal reserve era of the zero interest rate policy is coming to a close.

Reason number six: loss of confidence in the Fed. The Fed has screwed up and distorted our economy and markets. Many are recognizing that the world central banks are disadvantaging savers, causing cash hording and reducing personal expenditures.

Number seven, the exposure of rollups. Why do I bring the subject of rollups out of the blue this morning? Zero interest rates, massive liquidity and slowing global economic growth breed financial engineering, accelerated M&A activity and the proliferation of rollup strategies. The breeding ground for rollups is flourishing. It's a mid-business cycle condition and when liquidity is abundant. The stock market is euphoric at mid-cycle and during times of little introspection when there is less of a focus on the quality of earnings. But they're all exposed at the end of a business cycle.

Rollup accounting issues tend to rise toward the end of a bull market after a period of time in which companies and their managements have been challenged to the grow sales and profits. Marginal and/or aggressive executives with scrutable business ethics often cut corners and take advantage and go over the line. Valiant Pharmaceuticals is an example; SunEdison is another example.

The last three reasons why I think the market is a short: hobbled hedge funds, number nine – and this is – I disagree with Dennis Gartman – I don't believe that the retail investor is going to return to the markets anytime soon.

And number ten: junk bond woes. They're in a freefall, spreads are widening, investment grade and junk bonds are the lifeblood of buybacks, M&A activity and activism.

So let me just summarize by saying that everything is not fine. If it was fine we wouldn't see $2.7 trillion of EU debt with a negative yield like we see in this bizarre investment world. I think the Bernanke put is over. Yellen has proven to be a disappointing Fed chairman in her batting and in her fielding, and she seems to me to resemble "Saturday Night Live" John Belushi, Dan Aykroyd, Chevy Chase, who were known as the "Not Ready for Prime Time Players" and she is the newest member.

The Beta Bet is likely over. Our stock market, which went up on central bank intervention will likely fall in the time ahead because of their fatal conceit.

Bureaucrat's mandate of low interest rates has been ill-times. ZIRP has neither spawned long-term investment in plant or equipment nor has it resulted in trickle down. Bubbles exist in the high yield markets and the degree of confidence in the world central bankers, and private equity valuations. A bubble exists in talking heads who never met a market they didn't like.

For most, the right trade in the U.S. stock market for me is the toughest trade: to hold cash. T-dot-N-A, known as Tina: There is No Alternative to stocks, is B-dot-S. If the Federal Reserve was a stock I would short it. Unfortunately for now I have to settle for being short the S&P index.

Thank you.

Marin Katusa
"Deflation, The U.S. Dollar And The Colder War"

Now our next speaker is Marin Katusa of Katusa Research. Marin is the author of The New York Times best seller, The Colder War*. Over the last decade, Marin Katusa has been involved in raising over $1 billion in financing for resource companies. During this time, he has become one of the most successful portfolio managers in the resource sector, such as his 2009 Fund Partnership, KC50 Fund LLC, which has outperformed the comparable index, the TSX.V, by over 500 percent after fees. He has visited over 400 resource projects in over 100 countries. Marin publishes his thoughts and research at www.katusaresearch.com, and that's K-A-T-U-S-A research.com. At this time, I would like to invite Marin to the podium where he will discuss the energy outlook and his views on better investments for the future. Thank you.*

Thank you, Mr. Myer. My wife calls me Marin, but as long as they call me, I don't care. So who am I? I'm Marin Katusa. I started up a firm after I left Casey Research after a decade. There's my book, *The New York Times* best seller. If you don't like the book, go back to Casey Research. They'll give you a refund, not me.

[Laughter]

I've got two funds here, the KCO Fund, and that's Katusa, Casey, and Olivier. Yes, I'm still on good terms with my buddy Doug. He's a big investor in our fund, and I manage these funds, and then there's the KCR, with my great friend and mentor, Rick Rule. I'm going to get into where my thoughts are in the markets today.

We are in a very different market. The old rules of economics, and I know people say this time is different, but let's look at every generation. There's actually six types of generations alive today. There's the GI generation, who actually don't know they're alive. Those are the ones from 1901 to 1926. They're buying less stuff. The silent generation, they're buying less stuff. The Baby Boomers, believe it or not, they're buying less stuff. Generation X, that's my generation, we're actually buying less stuff, too. You go to Vancouver, you're buying less house per square foot because it's expensive. You look at the Millennials, my brother-in-law and his generation. They're buying less stuff. They're not buying the cars. They're getting those cars where they're Car2Go and they're using Uber and apps. They're all buying less stuff.

Then the Boomlets. I look at my daughter's generation, Mattel, the doll company, they used to have a business plan up until you're about nine or ten years old. Their whole business plan has now shifted down to less than three years old, because now kids are getting on the iPads. Rather than buying the 17th Barbie, they're buying apps and games on the iPhone. This whole generation thing has changed, so you've got to get your mind around. Back in 2011, I claimed out of many shows we are entering a resource deflation. I was laughed and mocked at shows. I went on national television and said, "Here's why companies are going to go down below 50 percent." It was not a popular statement, but that's all good news if you have a longer-term timeframe.

I also said a year ago that the U.S. won't increase interest rates this year in 2015; they're not going to, nor will they next year in the first four months. They just can't. The Chinese have moved first. They've devalued themselves, and the reality here is we are in a deflation for resources, still. Now, how do we make money in this? Deflation is the worst possible thing for anyone who owns debt, okay? Gold is the currency of kings, silver is the currency of gentlemen, barter is the currency of peasants, and debt is the currency of slaves, and that's the problem. In an inflation, you can inflate your debt away. In a deflation, you've got to pay the piper. That debt is more burdensome than ever before. So, who wins in a deflation? He who holds cash, because cash is precious. I know it's crazy for me to be with the Casey crew and say U.S. dollars is where I put my funds' money in. It's been a great call to this point.

Now, why does financial heroin not work? It's like a drug. There was a great guy from BMO, Don Coxe, who kind of brought up this phrase financial heroin and I thought it was brilliant, because the reality here is if you look during the Boomer's generation, for every dollar of debt a government would take, they would get an impact of 4.61 times on their GDP. Then, from the '50s to early '80s, for every dollar of debt, you got .63. Today, for every dollar of debt the government takes, you get less than .08 of an increase on your debt. It's like a drug. You need more and more and more to get the same high, but you're getting less of a high and, eventually, you overdose. Hence, why we get into negative interest rates. The emerging markets are the victims of the OECDs right now and the debt addiction, and it's the OECD nations that are drowning in debt. Do you want to know where the western world is going to go? Look where Japan has been for the last 20 years. It's a currency crisis, so let's get to what really matters in bull markets.

This is a chart going back to the early 1800s. If you look at the average length of a bull market when you combine hard and soft commodities, there's about 16 years. The average gain is about 200 percent. The bear markets when you look at it, the average is actually about 20 years, so we're at 2011 and we're 4 years into this. A lot of people are calling a bottom. I'm disagreeing here. But that doesn't mean you can't make a lot of money in these stocks, and I'll show you what I'm doing and what our funds are doing, and it's working, so be patient. Cash is king. Even though gold is the currency of kings, cash is king. Look for these things. I'm going to show you some questions to ask the management teams. Are resources cheap? Yes, but they can go lower for longer.

I published this article a year and a half ago, "Why We're Going To Get Lower for Longer." Goldman Sachs made it famous, great, I'm good friend with the Goldman Sachs hedge fund managers, but keep your powder dry. There will be a fortune to be made with these, and you guys are the one percent of the retail investors that are coming to the shows. The management teams are here. You can get into these private placements. That is the key. I've been talking about this for years and years and years. If you look at the legends in our business, the Rick Rules, the Doug Caseys, the Ross Beatys, the Robert Friedlands, they've made their fortune through private placements, so look for PPs with warrants. Soon, they will be the norm. In 2011, I was laughed by these bankers; now I'm one of the main financiers in Vancouver because our fund is here.

So, when you focus, what have I learned in the last decade? I've made lots and lots of mistakes, I probably will continue to make lots, but the greatest lesson I learned is people, people, people. Echo investing is my thesis. This is what's going to be my second book. It's going to be published by a very large firm, so you'll see more about that in the coming months, and you want to focus on the companies that have advanced these projects and you're literally picking up these assets when there's blood in the street. The Rothschild's talk about this factor, and I'm going to give you two examples of what I call the echo investing. There's the boom, there's the bust, and then there's the echo, and a fortune is going to be made. If you look at what Warren Buffet does, he's made his fortune through the echo.

I'm also going to throw out an open call to all the resource companies here. Our funds are cashed up. If the terms of the deal are good, I will invest. I have invested over $40 million here in the last 12 months in the junior resources, so all the management teams, if you're priced right and the terms are right, and you've got the right management team with the right assets, with all the different factors, you will get financed. But what you paid for this stock in 2010 or 2011 is irrelevant to me, so there's going to be a new normal, a new realization. Also, management teams have to write big checks in the deals that we're financing. It's part of the rules. Also, I believe in the coming months, what the exchange should do, there's too many companies, there's too many zombies companies, and I talked about this at the Sprott conference in Vancouver, rather than having 1,000 companies with less than $1 million market cap, they should be shot behind the shed and gone off and die.

What they need to do is make a minimum market cap in the exchange, with a minimum liquidity dollar trade, and, if you don't get there, you have to either merge or de-list, and give the shareholders their money back. A company with a $1 million market cap should not be public, it's irrelevant, so the game has to change here, and it's going to happen. The exchange is going to evolve, and companies list warrants. If you think warrants are an overhang, list them. That was how it was done 20 and 30 years ago; what goes around, comes around. I'm going to talk about people, people, people, the echo, echo, echo, and the first guy I'm going to – let me just go back here. These are two guys that I think here's the present Ross Beaty and here's the future Ross Beaty. In the helicopter there with me is Ross Beaty. I take all my pictures on an iPhone. I'm not a great photographer. When you travel, you travel light. There's Amir Dani at his project in Texas. I'm going to talk about what I'm doing in the echo.

Alterra Power. This was a company called Magma Energy. This is video taped, this is recorded at September 2009 conference at Casey. I was the moderator. This is filmed. Go Google it, or, if you're a subscriber, you can get it. I had Rick and Ross and Doug, Bob Bishop, and I said publicly at the time I thought Magma would get cut by over 50 percent, and Ross has done everything he said he would. He's put over $2.5 billion into the company. They build enough green power to power up all of Vancouver, so it's a big company. Yet, on a value proposition, if you're a Warren Buffett, it's actually cheap now, so this company got slaughtered by over 90 percent. It merged with another company called Plutonic. They've put over $2.5 billion into it, and, when I was here last year talking about it, our fund owns about 8 percent of the company, or maybe about 9 percent. We're the third largest shareholder. You can literally buy this stock for less than 10 percent of what they put into it. When I say it's a Warren Buffett classic case study, it is, because Warren Buffet put just under $300 million into the company. They're going to list on the U.S. exchange, they're going to do a roll-back, and they're going to pay a dividend. This is a company that was one of the first research reports I put on my website.

That's called a penstock. It's an eight-foot penstock. I got Ross to get in there to take kind of a picture, and why I did that was it's my version of da Vinci's David. If you look at what he's doing, he truly is a Renaissance man. He's restructured this green energy deal, and he's learned from it. It started as a geothermal company, and now he's a major run-of-the-river project. He's got the biggest geothermal projects in Iceland, and he's building massive plus-200-megawatt projects in Texas for wind, and he's going to grow. People say, "Well, what's the downfall here?" They don't get listed on the U.S. exchange because they get bought out before. It's one of those two scenarios. I put 10 percent of my fund into that company. Our average cost basis is about .34, .35 cents.

My 12-month price target, this is going back, I think within 12 months, you'll see .75 cents Canadian equivalent, or whatever it lists on the U.S. dollar. So, there it is. It's also the number one performing green energy stock, not just in Canada, but also in the U.S. when you compare it to any of the individuals or its peer index. That is telling you something. It's not because I'm standing up on stages and talking about it in the media, because it's a real undervalued company, and it's backed by its largest shareholder, Ross Beaty, who is buying in the open market and owns over 30 percent of the company, so that's Alterra.

Here's the cash flow models. When I say my target is .75 cents, that's on the big reductions. If you want to get aggressive, you can make a 1.50 argument Canadian for this company, but divide expectation by 50 percent. This is all on my website. Even if you compare it to all its peers, it's still anywhere from 50 to 75 percent cheaper than its comparable companies. Now, I once was sitting in a conference like you and listening to all these guys talk about what they do. I'm just trying to give you guys ideas, put it down, and hopefully next year you come back and you make money with this.

Now, uranium. Here's the good and the bad and the ugly. Uranium is one of these things that for all reasons it should be going up, but it's not, and let's talk about why. If you look at the U.S., Obama just put this out, if you Google my name and *The Wall Street Journal* and *The New York Times*, you'll see all these articles – in *The New York Times*, I was on the front page – talking about some of these uranium issues, and the media didn't pick up this on May 26, 2015. Obama signs this executive order, and they basically say, "Okay, that's it. We're way too dependent on the Russians. We're going to change the rules and we're only allowed to import 25 percent from the Russians." Okay, great, he's going after Putin and all this. So, at that point, about 50 percent of the uranium they were consuming was coming from the Russians. Anyone have an idea where they're making up that difference? Is it in Texas? Is it in Wyoming? Is it in Canada, Australia? Kazakhstan.

Now isn't that great? Obama's choice. Rather than getting it from the Russians, they've increased their imports from Kazakhstan by 88 percent in the first year. If you've ever been to Kazakhstan, if you know anything about Kazakhstan, what is the language that is used in the government, in the mining industry, in all of the producing mines in Kazakhstan? It's Russian Cyrillic. Who built all those projects? The Russians. Who controls the projects? The Russians. I'm Canadian so I'm allowed to say this: the Americans went from a bad situation to an even worse situation. That's Obama for you.

[Laughter]

I've been one of the few guys who've traveled and been to every single producing U.S. mine, even some that are off-line now, and, in the Athabasca Basin. I've been around the world looking at projects. I'll give you ten years of advice. Stay away from Africa, stay away from anywhere if you want for production. Why? Because in Africa, you can't compete with the Chinese or the Russians. They play by rules that the publicly-traded North American companies can't compete with, okay? If you're looking at Uranium, focus on what I think are the two best regions, the U.S. and the Athabasca Basin. The Athabasca Basin grade is king, and I like the southwest United States because it's a low cost, and I created this name called WISR. It's a warm ISR.

Here's the demand by country. If you look at the left chart, I know these are small and I should have made them bigger, it's all on my website, you look at the demand and it's all in the western countries. The U.S. still consumed 25 percent of the global consumption of uranium, but then, if you go look at where's the friendly U.S. production coming from, it's the exact opposite. All the production is coming from Russia, Kazakhstan. Kazakhstan themselves produce about 40 percent of the world's primary uranium production. People have challenged me in *The New York Times* article. They said, "But, yeah, we've got nuclear weapons. We can just down-blend them exactly like the Russians can." You could, if you built these devices, these centrifuges, and spent $20 billion and ten years of permitting and building them, but you didn't do that in 2007. Now what you can do is you can take your 50-year-old bombs, send them to Putin, and ask Putin, "Can you please down-blend this for us and send it back?" Let's see how that works out for you.

[Laughter]

I'm a little bit worried. The Russian embassy contacted me, and I'm like, "I'm kind of scared to respond to them because I don't know what they want from me," and I wrote a book about Putin, so I'm going to kind of avoid that phone call. So here's Russia. The reality here is in uranium, the Russians rule, okay? In the early 1960s, the Americans ruled. The Americans produced just under 40 million pounds in the early 1960s. Today, they produce around 4, 4.5 million pounds. They import the rest. The Americans import over 90 percent of the Uranium they consume, and one in every ten homes in America is powered by Russian nuclear fuel. One in every ten homes. That would be an interesting calculation. How many Tesla's are powered by Putin?

[Laughter]

Here's pictures of me at the different – I know it says, "Caution: Radioactive," but I thought, "Shit. I've escaped death so many times up to this point, I'm not too worried about radiation."

Here's me holding some yellow cake at the different mines, and I just want to compare a few things. There are so few producing companies in this market, the ones here. Go talk to all of them. They're all pretty cheap priced right now. Here's the production countries. I've got four minutes so I'm going to rip through this. The reactors under construction: China, Russia, India. These are where the emerging market growth is, and the reality is if you look in the West, these reactors are getting extended, even in Germany. You look at what the U.K. are doing. These are such high-cost, upfront costs to build these things, the governments are just pushing it out.

Look what Poland just came out with, and they're saying, "You know what? We're looking at bringing back coal production because things are getting so bad." So uranium, people are like, "Oh, but it's so dangerous," the Jane Fonda effect. It's the least evil of the evils. Here's the difference between warm ISR and ISR. Going back ten years ago, it wasn't called ISR. It was called ISL, in-situ leaching, and I think it was my buddy Paul Mattessich who said, "Yeah, leaching doesn't sound so good. Let's come up with the word recovery, so that was good. The difference here really is when you're moving water at cold temperatures, and water, it's more expensive to insulate it, if you look at the deposit depths, Wyoming is about 50 percent to 100 percent deeper, so you've got to bury these lines. Then, if you look at these header house, the header house in the picture on the right has a concrete foundation, and now it's radioactive material, so it's almost as expensive, if not more expensive, to reclaim a header house in the cold ISR, whereas if you look at the picture in the left in Texas, you hook that up to a pickup truck and you move it to your next production zone. There's no reclamation, and the difference is if you look at those pipes, they're all on surface, whereas on the right, there's snow, so you've got to bury those, insulate them, so much difference in price.

When you're looking at these companies, you want to look at liquidity. There are so few producers. EFR took out Urinertze. They're now a serious player in there, and then you've got Ur-Energy with Lost Creek, they've done a good job, and you've got Uranium Energy Corp, and they've done a great job. Of these, I only own one – that's Uranium Energy Corp – and I think they've got a stellar team with Scott Melbye, who has more experience in uranium than anyone else from the trading side. He's one of the few guys who's been on the Russian side and the American side, and the Canadian side. My good friend, and I think the next Ross Beaty, who's Amir Dani. What I'm trying to push all the companies in this market is why do you want to hedge in a low-price market and deplete the reserves that you took ten years to permit and build? It makes no sense.

It's about preservation of cash flow per share. In a bad market, if you talk to any of the wise, super smart, savvy hedge fund managers, like Dave Iben at Kopernik, they're like, "What the hell are these mining guys doing, to tell us that they built a mine?" They don't care if you built a mine. They care about if your mine makes money, so I'm a big advocate, I've been to all these projects, and I've been banging my fists on the table going, "Get out of these contracts because all you're doing is cannibalizing yourselves." So, in the '70s, the utilities screwed themselves over because they would sign these big contracts, and then the companies would now go in the market, buy it, and turn it back to the utilities. The utilities screwed themselves. The opposite is happening today. The mining companies are screwing themselves over, and they're depleting the reserves in a bad market. Good luck developing and permitting a new mine. It's very difficult and costly.

Here we are. I've got a minute left. Here's a few questions to ask yourself. Liquidity, debt, cash, stage of development, people, shareholder list, risk level, "Are we in exploration or are we development and production?" It's hard in a bear market, but that's why the prize is so big. You are here. If you make your bets right, you're not going to make a double or a triple; we're looking at making 10, 20 times. Trust me, it's there. Here in the room, if you want to know what my holdings are, open disclosures. It's Auryn Resources with Ivan Bebek, a huge fan. There's the booth number. Brazil Resources. We're reporting _____ we own about 17 percent of the company in our KCR Fund. Uranium Energy Corp, First Mining Finance. That's Keith Neumeyer. I think the world of him. Millrock, it's an early, early, high-risk exploration, a joint metro prospector, and Newmarket Gold, it's a producer, over 200,000 ounces. I was the first one to write it up, and it's been a double in this market. That's it. My time is up. All my stuff is for free at Katusa Research.

Byron King

"The Revolution Will Not be Postponed."

Now for a change in our programming, Ian McAvity, a very popular speaker here and has been here almost every one of the forty previous episodes was not able to speak, was not able to enter America because of some customs agent. But we are very blessed to have a qualified replacement. He was on the Energy Panel earlier in this conference Wednesday night. Byron King is a Harvard-trained geologist who covers oil, mining, and military tech for Agora Financial. He writes and edits Outstanding Investments and Military Tech Alert. He uncovers great investible opportunities in energy, mining, precious metals, and military-related high tech. Byron personally vets each company he discusses and strives to give his readers the clearest picture of what to make of each idea and how it's an outstanding play and why. He'll be speaking on, "The Revolution Will Not be Postponed." Please welcome Byron King.

Thank you very much. Thank you. Hello, everybody. I am not Ian; I'm Byron. I'm glad to be here. I was walking down the hall yesterday and Brien Lundin said, "Byron, Byron," he says, "Can you help me out?" I'm like, "Yeah, what do you need?" "Ah, Ian can't make it. Can you sub tomorrow?" and I'm like, "Yeah, sure. I always enjoy putting talks for conferences together in – ." No, I have a couple of things ready to go all the time. This is something that I've been thinking about a long time.

Well, see, let's get started. Three sectors primed to change the world. My beat at Agora Financial – some of you know me. Some of you don't. Some of you know me and maybe you wish you didn't. Some of you are glad you did, but I've had a few compliments and a few constructive criticisms, I admit. My beat since 2004 at Agora, I cover energy, metals, mining. I cover the waterfront and I cover the mine front, so to speak. I get everywhere. We've had some good days. We had some bad days. We wrote everything up in 2005, 2006, 2007, 2008, 2009, 2010. Out of the crash we did pretty well in a lot of things.

In 2011, 2012, hey, then we got caught in the downdraft. Along the way, we had the blow out just down south of here on the BP well, the Macondo well. There I was on the day of that blowout, I was invested in BP, Halliburton, Transocean. *[Laughter]* I'm like, "Oh my God, now what?" What are you gonna do? Who plans for that? You don't invest for that. That's for sure. The thing is, three weeks later after these companies had been just beaten into the dirt, beaten down into the dirt, I said, "They're still great companies. You could invest in Transocean, Halliburton, Cameron, maybe even BP." And we did, and we made some money back on the way up. Not to profit off of other people's misfortunes, but the markets are gonna do what the markets are gonna do. You may as well be there when that happens.

So anyhow we've, at best, had some bad days. How about three bad years in the mining sector? It's not me. Ask Rick, ask everybody. It has been a tough, tough, tough three years trying to pick winners in a total loser of a market. Even the best of the best companies were down, beaten down, horribly beaten down. I mean it's tough as a newsletter writer, I assure you. It's tough for my publisher, who tries to sell these newsletters. I mean what do you do? What do you say when you think the sector is in horrible shape? I don't see any recovery. There's barely a pulse. I mean we may just have to take a lot of bodies down to the morgue at the end of the day here, and I'm gonna go write a newsletter telling everybody what to invest in. Yeah, great.

Well, I'll say this. One of the things we did do is they looked at me and said, "Byron, you spent like 31 years in the Navy, the Navy Reserve. You know about this military stuff. Could you write a military tech newsletter?" I said, "Oh yeah, I can do that," because really in a lot of my travels and a lot of my journeys, I visit places that deal with material science that do energy research, whatever. There's a serious military aspect to it, and much of the pricing of, say, oil has to do with military events. So I figured, I have a graduate degree from the Naval War College. I know a few things about this stuff. So I've been covering mil tech as well, and I'm gonna throw all of this into my talk today.

I cover oil wells. I cover off shore. I cover gold mines. I love gold miles. I love copper mines, but you know what? I love ship yards. I love aircraft factories. I love visiting electronics plants. Get me talking about submarines. Actually don't, because I'll bore you to death, but I love this stuff. It is part of my being. It's part of the fiber of my being. That's my other newsletter. It makes sense. You need energy and metals to do mil tech. There's 100,000 tons of steel right there on the one side, and there's 50,000 pounds of aluminum on the other. It's all steel and aluminum. It's just fabricated into a very, very specialized shape.

But you also need tech to do energy and metals. I mean this is not your father's, your grandfather's oil industry, mining industry. The things that are out there happening today in terms of the mining industry, the fracking industry, the rest of the oil industry; it is so much high tech driven. The data processing, the signal processing, the algorithms, the metallurgy that goes into the drill bits, the metallurgy that goes into the drill pipes, the seismic work, the kinds of processing that happen out in the field; these are the things that make these end of the line investments possible when we talk about Halliburton and Schlumberger and the drilling companies and the oil companies, the big miners.

Throw this in here. Everybody in this room I'm sure has an iPhone or a Samsung or whatever. A friend of mine, Jeff Grossman, he's a professor of chemistry at MIT, MIT. He follows this stuff. He tells me that it takes two-thirds of the elements in the periodic chart to make one of these things. If you take it apart, if you melt it down, molecule by molecule, atom by atom, out of 92 elements, 91 naturally occurring on earth, two-thirds of those elements are found in this iPhone. Aluminum, iron, copper, gold, silver, silicone, germanium, lead, indium, zinc, erbium, terbium, europium, dysprosium, tungsten. I mean it's two-thirds of the elements of the period chart are inside your telephone. That is seriously high tech. Somebody, somewhere has to dig that stuff out of the ground, has to process it, has to turn it into something.

Free plug here. If you are at all interested in the rare earth space, the Rare Elements is one of the exhibitors in the other room. I don't think there's any other rare earth players here. They've had a horrible three years just like everybody else, the sector has. There are a very few survivors. Rare Elements is one of them. I visited their project in Wyoming, just two, three months ago in July. It's a great project. Take a look when you get the chance.

Anyhow, we move on if this thing would move, good. So anyhow, much of what happens anymore is not just melting stuff down and making ingots. I mean the modern metallurgy, the modern material science is very, very sophisticated stuff. So that brings me to the notion that I'm gonna talk about three sectors that I think are changing rapidly and that are changing the world. I'll lay them out in a minute, but what I'm looking for – we're here. We talk about gold. We talk about silver. We talk about owning physical gold. Yes, I own physical gold. I own a lot of physical gold. Doug Casey said, "10 percent," and I said, "Only 10 percent, Doug?" I own a lot of gold. I love gold. I love silver.

I love that stuff, but I also like to leverage technology, and I like to leverage the idea of energy and material science that's out there. I like to see companies and ideas and firms that do innovative things and that break the old models because if you're living with the old model, you're falling behind by definition.

Getting back to advanced technology, the first mobile computer, the first handheld computer, so to speak, except you had to hold it – if you were the pilot in the cockpit, the first handheld computer was a B-29 Bomber back in 1944 and 1945, the Boeing Bomber. It had 1,000 vacuum tubes made by Raytheon. Each tube was about as big as your thumb more or less. A tube, it's an on/off switch, those vacuum tubes. So each one was like a 1/0 type of mathematical switch. So you had 1,000 tubes in a bomber, so that was a kilobyte of processing information. It ran the bombing system, the navigation system, what have you.

But that was the first time anybody was ever able to really take the very, very prototype, very primitive type of electronics and apply it to something big so that the machine would do the thinking instead of the person would do the thinking. The machine would react the controls of the aircraft. So the B-29 was the first mobile computer, and it made a difference. It was very disruptive technology. I mean it was certainly disruptive to Japan because in the end after seven or eight months of very, very heavy bombing, they ended up walking on board a battleship and surrendering after a long and bitter war.

So, today, in my computer, in your computer, your supercomputer in your pocket, you have 3 gigabytes or more of processing power in your hand. You have the equivalent of 3 million B-29s inside your iPhone or your Samsung. That's incredible processing power by comparison. You figure 70 years ago, 1,000 vacuum tubes in a great big airplane. Today, you've got 3 million times that power just in one of these, and there is much more available. Some of you have laptops here, a laptop up in your room or whatever. You've got 5 million, 8 million, you've got 10 and 20 million times more power than a B-29 bomber. Think of that, the sky is black with bombers, and it's still not enough to match the computing power sitting on your desk.

So the sector has changed. One of the things that I'm looking at really hard, I call it infrastructure consolidation. That's sort of a fancy term. I'll explain it in a minute. Now, in fact, I'll explain it by talking about Amazon.com. I know that we talk about gold and silver here, but the analogy I want to use right now is Amazon. Okay, quick show of hands, how many people have ever bought something from Amazon? Everyone, almost everybody.

Twenty years ago Amazon hit the market. It was like why didn't Sears Roebuck do that? They had the Sears Catalog. They should have just taken the Sears Catalog and put it online and said, "You can buy anything you want on Sears.com," or whatever. I mean there is a Sears.com today, but they gave the whole market away to Amazon. Well, Sears was wedded to an old business model. They had all these brick and mortar stores all over the place in shopping malls and everything. They had a 100-year-old business model. They didn't want to change. They didn't want to rob their own business model.

So Amazon leveraged the fact that millions of people were buying computers and putting them on their desk. They leveraged the fact that you could put a lot of things in a warehouse, and you could ship it out overnight with UPS or the Postal Service or whatever.

It's more than just book selling. It is leveraging technology to break old business models and you're letting other people do a lot of your investment. Amazon doesn't own your computer. You own your computer. Amazon doesn't own UPS. UPS owns UPS. Amazon doesn't fly airplanes from one end of the country to the other. FedEx and UPS do that kind of stuff. So that was the business model, very innovative. They leveraged technology.

Think of something else. How about Uber? Okay, who in the room has ever taken an Uber versus a taxicab? Yeah. The other day, Wednesday when I came down here, there was a guy who I like, real nice guy, and he's sort of my driver. I just know him, and so I call him up and I say, "Don, can you take me to the airport tomorrow morning?" "Oh yeah, sure, Byron, yeah." Okay, so I'm standing outside at the appointed time because he's never late. He's always there. It's raining. I'm standing under a tree just to kind of not get wet because I know he's gonna be there on time. He's always there if he's not early. He's not there.

It's like, "What the hell? Where is he?" I'm texting him, "Donnie, where are you? Donnie, where are you?" Finally, "Byron, I'm so sorry. Oh God!" he says. "I've wrecked the car. I'm really sorry. I'm sorry." He's all – "Donnie, don't worry about it. I'll deal with it. Okay, you deal with your thing. I'll deal with my thing. Okay, great." I'm standing under a tree in the rain, and I have a flight to catch or I'm gonna miss it, and I wanted to be here on time so I could be on the Energy Panel. So I pull out my phone, I hit Uber. Twenty minutes later some guy shows up, real nice guy. He takes me to the airport. It was a tight squeeze, but sort of a photo finish, but I got to the Delta Airlines place just in time and got there before they closed the door, and here I am.

What a great idea! You have lots of people out there who own a car, but it's not like they drive it 24 hours a day, but you can get them to drive it 24 hours a day. You've got people who are underutilized, underutilized assets, underutilized human capital, and that people are available to drive in their cars, okay?

Then you have the politically-protected local taxicab monopolies everywhere, which date back to the Great Depression, if not the 1920s. I think the taxicab model came in Chicago after World War I. They had lots of cars, lots of people with nothing to do. So the mayor set up a radio dispatch taxicab company. It's an entirely new logistical model, Uber is. It's leveraging large numbers of people and cars using, again, these doggone pocket phones, these smartphones. It's leveraging the GPS capability.

If you use Uber, you know this. You can look at your screen, and it'll tell you, I'm standing here, and the Uber car is right down – in fact, the Uber car just turned left, and he's gonna make a right turn. Oh no, don't make the right turn. I clicked the button. I said, "You're going down the wrong part of the street." "Oh okay." It's that good. They're GPS. It is accurate within a matter of feet. It's astonishing all because of this phone and the leveraging of the guy and his car and my phone. I mean Uber doesn't own my phone or that car. He's not an employee, although the National Labor Bureau is trying to make them employees. So it's more than just ride sharing, so we're leveraging technology.

I'll give you one more example. I'm gonna beat this horse really hard because this is the horse to beat. We're gonna apply this in other things in the rest of our investments philosophy here in a moment. Airbnb. Has anybody used Airbnb to stay in a place? Yeah, I see some hands. Airbnb, instead of going on to the Hilton.com website or the Mariott.com website or whatever and, "Okay, yeah, I'm going to New Orleans. I'm gonna stay at this hotel, go through all that stuff." You go to Airbnb, and you say, "I'm going to New Orleans, and I don't want to stay in a big hotel. I'd rather stay somewhere else." People have private rooms. People have extra rooms in their house. They might even have a whole house that's for rent.

So you have underutilized houses and rooms and bathroom, and then you have the entrenched hotel and motel industry with all these fixed costs, the labor and the taxes and the big brick and mortar buildings and all this stuff. Airbnb is sort of a way around that to coordinate people and, again, it's using GPS capabilities. It's using your computer, using your cell phone, whatever. It's not just hanging out a "room to let" sign. It's different. They're leveraging technology.

Okay, so having said all that, let's consider the energy of the mining business. Oh good, finally, we can get rid of all that techy stuff. Again, what is energy business? What is the mining business anymore when you think about it? Well, we've got oil wells and mines and roads and this and that. We've got lots of fixed assets, and they're disbursed all over the place. I assure you, you must know this if you're at this conference – there are so much entrenched, embedded thinking in the mining industry. I mean it's like, "Well, we've done it this way for 100 years, why should we do it different?" I mean, ugh, talk to the big mining guys. That's exactly what you get.

So, in terms of successful companies, companies that are going to change things, it seems to me that you want to be looking around for management teams that have the ability to leverage new forms of exploration, new ways of exploring because the old ways of exploring – that was great. But we kind of found everything, okay? Not everything, everything. I mean maybe we haven't found all the stuff in Antarctica yet, but the world has been picked over. Talk to Brent Cook. Brent, I've known for years. He's wonderful. He is outstanding. Other people in the same boat.

I mean we have really picked over much of the surface of the earth pretty much. He said this, I think it was yesterday in the Mining Panel, the really big, really rich, really easy to get discoveries have been discovered. Now we've gotta find the smaller ones. He shows you the peak gold chart with all the discoveries years ago. If you don't discover it, you can't develop it and you can't mine it by definition. You have to discover it, and we stopped discovering a couple of years ago. We stopped discovering large numbers of things.

So what's the next thing we have to do? Well, the old saying, the best way to build a mine is to go next to another mine. The best place to find oil is near other roil. So it's more than just looking for shiny stuff. Now, a couple of months ago I was out in South Dakota. I visited the old Homestake Mine in Lead, which is just west of Rapid City. It's up in the Black Hills. On the left here, you've got a photograph that kind of shows you the Homestake deposit. That's the original glory hole. That's the original pits about 900 feet deep, pretty much dug by hand, hand mules and maybe some dynamite here and there, gunpowder or whatever they used as explosive back then.

It's the greatest gold mine that ever was. I've seen different numbers, 40 million ounces, 50 million ounces, 60 million, whatever. It is a big, big, big, big, big number. I mean 40 million ounces? Do the math. Holy smokes. That is all the gold in the basement of the Federal Reserve Bank of New York City. One mine. It's the greatest gold mine that ever was, Homestake. In the Depression, in the Great Depression one of the few companies that made any money paid out huge, gigantic dividends was the Homestake Mining Company. If you owned Homestake shares in the Great Depression, if you owned enough of them anyhow, you got a check every couple of months and you lived. You survived through the Great Depression based on Homestake.

The mine got old. The mine got deep. I mean 8,000 feet, that's pretty deep. But then Homestake sold to Barrick back in the late 1990s, and then Barrick promptly turned around and shut the mine down in 2001, back in the days of $250.00 gold. Now, typical Barrick. If there is a wrong decision to be made, the Barrick management will find a way to make it. *[Laughter]* So they shut down the old Homestake Mine. Yeah, it was old; yeah, it was deep, but man, it was the greatest mine that there ever was, and they shut it down. The conditions by which they donated it to the State of South Dakota was you can't ever mine here again. Oh, okay. Well, okay, so now it's a state park.

But what if Barrick had done with Homestake, let's say, Goldcorp did with Red Lake, which is put a lot of the data online? Goldcorp did this 20-some years ago. They put the Red Lake Mine data online and had a contest. What would we call that today? Anybody? Crowdsourcing. They crowdsourced the data and said, "Can anybody look at this data and tell us if we have a better way to do it?" And they did and the Red Lake Mine became another of the great gold mines of the world.

Take decades worth of mining data, digitize it, crowdsource it, and who knows? The world's greatest gold mine might still be around. It might even be greater. I mention all of that because the technology wasn't around 15 years ago. It's easy to beat up on Barrick, but the tech wasn't there some time ago. It is there now. So now the question is: what can companies do to leverage what they have to do something better?

One company that breaks a lot of molds, you've heard the name, here is Reservoir Minerals. They're not here as an exhibitor, but I mention them. I know them very well. I've been to Serbia six times. I won't get deep into what they did, but Miles Thompson and his geological team, the Serbian team, they absolutely, I assure you, they leveraged vast amounts of data and they cracked it, and they massaged it, and they algorithmed it, and they processed it, and they did a lot of geophysics.

They did not find one of the world's great copper discoveries in 25 years by just going around kicking rocks. If they'd done that by kicking rocks, they would have had to have really strong steel-toed boots because those rocks they'd had to kick were under about 1,200 feet of surface cover. This was a very serious geologic, scientific, big data sort of play. Then when they started drilling it up, they started finding 18 percent copper grades and things like that, unbelievable.

So that's one way of leveraging tech, which leads to another sector that I want to talk about: energy development. Let's talk about fracking. Why frack? Well, you frack because that's where the molecules are. The molecules are out there. You just can't get them into the bore hole. You're leveraging horizontal drilling, high-pressure downhole pumping. It takes lots of advances in seismic, geosteering drill bits, downhole fluids, the muds, casing, perforation, all those things, well integrity. We are way, way, way beyond what we knew ten years ago.

Fracking is an astonishing level of technology, and the old oil business, the Chevrons and the Shells and the Exxons and the Hess Oil Company, they never saw it coming. It was the Mitchell Energys. It was the small guys, the small and intermediate guys who took that. Where I come from in Pennsylvania, a company like Range Resources, man oh man, are they good. They figured it out. They broke the code on the Marcellus, and they are going like gangbusters despite the economic issues of the price of oil and gas. It was small and intermediate-type companies that broke the code on fracking, and it was not the big guys. It was thinking outside the box, using tech to make it all work.

Fracking has changed everything. You've gone from development timelines offshore to go from prospect to a pipeline. It may be 12 years, 15 years whatever. Fracking onshore – I have seen projects that go from filing the papers in the courthouse for the lease to oil in a pipeline, gas in a pipeline in under 12 months. Unbelievable. You've knocked an order of magnitude off the time to turn these things around.

Lots of other issues. The proof is that it works. We've got lots of barrels. We broke OPEC with it. We got a little sheiks versus shale thing that the economists cover that is kind of humorous in its own way. At the same time, OPEC wants to break fracking. Speaking of sheiks versus shale, that's why we have $50.00 oil and $48.00 oil. The Saudis are like, "Oh yeah? You can produce it, but you're the high cost oil, and we're gonna drive you out of business." Yeah, well, what Saudis' worst nightmare is that they've turned the U.S./Canadian fracking industry probably 30 to 40 percent more efficient in the year that they've been trying to choke us off.

So, yeah, we've still got economic issues, plenty of issues. We talked about that in our Energy Panel the other night. I hope you were here. But fracking is the new marginal barrel of the world. I mean if oil gets to $60.00 a barrel, there's going to be a lot of fracking. Will we have $100.00 oil? Yeah, we could if there's a war or something big happens, but I look at $60.00 as sort of that magic price at which the marginal fracking barrel is now economic to produce in an all-in sort of cost way when you throw in the cost of capital and things like that. Now, this will change with inflation and what have you, but it's important to know that.

A company that I love that breaks the old molds, throw this at you, is Core Laboratories. You may or may not ever have heard of it. Core Laboratories specializes in petrophysics. The first time I recommended Core Labs was some years ago. It was $27.00 a share and last year it was over $200.00. Now, in the ensuing oil crash it went down to about $98.00, and now it's about $114.00. It's a pricey share, I grant you, but they specialize in petrophysics, and they analyze the rock and they basically tell the operating company, "Here's the program that you need to make the fracking program work." Without a company like Core Labs, the frackers don't know what to frack. They don't know what pressures to use, what types of fluids to use, what have you. Core just prints money and as the energy industry restabilizes in the next year or two, I think Core Labs is a nice company to keep an eye on.

Another sector that will change the world: mil tech, fifth domain of war. Lancy Airspace, yeah, but cyber. There's five domains of war anymore. I cover this in my other newsletter, *Military Tech Alert*. One concept is the combat cloud. You think, the combat cloud? What's that? Well, the combat cloud is the world of electromagnetic energy that surrounds you. We're sitting here in a room. You are surrounded by cell phone signals. You are surrounded by electric currents, magnetic currents all carrying signals. In terms of fighting a war with it, the battlescape of the world is filled with electronic signals. The only way to kill it is with an electromagnetic pulse, which is – that's a whole other story there. But I don't expect that to happen, but you never know. But until it does, the combat cloud is there.

We're looking at a future where a satellite will be passing 200 miles overhead, emitting a radar signal, which will be bouncing off things, back to the airplane, which has a very sensitive radar detector, which will pick up that signal. It will tell you within about 3 feet what's out there because it's that smart. It knows where the satellite is. It knows what the signal is. It knows what it's seeing and now you have truly a stealth aircraft that's just a receiver and not an emitter. There's so many other things we could talk about, but just to throw that out at you.

We're talking about drones and guided weapons, using the GPS signals, using the other signals over and above GPS that can put ordinance literally within three feet of where you're aimed. The idea that you can drop conventional just iron bombs or even on the lower right there – that's a torpedo. You can drop that thing from 65 miles away, and it'll land within about 3 feet on the surface of the earth of where you want it to go. It's just totally amazing. That doesn't even get into the underwater drones that are filling the oceans. I assure you they are out there, things that can dive down as deep as 18,000 feet, which is astonishingly deep. They can go for months.

It sure beats the heck out of the good old days of the top middle where if you wanted the bomb to hit the target like Slim Pickins in *Dr. Strangelove,* you had to climb on board and literally steer that thing down to the target. It was very tough, and you don't get your pilot back when that happens. *[Laughter]* Just kidding.

Anyhow, a company that breaks molds, and I know this is a gold and silver conference and everybody loves gold, and I love gold. I love Northrop Grumman. They just won the strategic stealth bomber contract the other day. I expected them to win in my *Military Tech Aler*t*;* I did long options on them. We bought in at early September at, I don't know, $700.00 and some bucks an option and we sold out the other day at $2,100.00 an option. It's like 183 percent gain. So, Northrop Grumman, it's a big defense company, but it's one of the most innovative technology leveraging companies you can just imagine. They do everything, and they do it really well. They just think outside the box in a really positive way.

On the far left is the original Flying Wing in 1948. It was so good that you couldn't see it on radar back then. That was one of the reasons why the Airforce didn't develop it because the figured if they developed it, the Russians would steal the technology, and then they'd build a similar bomber, and we couldn't find it. So that's sort of one of the reasons why the technology got put on a shelf seriously. Next in the middle is the B-2 bomber from 25 years ago, and on the right is the B whatever it's called, the B-3 or the long-range strike bomber. It's still under wraps. I haven't seen a picture of it, but they just won that contract the other day.

Down on the bottom there you see that little Delta thing refueling off of that Boeing 707-looking thing. The Delta thing is the X-47. It's a drone airplane that can take off and land by itself on an aircraft carrier. No guide, no pilot back at Nellis steering the stick or anything like that. It does it all by itself, and it can refuel in flight. It can find its way, refuel in flight. Just astonishing technology.

So anyhow, it works both ways. Russia can do that too. They're into hybrid war. Russia and China have their own way of doing things, information wars, kinetic, cyber war. This is global cyber attacks on the United States every day. Every day the Department of Defense gets hacked four million times a day. Risk on, cyber Pearl Harbor. It's not a question of if; it's a question of when.

Just the other day, Admiral Mike Rogers, who runs the National Security Agency, was in Pittsburg where I live, he gave a talk at the University of Pittsburg to a very small audience. I'm not gonna quote him on this slide by saying he said it's a question of when, not if, but I'm telling you he said, "It's a question of when, not if." The lights will go out or not. They may just corrupt all the data. What happens if they get into the stock markets, and all of the sudden all the closing prices just are wrong? What if the data you look at is all wrong? Now what? You come to rely on – it's on the internet, it must be true. Well, not anymore. They could really corrupt data. So are you prepared when that happens?

It kind of gets into what Jim Rickards was talking about this morning in the coming currency crisis. I mean all you need is something bad to happen to the electric system, the phone system, the stock market system, whatever. This is why you do want to own real gold that you have under control. Gold and guns, I suppose, brass in the form of ammo, just for whenever it happens. But something is gonna happen as we make that transition from one arena to the other.

So elsewhere, tech offers all sorts of other variations. These are photos of people who have been enabled by technology. These people did not go to school to learn how to be this evil. They sat down at their computer and picked up a lot of their ideas. In fact, the ISIS uses software that engages people across the world such that there's almost an Uber for jihad. They all just, "Oh hey, I think I'm gonna go be a jihadist. So I'll make my way to Syria and do what happens there."

Tech dangers coming to a place near you. Just last summer in Tennessee, the Navy Reserve Center got shot up by some guy who was a self-motivated radical. The one on the right, which looks like – that is not a bunch of Russian prisoners of war being led to the rear by German soldiers in World War II. That's a bunch of refugee migrants, whatever you want to call them, walking in a big long line across Slovenia towards the border of Austria. I was just in Vienna about seven or eight weeks ago. I was in the Vienna train station packed with refugees. It was scary, I assure you. Long story, it was scary. I was definitely scared of that crowd, just, you know, long story.

Anyhow, three sectors that are gonna change the world: leverage technology, leverage energy, do innovative things, break old models. I mean we're here to invest, so you can't live your life completely scared. You have to understand that bad things are out there, but you invest to make your money so that you can get around those bad things. So my newsletters, I talk about this stuff all the time. I write about it all the time. Energy, infrastructure consolidation, new tech, military tech. Thank you very much.

Now, I don't have a breakout session this afternoon, so you can go to any of the others. If you have a piece of paper in front of you, if you legibly write your name and e-mail address and bring it up and give it to me, we'll put you on the list and give you a three-month trial, and you can see if you like this stuff if you are interested. If you are not, that's fine too. Otherwise, we have an hour break, which includes the tours in the exhibitor's lounge. So I will be up here, and if anybody wants to bring up a legibly-written – I can't read bad writing – name and e-mail address, then we'll give you a little taste of what we do here. Okay, thanks very much. Appreciate it.

Charles Krauthammer

"Politics 2015: Year Of The Insurgents"

Moderator: It's always a treat to bring Charles Krauthammer on the stage since his thinking is so deep and helpful toward the future of America and insights into the political regime, but his life goes far beyond the political regime. In fact, his latest book, which I bought here last year and read on the plane going back, has three things that matter: three decades of passions, past times, and politics. Even though he covers mostly politics here, the chapters on passions and past times are very much worth reading. As a renaissance man, he was born in New York City, raised in Montreal, educated at McGill University, Oxford, and Harvard, and was chief resident in psychiatry at Massachusetts General Hospital.

In 1978, he quit medical practice and came to Washington to help direct planning in psychiatric research at the Carter Administration. In 1980, he served as a speechwriter to Vice President Walter Mondale. He has more than made up for those historical left turns *[laughter]* by writing in *The Washington Post* and *New Republic* since 1981, winning the Pulitzer Prize for his *Post* work, and the *New Republic* essays won the National Magazine Award for Essays and Criticism.

From 2001 to 2006, he served in the President's Council on Bioethics. He's president of the Krauthammer Foundation and chairman of a musical organization close to my heart: Pro Musica Hebraica, an organization dedicated to the recovery and performance of lost classical Jewish Music. He's also a member of the Chess Journalists of America. See what I mean? Renaissance man. Today he is speaking on "2015: The Year of the Insurgence." Please welcome Charles Krauthammer.

C. Krauthammer: Thank you. Thank you very much. Thank you very much. Gosh, after hearing that, I realize I've got some 'splainin' to do, *[laughter]* especially the Mondale part. That actually, it sounds like a slur, but it actually is true. People ask me, "How do you go from Walter Mondale to Fox News?" and I tell them, "I was young once." The psychiatry is a little less embarrassing and actually in the current political season, extremely useful to have. *[Laughter]*

This is, without a doubt, the craziest political season I've ever seen. I have to remind myself that about 30 years ago, I did work in an actual insane asylum, so I'm quite prepared. Around noon every day, I'd have to remind myself that I'm the sane one. That happens to me about once a day too in the current political climate.

So I'm gonna talk to you a little bit. I realize when I spoke to you last – and this, I think, is my fifth year – it was right before the 2014 elections. This has been the most wild political year from then to now that I've seen in the 30 that I've been commenting on politics. I mean consider this: one of the two major parties, its major challenger for the nomination is a 74-year-old socialist Brooklynite from a dairy state, who honeymooned in the Soviet Union. In the debate on Wednesday, Lindsey Graham was talking about Bernie Sanders and said, "Yes, there's a man who honeymooned in the Soviet Union and never came back." *[Laughter]*

So he's your number one challenger, which tells you a little bit about the revolt of the – it's the revolt of the base against what is seen as the weak and unreliable middle. It's happened on both sides of the aisle, Democratic and Republican, although I think the democrats have gone a little bit overboard with their early worship of Bernie Sanders, whose main claim to fame is having served for 25 years in the Congress and left not a trace. That's hard to do, *[laughter]* but he's managed to pull it off. Until about two weeks ago, he never had a chance to win the nomination.

I think I said about four months ago on the air that Kim Kardashian had a better shot at the nomination than he did, and she isn't running this year. *[Laughter]* But the size of the crowds he drew and the fact that he was touching all the liberal erogenous zones in a remarkable way, made him quite a character and spoke a lot about where the Democratic Party is. Now, as of a couple of weeks ago, there was still some question about the outcome of the nomination. There is none right now, but consider this proposition that unless she is indicted, Hillary Clinton will be the Democratic nominee. Of how many presidential candidates could one ever say that?

Now, she won't be indicted because the Department of Justice under Obama is never gonna do that. Just a week ago, they basically took a pass and said they will not even indict, investigate, or do anything about the IRS scandal. So Lois Lerner is gonna get a pass. That was sort of a *prima facie* evidence of government corruption of the highest order. So if they're not gonna go after Lois Lerner, who is pretty low down on the pecking order, they're surely not gonna go after Hillary Clinton unless something totally egregious surfaces in her e-mails.

I actually think that the part of the e-mails they're most worried about, and I'm sure the parts that they obliterated – the 30,000 e-mails that she unilaterally deemed personal and, of course, erased – I suspect that the most damning part of that would be references to and connections with the Clinton Foundation and quid pro quos. Whether that's ever recovered or not, I don't know, but in the absence of something like that, something that would be so embarrassing that either the FBI investigation would have to recommend prosecution or with that recommendation being turned down for obvious political reasons by the Department of Justice, you'd get a series of resignations among the career lawyers of the FBI, which in and of itself, would become a major scandal.

If those things don't happen, and I suspect the chances of those things happening are very small, she will be coronated next year in Philadelphia. In fact, it'll be more like a worship service than a coronation. The hold that the Clintons have on the party is quite remarkable. So you've got on the one hand one party, which has gone so far left that the chief challenger is openly socialist, something which is unusual in American political discourse. You can be a closet socialist, but I guess we're way past the don't-ask-don't-tell historical part of that. Right now, it's, you can come out and say it. That tells you something about the state of the Democratic Party post Obama.

One of the things I want to touch on is the effect – and I think to understand where we are now, and to look into the dynamics of the current race and where the two parties stand; there are two phenomena that I think are very important. One is the Obama presidency itself and its effect on American politics, not so much the policy side. I mean that's another half day of discussion, but just its effect on the cross current of politics and its effects on the ideology of the two parties. That, I think, is a major issue that you need to look at to understand where we are now.

The second is to look at what was a direct reaction, almost a Newtonian counter action to Obama's, especially his first two years of hyper-liberalism when he had control of the house and the Senate, and he was able to do certain things that hasn't been able to do since. But the reaction to that liberal overreach, namely the Tea Party and its fellow travelers, I think is the other really important dynamic of the last seven years, and the one that has had a direct influence on what's happening within the Republican Party. So let me just spend a minute on Obama's ideological influence.

Obama, in my view and some of you have heard me talk about this, is not your ordinary liberal. He's out of the mainstream of American liberalism. You know what a liberal is? It's somebody who doesn't care what you do as long as it's mandatory. *[Laughter]* But that's not ambitious enough for Obama. He really is a social democrat. He is a Bernie Sanders without having declared it, and look at what he tried to do. He accomplished some of what he tried to do, but he basically – and he said this in his first State of the Union Address – he was out to radically change America, transform America. He was very specific as to how he was gonna do it in three ways: healthcare, education, and energy. Well, healthcare we know. He's essentially nationalized and centralized decision-making in Washington for one-sixth of the American economy.

Education: he's done some. A lot of it has been below most people's radar. He did nationalize student loans. He destroyed the for-profit higher education sector. He wants to federalize and nationalize higher education, meaning college as the way it's done in Europe. The only thing I agree with is in his second inaugural address he called for a universal preschool. I'm sympathetic to that because I think that the five-year-olds of America are having all too much fun. *[Laughter]* It's about time they were regimented and herded into government-run institutions where they'd be kept all day and forced to eat Brussel sprouts at lunch. *[Laughter]* So that's the one area where we have some kind of overlap.

Then the third area for him was energy, as you know. You know very well, he took a shot at Cap and Trade when he had control of the House, when he had control of the Senate in his first two years. But it was so radical that even when he controlled the Congress, he wasn't able to get it through. Now, as you also know to your chagrin, he's been trying to enact that unilaterally through executive orders and especially by regulation through the EPA and the Energy Department. The good news is that – he can do that, and he's done some of that, and they have tried to kill coal, to restrain fracking, and to put all kinds of other restraints. But the good news that can be canceled with the stroke of a pen by a new president on inauguration day and the regulations could be rolled back.

So, as a legislative event, Obama-ism had a limited success. Obamacare, which I think is still repealable and would be repealed if the Republicans win the House, maintain the House, maintain the Senate and win the presidency. With education and healthcare, the damage I think is quite reversible. I would add that on foreign policy, which I won't be talking about a lot here, but we can do in the question and answer that will follow, the damage there has been mostly irreparable or at least damage so deep, meaning the loss of confidence of our allies and earning the contempt of our adversaries – and this is in just about every area of the world from the South China Sea to Ukraine to Syria to the Iranian nuclear deal – those are gonna be very hard to undo, and they could take a very long time. So the damage done there will be very longstanding.

But on domestic issues, despite his successes, I think most of it is repealable and will be repealed in time, in part because this is and has been and remains a center right country. Obama vastly overreached in his agenda. He was a young, ideologically ambitious and arrogant president, and he wanted to do what he wanted to do. I think what he realized was that that cannot really be done in the United States. Our politics are fought between the 40-yard lines. In Europe, they fight from goal line to goal line. They have real fascist parties, real communist parties. In America, we have two centrist parties: one right of center, one left of center, and the playing field is usually between the 40-yard lines. He tried to push the ball into the red zone. That's not intended as a pun, but I think it'll work. *[Laughter]*

It just doesn't work, and how do we know? In November 2010, first chance the electorate got to pass a verdict on Obama – and remember both the symbol and the best example of Obama is and was his healthcare plan, extremely unpopular, was unpopular, remains unpopular – and he suffered what he himself called a "shellacking" in the 2010 election. P.J. O'Rourke said, "That wasn't an election; that was a restraining order." *[Laughter]* And it was because, as of that election and Obama losing control of the House of Representatives, his agenda as a matter of legislation, meaning of a certain permanence was over, done. He has passed nothing of that importance, that significance since, and he clearly won't between now and the day he leaves office.

So that was the Tea Party revolution, but for every person who showed up at the Town Halls to protest Obamacare and taxes and regulation, it turned out there were nine people at home who were a little less energetic, didn't want to go out to a demonstration or a Town Hall, but who voted. The verdict was overwhelming, a total shellacking for the Democrats at the national level and the state level.

We know that was repeated in 2014. Now, you can say, "Yeah, but what happened in between?" That's 2012, how could he win reelection if he had so overshot ideologically? Well, the reason is that midterm elections are entirely ideological. They're about ideas and policies. Obama himself said in the run up to the 2014 midterm, "I'm not on the ballot, but my policies are," and they were. He suffered what the economists called "a massacre" which is worse than a shellacking. *[Laughter]*

The Democrats have been truly decimated. We don't see this because Obama dominates the scene and has been able to wield his power, I would say, unconstitutionally with executive orders on immigration, executive orders on criminal law reform, executive orders, as I said, on things like environmental, using climate change as a lever to do things unilaterally. That is all true, but as a matter of standing in the country both at the national and the state level, the Democrats have their lowest ebb in the House of Representatives since 1929. They lost over 680 seats in the state houses. They're at their lowest ebb in 100 years. They lost the Senate. I think 31 governorships are in the hands of Republicans.

They have done – he has done and his agenda has done, again, led by Obamacare, led by these overregulation and this intrusiveness of the government, his social democratic ambitions – that has caused tremendous damage to the Democratic Party. There's a reason why the Democratic field for the presidency is a gerontocracy of 3, whereas, the Republican have 16 candidates. I mean a little bit slightly exaggerated number. But if you look at the field, you look at the debates, you look at the podium, you've got a young generation of Republicans coming up. Look at the new House speaker in his 40s.

You look at the leading candidates, or at least the ones with the best chance to win the nomination on the Republican side, the most prominent of those are also in their 40s. The Democrats have very little. They've eaten their seed corn. They're down to rather elderly and worn candidates, which is what happens when you lose the farm team and you lose them in the midterms.

Now, the midterms are ideological. The midterms are over ideas, policies. As I say, in a center right country when you put that to the people, the right wins. They win every time if they can make the case. If they are inarticulate and they can't, they lose. But generally speaking, and this is why midterms are so favorable to the Republicans, it's about ideology and policy, and they win.

Just to back up with one statistic my claim – this is a statistic-free, fact-free election, so I'll break the trend, and I'll just give you one fact – which is if you go back on the Gallup polls, 30 years of ideological self-identification, you see we're a center right country. The numbers are fairly unmoving. They have around 20 percent liberal self-identified, 40 percent conservative, 35 percent moderate. You do the math and you see that 5 percent have no idea what the hell is going on. *[Laughter]* Of course, they are the ones who decide the election, but what can you do?

As Churchill said, "Democracy is the worst form of government except for all the others." It's a center right country. You try to go to the left, you'll be repudiated. You can win in '08; '08 was an election where it was impossible for Republicans to win the White House again. That was the year where the Italian Communist Party could have won the election. Some people will say that it did. *[Laughter]* I would never be so unkind.

So the Republicans tend to win, but then when you get to the presidential elections, what you get is personality. You've got somebody at the top of the ticket and that personality, the attractiveness, the unattractiveness, the appeal, even the charisma of the presidential candidate is overwhelming, and it tends to suppress whatever are the ideological cross currents. Particularly, if the candidate like Obama in '08 is able to blur the distinctions. I mean it was very unclear whether Obama was kind of a center left Clintonian liberal or whether he was the more hard left social Democrat he turned out to be. He did not let that be known until after he came into office.

So, if you're charismatic enough, smart enough, and nimble enough, you can win presidential elections that way. The Democrats have simply had better candidates. I mean in 2012, a year they should never have lost the election, they elected the best of their field of candidates. They had a terribly weak field of candidates in 2012. The comparison with the current crop – there's just no comparison. There's at least eight or ten people on the stage in the current Republican debates who could be president. Surely, they could put together a tremendously strong cabinet. Many of them are able, experienced, and articulate.

But Mitt Romney, whom I liked, I supported – I think he would have made a good president – was not a great presidential candidate. One of the reasons is that he just admitted last week he invented Obamacare in Massachusetts. Now, when Obamacare is your trump card in this election, you have to be an unusual political party to pick the one man in a country of 300 million who can't make the case on Obamacare because he invented it. That's not easy to do, but the GOP managed to do it.

The other problem with Romney is he ran against a man who, although not as charismatic in '08 as he was in '12, because he'd been in office and people could see what he did, nonetheless, was a far better candidate, far more attractive candidate to Mitt Romney. Mitt Romney had a major problem that he was rather dull.

My adolescent hero in politics when I was growing up was Henry "Scoop" Jackson, the Democrat from Washington State, Cold War Democrat. In 1976, he ran for the presidency for the Democratic nomination and in the Massachusetts primary, I, at the time, was a chief resident at Mass General. I handed out a lot of leaflets for "Scoop" Jackson. Jackson won the Massachusetts primary, I should say. I handed out a lot of leaflets. *[Laughter]* But in the end he didn't win the nomination, and the reason was that he was very dull. But I mean he was extremely dull. It was said of "Scoop" Jackson that if he ever gave a fireside chat, the fire would go out, *[laughter]* *w*hich brings us to where we are now.

What's been so striking over the Obama years, and some people have speculated that this will now be the future, is that the Republicans appear to have become the Congressional Party, and the Democrats the Presidential Party. Democrats win the Congress. They win in the off-year elections – I'm sorry, Republicans win in the off-year elections. They dominate the Congress. Democrats seem to produce the better candidates and to win in presidential years. I'm not sure that is true. I think that Barack Obama was *sui generis*. The '08 election, it was just off the charts. He produced a turnout of his constituency, meaning African-Americans, Hispanics, young people, and single women totally out of proportion of previous elections.

So it wasn't just the percentage of them that he won, but the turnout was astonishing, and that was recapitulated to not quite the same extent, but occurred again in 2012. I don't see Hillary Clinton as being able to duplicate that, and I don't see it as being intrinsic to the Democratic Party. I can't imagine the enthusiasm for Clinton is gonna be anywhere near the way it was, for example, for Obama in 2008, the first African-American president, young and dazzling in many ways.

So I think that is a projection into the future that is wrong. Excuse me. What's gonna happen, I think, these presidential elections, the one we're in now, the ones to follow will hinge on the quality and the talent of the presidential candidate. So I think on ideology, on policies, the country remains comfortably conservative.

There's one thing that's very interesting about what's happening on the Democratic side in this cycle. If you listen to Hillary or you listen to Bernie, what are they campaigning on? They're campaigning on income and equality. They're campaigning on the squeezing of the middle class. They're campaigning on a slowing economy, a decrease in immediate income. They're campaigning on precisely the issues that the opposition is gonna campaign on.

I mean who has been in office the last seven years? It is passingly strange to hear the Democrats railing against the state of the economy when it's been in their hands for seven years. The reason they're doing it: they have nothing else. They don't have the kinds of issues that I think would be attractive. The economy is always the major issue in an election, and they have to deal with the hand that they have. They do it in a way by pretending that they haven't been in office for seven years, and they've never heard of Barack Obama. *[Laughter]*

They may pretend to say, "We're gonna carry on the policies." That's required, particularly of Hillary, otherwise, she's gonna look disrespectful. But their policies, their arguments are exactly what you would expect. You will see once the GOP picks a nominee is gonna make and is gonna argue against the abject failure of Obama's economic policy, which will only be continued or even accelerated under any of the plausible Democratic candidates.

Now, the reason that I think they've been able to get away with this is because of the insanity on the Republican side. In other words, I think the GOP will regain its sanity when it picks a nominee, who will then run on the abject failure of this economy, executive overreach, and a lot of other issues, particularly the foreign policy, which generally speaking, foreign policy is not a major issue in presidential campaigns. Almost never is. I can't count more than twice in the last 30 years, but it will be a very important issue in the presidential election. A lot of it can be pinned to Hillary Clinton.

So you're not hearing anything about it now because the Republicans all agree among themselves essentially in their critique, but you will hear about it in a general election. I think it's gonna have a major effect.

So those are gonna be the issues on which the campaign is fought. The problem is that the Republicans have spent the last five months attacking each other, often in a very bitter and ad hominem way, which has done nothing to help their prospects for 2016. It's not just that they've diminished each other to some extent in the same way that if you go back in the 2012 primaries, the major attacks on Mitt Romney, which were used, of course, by Obama in the general election, were all started, sharpened, and shouted from the rooftops by Romney's opponents in the primaries.

It was Newt Gingrich – how do you say here? – bless his soul, *[laughter]* who ran the ads of Romney being a "vulture capitalist." It was just sort of a gimme that the Democrats could pick up, and in the same way, we've had a lot of ad hominems tossed around in this presidential field on the Republican side. But even worse than that, because I think you can sort of overcome that, is the fact that the GOP has had four or five months now since when the campaign got going to make the case against the Obama years, to make the case that you've heard in the midterm elections, that you have heard much less of, which is the failure of the Obama economic policies.

That's what's called an opportunity cost. That is four or five months you're not gonna get back. Had they been able to run a more civil campaign, had they spent a lot less time on attacking each other than on making the ideological case, they'd be far better. They could have already laid the premise for the economic arguments of the general election. That's gonna have to be all ginned up after the convention, and that'll be a little bit late, but there's been a huge opportunity lost.

So, let me just spend a few minutes on the craziness on the GOP side and the damage it has done that will influence how things turn out in the general election. Then we'll go to maybe 15 minutes, 20 minutes of questions.

So how crazy is this year? Sometimes watching who the two front runners are, I think that I really know nothing about the United States of America, and maybe I should immigrate to New Zealand, but the South Island because the North Island is too close to here. *[Laughter]* I mean I must say that on the night that Donald Trump made his announcement speech, I was dumfounded. I was on the air that night, and I simply read the passage where he essentially said that Mexican-Americans are, "Drug dealers, criminals, and rapists." Although he did add that, "Some," comma, "I assume," comma, "are good people," which I thought was a nice concession. *[Laughter]*

So I kind of railed at him as a know-nothing xenophobe, which I thought was a moderate way to put it. The only gratifying part of that, because I turned out to be wrong in my assessment of how that would be received – as we all know, Trump's numbers went up. The only upside of that outburst of mine that night was that I kept Trump up all night writing Tweets about me. *[Laughter]* The stuff you know about now: "Loser, over-rated. Why is he on TV?"

But my favorite was his last Tweet of the night in which he said he re-Tweeted what my publisher had put out when my book had come out a few weeks earlier in paperback. So his Tweet read: "*Things That Matter* by Charles Krauthammer, now out in paperback. Book sucks." *[Laughter]* As I noted the next night on Bret Baier show, that was the shortest review I'd ever gotten. *[Laughter]* But I wanted just to show you that when they do the next edition of that book, that will be the lead blurb on the back cover, because I can't think of a higher compliment. *[Laughter]*

You know where I'm going, but in deference to the fact that I'm sure there are a sizable number of you who are Trumpians or Trumpites – I'm not sure what the word is – I'll go easy on that. But you get my drift. I had thought from the beginning that he had no chance to get the nomination. That's no longer true. I don't think he's the leading candidate. Yes, he's leading in the polls, but I don't think he has had the best chance to win the nomination, but he does have a chance.

Now, I have to confess that the Ben Carson phenomenon leaves me even more puzzled. This is where I think I really have to go to Tasmania or maybe Antarctica *[laughter]* because I can't figure this out at all. He is a very good man, a very sweet man, impossible not to like, but whenever he talks about policy, he seems to me to be at sea. But that doesn't seem to matter. When you look at some of the policies – I don't know if you could dignify them by calling them policies – but some of the policies of Trump and some of the statements of Carson, you really have to scratch your head. But it is what seems to be, at least a political season. I don't think it's gonna last through the primaries and the caucuses.

There seems to be a season where the logic of polices or the fact that they may be antithetical to conservatism seems not to matter. I mean, for example, think of the heavy-handed state apparatus that would be required to deport 11 million illegal aliens. Think of the forfeiture of power to the executive if a president can unilaterally put tariffs on any kinds of goods he wants. I though the Republican Party was the conservative party and would look askance at that kind of what can only be called statism, but that doesn't seem to matter. Nonetheless, they are the two front runners.

What I was encouraged by was the fact that the recent debate, the CNBC debate, which was a glorious travesty, by the way – I mean the conservatives have been railing about the bias of the media for 50 years. Liberals presented an irrefutable example of it in that debate that even other liberals in the media had to confess was an embarrassing travesty. But the fact that that was the first non-Trump-centric debate allowed some of the others in the field, who had been overshadowed ever since Trump rose to number one – I think it was the first time people got a really good look at the breadth and the depth, seriousness of the rest of the field.

I thought Rubio and Cruz really distinguished themselves, even Christie whose chances, I'm afraid are at the marginal, had a great night. You saw his answer when the, sort of the personification of the whole primary race, the one question people have attacked, which I thought actually was a rather good one was the question about Fantasy Football. Now, the reason I thought it was a good question is that it was so trivial, that I was sure that no candidate had a prepared answer. *[Laughter]* So, psychologically, it was revealing. How do you handle something out of the blue?

What was revealing is that the question went to Bush, and he had a funny line about him being 7-0, but then he addressed the question, which he shouldn't have. He said, "Well, you know, this really isn't a very good thing. We probably ought to regulate it." But then he remembered in mid-answer that he's supposed to be against regulation. *[Laughter]* So he said, "But regulation isn't really a good thing," and left you hanging there. Then you know what happened. It went to Chris Christie who said, "We've got a $19 trillion deficit. We've got Al-Qaeda and ISIS killing our people. We've got X, Y, and Z on and on, and you're asking about Fantasy Football?" which was the right answer, and he brought the house down.

So I thought it showed that we have a fairly, fairly strong field, and I do think – I'm not quite sure what the sequence will be, but my guess is that among the outsider candidates, one of either Trump or Carson emerges. I can't quite predict because I don't understand either phenomenon. I mean I do, of course. We all know it's the revolt against the Republican establishment, and it is the fact – and I will credit this. This is not a trivial event – but when the Tea Party did arise, the Tea Party did swing the Congress against Obama and by doing that, shut down the Obama agenda. There was an expectation that the leadership in Congress would be responsive to what they wanted to do.

Basically, what they wanted to do was to govern from the Congress, repeal Obamacare, defund Planned Parenthood more recently, do all these other things. Unfortunately, given the structure of the government, there's no way to do that unless you believe that if you shut it down, you will eventually come out ahead. That was tried in 2013, and it was an abject failure. In fact, it was a disaster. Republicans standing in the polls as a party, as a brand failed to its lowest ebb ever recorded during that shutdown.

If you remember, the shutdown of October 2013 coincided, since it started on October 1st, with the opening of the Obamacare exchanges. The biggest calamity, the biggest demonstration of the inability of liberalism to carry out its own ideas and plans, a total disaster for the administration and for liberalism, overshadowed for 13 days totally gratuitously by a Republican blunder, by taking all the attention away and shutting the government. But nonetheless, that feeling, which led to by the way, the resignation of John Boehner, the rejection of Kevin McCarthy, in other words, the overthrow of the current leadership is fueled by the sense that the Tea Party insurgents are the ones who sort of given the keys to the kingdom to the GOP, and they've done nothing with those keys.

My counterargument is that you can't do that under our Constitutional system. The function of the Congress when it doesn't control the White House is to block and to stop and that's exactly what it's done for the six years since they regained the House. But if you want to actually govern and change and enact, you can't do it by threatening to shut down the government as long as the executive is controlled by the other party. You can only do it by winning the White House. That's my personal argument with the Tea Party.

Nonetheless, it's an undeniable fact that the feeling is very strong among those who supported the Tea Party, worked for the Tea Party candidates, saw them installed in 2014, and now feel that it was all done for nothing. As Ted Cruz likes to say, "Washington is still being run by a bipartisan cartel of the ruling political class." I think that's vastly overdone, but whether I think, it doesn't matter. They think it, and that's the reason for the discontent among Republicans, and that's the reason that you've had all this disarray in the Congress.

Now, here's the good news for those of you who are conservative, which I dare say is a fairly sizable percentage of you. I think this will turn out okay, and it has a chance of turning out splendidly. The first thing I'm encouraged by Paul Ryan being Speaker of the House, something he never would have sought without all this agitation and foment; the fact that I think he's a very talented political leader with serious ideas for reforming the welfare state in a way that is very conservative. He doesn't want to overthrow it. He knows it can't and shouldn't be overthrown, will never be overthrown, and will doom any party that thought it could do it to oblivion.

But I think his leadership in the House is a very good prospect. Whether he will deliver, I don't know, but it's a very good development. On the other side, I think the Republicans will probably – not 100 percent sure – regain their senses and pick among the very talented younger candidates, meaning Rubio, Cruz, possibly on the outside Fiorina or even Christie. I'm afraid Jeb Bush may have met his Waterloo in that debate. There's already signs that some of the Bush backers are shifting over to Rubio.

But just for a second, if you can imagine Ryan in the House, Rubio in the White House, both in their early 40s with a dedicated reform agenda, what they could accomplish, then there wouldn't be the Tea Party complaints of being know-nothing and do-nothing because they would have control of the instruments of power. Can they win? I think they can. If they pick Trump or Carson, the Republican Party will suffer defeats that will make the Goldwater year look like a great victory. I think it would be a total shellacking.

I know people are hoping for a miracle or thinking that this kind of style could win over, but I'm not sure that Trump can even win the Republican nomination. It is possible, but I think in the end as people approach Election Day or Caucus Day, they're gonna think twice.

I don't think that Carson has the weight or the gravitas despite his amazing attractiveness. His favorability numbers are historic. It's something like 84 favorable, 7 or 8 unfavorable. I mean the pope can't get those kinds of numbers, *[laughter]* but he's not running. I don't think he'd run as a Republican either, actually. *[Laughter]* But that's a subject for another time, and I digress. So I'm gonna end on a very optimistic note that I do think the Republicans are gonna end up picking the right candidate With Paul Ryan running the House, I think if they win the general election, and I would give their odds now as maybe 55, 60 percent, you could see really a renaissance.

The beauty of that, the irony of that is if you look at the mainstream media, they've been writing the obituary for the GOP for the last four, fix, six months saying that they're hopelessly split. They're only split because they don't control the instruments of power that they need. They agree on the ends. There's a huge disagreement on the means and as to whether you can enact any of this agenda without control of the White House. Assuming you win control of the White House, that disagreement over tactics disappears, and then we have a real prospect of a real reformed conservative government.

I think we could see a revival of the Reagan Revolution without Reagan. You don't get Reagan every generation. We don't need to hope for a Reagan every generation, but I do think the prospects are bright. I, again, revert always to Churchill in my darker moments, Churchill who said, "The Americans always do the right thing after having tried everything else first." *[Laughter]* So we've had seven years of trying everything else. I think we're gonna end up doing the right thing. Thank you very much.

Moderator: Thank you. If you're asking a question, could you please step up to the mic on either side so you can be heard by everyone and we'll alternate. Go ahead.

Audience: Yes, you mentioned that we, the public, didn't know Obama before the first election, but he published two books explaining exactly what his ideology was. Do you think perhaps that wasn't publicized as well?

C. Krauthammer: No, it wasn't. I thought the biggest clue from those two books was this was a man with no achievements, no accomplishments, no signature legislation. The one thing he had done is to write two books, and they were both about himself. That should have been a clue. That wasn't picked up on. The other part of this that should have told people who he was were his associates. With a man with no accomplishments, you might want to judge him by Jeremiah Wright. You might want to judge him by William Ayers. You might want to judge him by Rashid Khalidi, who was a PLO propagandist.

I thought John McCain made a huge tactical mistake when he declared at the very beginning of his campaign that he would not bring up Jeremiah Wright. The reason he did it, John McCain is a noble man, and he thought it would imply some tinge of racism if he did that. I think John McCain was totally wrong. That would have been very revealing. This is a man whose pew he sat for 22 years, baptized his children, and was his spiritual mentor. I had some idea of who he was. I wasn't sure though whether he was a liberal who would occasionally throw bones to the left or a leftist who would occasionally throw bones to the center.

Let me just add one anecdote. A week before he was sworn in, I was at a dinner with Obama, president-elect Obama, the only one he had with conservatives for about a year or two. I remember the left-wing commentators were extremely upset, so his people scheduled a breakfast the next morning. We got steak and they got Cornflakes, so I'm not sure it really assuaged their feelings. But at the beginning of the meeting before the president-elect arrived, I asked around the table – this is about 10 or 12 conservative columnists that you would all recognize – "Do you think Obama is a sort of centrist, who will throw a bone to the left or a lefty who throws a bone to the center?" Nobody knew.

We then spent three hours with him. Larry Kudlow asked a lot of questions about the Gold Standard; I remember that. A lot of other good tough questions, but I was impressed by how intellectually nimble he was. So when the president-elect left three hours later, we were sitting around, and I posed the same question: "Center who throws a bone this way? Lefty who throws a bone?" Same answer from everybody at the table. No idea. I thought it was interesting because then he revealed himself, not even in his inaugural address, but in his first State of the Union address where he laid out the three-part agenda: healthcare, energy, and education.

So, yes, we probably should have given his book closer reading, but I don't think that books are necessarily determinative when you're electing a president. It's how you do on the stage of the debates, how you look in your acceptance speech, and Obama played that one very, very cleverly. Yes, sir?

Audience: I am impressed by past elections at how the candidates avoid the really serious questions, and in my mind the most serious question we face today is excessive debt. It's a global problem, and it's clearly a U.S. problem. Do you think there's any change that'll be meaningfully addressed during this election?

C. Krauthammer: Meaningfully is the operative word there. Democrats will totally ignore it. If you watched their debate, it was a who can give out the most ice cream, and who is gonna put sprinkles on top? That's what they do. That's all they could do. Republicans talk about tax cuts. It's interesting, when the press criticizes the Republicans or when they ask them questions in a debate, "How will you pay for the tax cuts?" have you ever heard anybody ask the Democrats, "How will you pay for the ice cream and sprinkles?" Never.

I don't know that it'll be highlighted by Republicans as a way to bludgeon the Democrats for running up the debt after Obama said it was a – I think he said it was "un-American," the $4 or $5 billion that Bush had increased the debt in his eight years. I think Obama is now up to $7 trillion or $8 trillion – not billion – trillion in increased debt. So it'll be used, but I don't think there's gonna be a serious proposal.

What I do think will be serious, and this is why I'm encouraged by Ryan in the House – Ryan has serious plans for entitlement reform. Now, you're not gonna campaign too much on entitlement reform because you'll be demagogued to death by the other side, and you want to win the damn White House. But you can talk about entitle reform in broad term, but they have real plans, not just rhetoric. So, yes, you could get an attack on the debt. It's not gonna be a reduction in debt, but reduction in the rate of growth so that you get a reduction of it as a percentage over GDP, which is what counts.

I think there would be serious entitlement reform and tax reform, which would increase growth, increase revenues, and again decrease the debt. So, yes, it may not be an issue in terms of specifics, but it will certainly be an issue for legislation if the Republicans win the White House.

Audience: Always subject to change, right now what would be your top choice for the Republican candidate for president and vice president? Just an opinion.

C. Krauthammer: Well, sure, since we're off the record *[laughter]* and it looks like there are not very many of you young enough to know how to Tweet. *[Laughter]* I always check the median age of my audience before I say anything off the record. I gave a talk to some House interns and staffers a couple of years ago where it was really off the record; there was no press. By the time I got back to my office, which is ten minutes away, my assistant said, "I can't believe you said such and such!" I said, "How do you know that? I was only there?" He said, "It's been Tweeted all over the place." So I'm rather careful on that.

Look, the dream ticket is Rubio/Fiorina. *[Cheers and applause]* You've got everything there. I like the fact that the last names both in vowels. *[Laughter]* But that's just me. Look, Rubio on paper is what you'd what to do to run against Hillary: young versus old, dynamic, doesn't have baggage, and if he does, it's about – what is it? – a fishing boat. You saw that front page *New York Times* story? The great scandal about his finances, that he had a student loan. When he paid it off, he bought what the *Times* called "a luxury speedboat." It was a 24 foot fishing boat for the family that one of my colleagues noted could fit in Hillary's swimming pool. *[Laughter]*

I mean, look, when Hillary launched a campaign, remember with the book tour? She did an interview with Dane Sawyer. She said, "We were broke when we left the White House." She said, "We had trouble paying the mortgages." *[Laughter]* Politics 101: when you're pleading poverty, do not refer to your domiciles in the plural. *[Laughter]* Not a good idea. Then I love the fact that when we first heard about the e-mails, I think it was a Tuesday, on the Friday her spokesman came out and said, "There's not a shred of evidence of any wrongdoing." *[Laughter]* Of course not, she shredded the evidence! *[Laughter]*

On paper, he crushes her. Of course, demographically, he helps to cure the Hispanic problem, but here's the beauty of Rubio, that if you've watched him in the three debates – we've had a lot of candidates who on paper, Guliani, for example, were perfect. There's a guy who has delivered. He has tremendous political talent. I've heard from Republicans and Democrats, and I would tend to agree, he could be the most talented, pure political talent in his ability to communicate in his fluency and his knowledge of issues since Bill Clinton in 1992.

I think as a presidential candidate, there's something about him that I think would be extremely attractive. The beauty of having Carly on the ticket is in this day and age, as we're trying to figure out the next stage of feminism, it remains hard for a man to attack a woman because you run into minefields of language. Look at what she did when Bernie Sanders said, "It doesn't help if you're just shouting about –" I forgot what the issue was. She then said, "When women talk and disagree, they're not shouting. They're expressing an opinion." She could be the one to take on Hillary. So that would be my ticket.

Moderator: We have just one more. There's time for one more.

C. Krauthammer: Okay.

Moderator: Who's next?

Audience: I was gonna ask based on – I was listening to a liberal commentator a couple of weeks ago and he said basically, "We got this election in the bag. All we gotta do is win all the states we won the last five elections plus Florida or plus Ohio and one other state," of six others he mentioned, "and we win." How do we overcome that mathematical disadvantage?

C. Krauthammer: By challenging the premise that you're gonna win all the states you won last time. Obama is a *sui generis* candidate, especially in '08, but again in '12. He won a lot of purple states, and he did it with historically large turnouts of constituencies that historically don't have a high turnout. African-American turnout was higher than white. That's pretty unusual. Will Hillary replicate that in the general election? I doubt it. Hispanic running against Rubio or, say, a Cruz? That's not a slam dunk either.

I think Romney lost the Hispanic vote by 44 points. There is nothing written that says that has to be true. George Bush, George W. Bush in 2004 won 44 percent of the Hispanic vote and lost it narrowly. As long as Republicans are competitive among Hispanics, that wipes out this entire notion of demographic destiny. That's rubbish. There's no reason that Republicans cannot appeal to Hispanics or entrepreneurial, Catholic, traditional in many ways, young people.

Look at how young people have fared over the seven Obama years. You could believe in hope and change in '08, and if you were young enough, you could still believe in it in '12, but nobody is young enough to believe in it today. If you are, you're underage, so you shouldn't be voting. *[Laughter]*

So what's left? Single women. Yes, they will always vote for the liberal party because they are the most dependent on the state. That's a natural development. Will they turn out in the numbers as before? I don't know. With Hillary, they probably will, but that means three of the four major elements of these are gonna be in question. You take those away and there is no – yes, of course, New York, California. One the one side, Texas, and the southern states on the other side, but the field of battle is gonna be very large.

Again, Rubio, a Hispanic American and, say, a woman – you could probably have someone else if you put a Ted Cruz on the ticket, you have this kind of young guns, very dynamic, young candidates like Clinton/Gore in '92. So there are many ways to go for Republicans, and I completely reject the premise that the past is prelude. The future is open, and it can be won. Thank you very much.

Moderator: Thank you, Charles Krauthammer.

Brien Lundin
"The Great Gold Giveaway"

Moderator: Now I'm going to introduce Brien Lundin. You know him very well if you've come to any conferences. I first met Brien when he came to Gold Newsletter over 30 years ago. I had already been here two or three years and he came in 1985. And one thing that is very important in the newsletter industry in 1985 was the Lowe decision as it's known, about the newsletter business.

Before 1985 newsletter editors like us, like Jim Blanchard, could not mention stocks without registering with the SEC and going through the same stringent regulations that a securities firm would have to go through: declarations of what you own, when do you own it, how you could describe a stock. And in fact you couldn't even say things like you expect the stock market to go up because that's an implied future prediction of the market.

We were hamstrung in that way before 1985. After 1985 we could talk about stocks as long as we did not make a market in therm. And that opened up the entire arena of gold mining stocks and other related resource stocks in Gold Newsletter. And Brien Lundin has been the champion of turning Gold Newsletter into a full service metals report which includes ever kind of gold mining stock as well as the gold market itself. And he's done a wonderful job in editing Gold Newsletter for the last 25 years now, I think.

It's a treat to be able to introduce him, a good friend who has been kind enough to invite me back here over the years. So let's hear from Brien about the great gold giveaway. Brien Lundin.

Brien Lundin: Well, if I was any kind of a show producer I would never schedule myself to follow an act like that. And I'm not talking about Gary – although he was good too. But wasn't Dr. McCarter wonderful? We've all enjoyed his stories periodically and here and there over the years. But it's just wonderful to get him to tell everybody that. And believe me, he's got a lot more stories. So please take the time to talk with him during the course of the conference.

So we've got a dwindling crowd this late at night, people have things to do. I'm the last speaker, so let's have some fun with this. Let's go through this presentation and hopefully we'll have a little time for some questions and answers afterward. And if you have one question during the presentation just yell it out. Let's keep it real informal.

Let's start it. Okay. I don't have to confess this presentation is a bit like last year's. And in fact for the last few years there hasn't been a lot very exciting going on in gold, at least not a lot that's affected the price of gold. So I decided to really focus a bit this year on one of the big issues and that's the great gold giveaway. I'll go into that in a bit.

Briefly, though, let's review a little bit about what's been going on in the market. Bottoms up. Is the bottom up? We have the idea; we generally think that we're around a long-term bottom in the metals and that this is an opportunity, one of those kinds of opportunities, as I've said, so far a couple of times that only comes around two or three times in our investing careers.

Every time that this conference has coincided with the bottom, a major bottom in the metals market, there have been opportunities here that are not just multiples, that are not just five baggers but 10, 20 baggers. And they're to be found on that exhibit hall, they're to be found in the recommendations from the newsletter editors, the speakers that we have here.

The one thing that cannot be determined is when the turnaround will come. But it's a cyclical animal these markets. It's going to turn. And it just doesn't feel like the market can go much lower because they're close to the underlying cost of production. So the downside risk is minimized at these levels. The upside is nothing short of spectacular. But is this the bottom, or have we passed the bottom?

Here we have the long-term gold price – goo, we have a nice, bright pointer. You can see this. We broke through this channel around 2012, that long-term trading channel and this is where we've been trading since then. We'll zero in a little bit on that. This is the last year.

One of the things you'll notice – and this repeats – in 2013 – is we had a nice spike to $1,300, in 2013 I believe we got very close to $1,400. That's a seasonal trend that we've been seeing and could present itself again. What happens is in late December if you have both the cash and the courage available and you pick up some of these well-positioned mining stocks you have the opportunity for a very quick profit as the new year begins, and you have a rally into late January, sometime in February, thereabouts.

But you can see since then it's been ever downward. This is July 25th. That was an orchestrated raid by high frequency traders on the gold market. This time they also attacked silver, also attacked copper. I frankly think they kind of jumped the charts, jumped the shark at that point in time. And you even had some of the analysts on CNBC saying something's going on in these markets.

Just as an aside, what you want to look at you really need to look at Eric Hunsader's site, Nanex.com, N-A-N-E-X. It's a data stream provider for the exchanges, literally tick by tick, trade by trade data stream on every major exchange. And what he does is track the high frequency traders. They can take every market, particularly a market with just enough depth, just enough volume but not so big, deep and broad that they can't really move it, in other words a market just like gold. They can put that market wherever they want it within milliseconds. And the evidence is there, the digital fingerprints are there.

Here's a three-month chart. It doesn't quite – this kind of begins right there, after that takedown in late July. Now I made an adjustment today to this line. This line did go straight up here to show the uptrend. I lowered it to about to where we are now, thanks to the Fed's hint that possibly they will be doing something in December. The gold prices lost about $30 over the last couple of days. And you'll see, as we get a little further into this, that I think the correction from these highs is still going to take a little while longer.

Gold Bugs Index, this has been an absolutely miserable experience over the last three years. I saved us some misery by only doing a three-year chart, not a four-year chart, so you don't have it going up there. Thank God for small favors.

This is the Junior Gold Miner's Index. Same thing. But you can see that we're kind of getting down to where we're not getting much lower. And in fact it would be difficult to have another type of a spike down because gold and these miners would be getting to points where you'd have cutoffs in supply of the metal, which then is always – that's the cure for low prices in a commodity market is when prices get so low that they choke off supply.

Gold stocks, in fact, right now – if you take, say, the XAU, the longest-standing gold mining index and divide it by the gold price you see gold stocks relative to gold, after the cheapest they've ever been in history, at least since these markets have been relatively freely trading. That's the kind of opportunity I'm talking about there, where you can see if you get just back to the levels of even 2001 it's a multiple, it's almost a five times multiple by this measure to where we are now.

Let's look a little bit at the near-term prospects and some of the technical that are involved. These charts all, by the way, come from Ron Griess, who does all of our charts for Gold Newsletter. And he has TheChartStore.com. It's a wonderful service. He does a weekly chart blog that is worth its weight in gold. Really some interesting analysis and views from charts on every market, all the financial indices, government debt, everything. And he puts that out every Sunday night and it's really brilliant.

Dollar index. This is what the latest drop in gold that we saw was in response to this. I don't think the dollar index is useful in analyzing gold when gold's in a bull market because in a real gold bull market the metal is going up against all currencies and the dollar index loses its relevance because it is a measure of the dollar versus the trade currencies. How-some-ever, in periods like this it has obviously had an impact. You see that the dollar's kind of consolidating as we're getting some indications of economic weakness and the fed keeps putting off its first rate hikes. In fact this is a chart of the dollar versus all of the other trade currencies and you can see it's been dominant but hasn't been able to make up much ground recently against its fellow trade currencies.

Gold. Since the start of its long bull market you can see this uptrend line that was finally broken. Again, really just in '13-'14 finally broke through the long-term bull market. In fact I'm going to go back to that because one of the things I want to show you for this is the stochastics. You can see that we're rounding here, and in fact if we had this chart updated we probably would have a rounding top on that stochastic indicating that this move is going to be down for a little bit longer; momentum has waned.

We have the Bollinger bands, and you can see that gold pierced the Bollinger band and now is coming down a bit. That's another measure of momentum and it's turning down for gold. We're in this correction, as I say. And these things have to take a little while, as you can see, to resolve themselves.

It's particularly evident in silver. Silver is much more volatile than gold so you get sharper peaks, you get exaggerated moves relative to gold. This is a general long-term area of support that Ron sees in these charts that really would be very difficult for gold to go below, say, the $11, $11.18. I think the upside of that is more relevant, that it can't really go down much below $15 or $14-15.

But here you see, again, the stochastic reaching a peak, what appears to be a peak. Again, if we updated that we'd probably have a top and probably be headed down again, indicating some period of consolidation.

Here this is really important, I think, because silver is much more volatile than gold it pierced the upper Bollinger band a few times very sharply. And with the exception of August, this instance right here with the exception of August 2012 silver trading through the upper Bollinger band has marked a short-term top. Every one of these instances when it pierced this band marked a short-term top. And this is what indicated to me, a short while ago, that this is going to be a longer correction phase. We're still going to be in this for a while longer.

2012 was an exception and it climbed the upper Bollinger band for a while, but that's been a rarity. Since we've had this long decline that's been the pattern, that silver has been beaten down every time it's reached that momentum top.

So in summary gold and silver benefitted from the Fed's postponement of rate hikes. The metals corrected from that surge; they're consolidating the most. The technical indicators hint at a correction, or at least a sideways action is going to last a bit longer. I think a new rally is going to emerge near the end of this year or early next year. And again, buying in December for a seasonal run-up in January and into February has been, over the last few years, an opportunity for a nice short-term profit.

Okay, let's move on to the great gold giveaway. Generally speaking this is the flow of wealth from West to East. It mirrors, it mimics the broader picture of economic power flowing from West to East, and gold is flowing along with it. Western investors, Western governments, Western speculators broadly do not appreciate the role of gold. Asian, Eastern investors and governments do appreciate the long-term value of gold. Western speculators are setting the price unjustifiably low. And the Asian buyers are taking advantage of it, it's gold on sale and they're buying it hand over fist.

Specifically this is a chart – and these charts come from Nick Laird Sharelynx, S-H-A-R-E-L-Y-N-X dot-com, site. He also has another URL for it: GoldChartsRUs.com. Great, great resource for charts and information on the metals markets. He has totaled all of the published repositories, mutual funds and ETFs, not just GLD, everything that publishes their gold holdings. And you can see that since that first takedown in 2013, where we have an orchestrated bear attack on gold; it took the price down a couple hundred dollars, that Western investors have largely – and I use this as a proxy for Western holders because they're buying paper gold – they've disgorged their holdings. Some $65 billion worth – I think it's about 30, 35 million ounces since this peaked to where we are today.

But the ETF declines are leveling off. You've had a few other instances here – you can see, for instance, if you can see this gold line, that's the gold price. If you see this blue line that's declines of the ETFs in all the published repositories. It broadly follows this. So these are the week hands; these are the Western speculators that are buying when the gold price is high and selling when it goes down. They're following the trend.

But we see here that these declines are no longer having a real effect on the gold market. We're down to the strong hands; the weak hands have already given up and we're even seeing some purchases here on these blue bars, some positive gains into these depositories and ETFs.

The bigger picture is this: over time, since the mid-1980s the East versus West gold demand, fabrication investment demand from Western and Eastern countries – the red line is the East; the blue line is the West. And you can see that divergence. Again, gold is flowing from West to East.

And this is a point, as you're about to see, that the mainstream media does not appreciate. The incumbent market resources, like the World Gold Council, Gold Fields Mineral Services, Metals Focus, they largely ignore this trend, they underreport it, and they're coming up with spurious theories as to why it doesn't exist.

It's particularly in relation to the Shanghai gold exchange. They didn't even acknowledge the existence of the exchange for very long. And then the withdrawals from that exchange grew to such a degree that they had to recognize it. But then they started coming up with theory after theory as to why it didn't matter, why this gold was being used as collateral for low-cost loans, etc.

Koos Jansen, he blogs at BullionStar.com, is the guy on this factor, that tracks this trend. And he's proven, I think, very clearly that Shanghai gold exchange is a proxy, the closest proxy and in fact an accurate proxy for domestic gold demand in China. What you can see is that there's been a tremendous increase in withdrawals from the Shanghai gold exchange. In particular in 2013 we had just an absolute explosion in demand. I thought, everybody else thought, that this was in response to lower prices and the demand would wane. But something's up here. Demand has kept up very high. It dropped a bit in 2014, but this is something I've been saying since around midyear: watch out for this year. The level of demand from early this year has been over 50 tons a week, and now, as you can see, this was the peak in 2013: 2,181 tons; 2014 was not much behind it, about 4 percent behind it, 2,102 tons. We're just about there already and right at the end of October.

At this rate demand, again, as measured by the Shanghai gold exchange withdrawals for 2015 will be around 26 to 26.50, just about off this chart, off this slide. That's what's going on. Something's going on, and I believe that you cannot have this level, this kind of a surge in Chinese demand, demand by Chinese citizens without it being some factor in official government policy. But who knows what that is?

But this is another broader picture: East versus West gold reserves. World gold reserves of the gold bars. Went down for a while, and then around 2005 the Central Bank started to buy and they're rising. But this is the percentage of Asian reserves as a portion of the total, and you see it's consistently, constantly growing. And of course this is based on the official reports from China which a lot of people, me included, believe are underreporting their gold reserves dramatically.

This is a very dramatic chart. Chinese gold production and then withdrawals from the SGE. Again, you just don't have this in a communist country where there is no private property. You don't have this sort of reaction without some type of government support. What is the effect of this? Where are they getting all of this gold that's going to China? Well not specifically from here but this is an indication of what's happening in the West. COMEX registered gold stocks are the stocks that back all the trading on the futures exchange. If you stand for delivery for your contracts this is where the gold comes from. The registered gold stock policy, you can see, has plummeted. And now it stands at just 200,000 ounces.

One investor, without violating the max position limits (as if they paid attention to those) – but if they did the max position limit is 300,000 ounces. One investor, standing for delivery with not even a max position contract could take delivery of all the gold left in the COMEX gold exchange.

Now from a practical matter they would not default. They would bring gold in from the eligible exchange somehow, can twist some arms, get gold supplied or just break the rules again and settle in cash. But still, that kind of a situation would highlight what we're talking about right now and would result in a substantial rise in the gold price.

In fact this is a chart of how many claims there are, how many owners with paper gold contracts are laying claim to every ounce of gold on the COMEX, in the COMEX warehouses. It recently peaked at about 250 claims per ounce; now it's at 231; 231 people are claiming every ounce of gold on the COMEX right now.

Again, what does this mean? It means something's up. I don't think the COMEX will default, but this is a sign of physical strains, strains on physical supplies of gold. And it's happening right now.

Let's look at the long-term prospects. Why did Alan Greenspan at last year's conference predict measurably higher gold prices? I was making some notes, broke out my portfolio from last year and started making some notes for the conference on Wednesday for my opening remarks. And there in front of me were my notes that I took as I talked privately with Alan Greenspan before he came on stage at lunch. And just to read some of the notes I got from him, referring to the excess banking reserves: "Monetary tinder that has not been lit....No idea what the federal debt and liability truly is because they've essentially guaranteed the liabilities of all the Too Big To Fail entities like JP Morgan."

What he's saying there is that we have no idea – we can talk about the federal debt but it's really irrelevant. The federal government has backed every Too Big To Fail entity. What is their derivative liability? Who knows? They don't know. How do you total it up? “No way out of quantitative easing without some major market event and measurably higher gold prices.”

That's the juncture we're at right now: we're trying to execute, trying to begin rate hikes. We see the economy possibly decelerating right now, the Fed not knowing what to do, coming out with a tough statement about, "We're really going to look at it in December," which I think is a bluff. I don't see how they can raise rates in December. Then again, that's another opportunity where if they postpone again you'll see, I think, a concomitant rise in the gold price.

Again, this is not what he said publicly: "Price of gold will rise." The Fed doesn't control interest rates; once the wheel starts turning all sorts of things will start happening. We have never seen this before: the size of the Fed's balance sheet is beyond comprehension. Again, this is what Alan Greenspan is saying. And his public comments were pretty dramatic but this is what he's saying in private.

The point that I make, and of course Alan made better, but the point I make is that the federal debt is already too large to address through tax hikes, spending cuts or economic growth. The only way out of the debt burden we have now is to do some degree of currency depreciation. Whatever that degree will be will be enough to make gold to translate into gold prices far higher than what we have today.

Gross federal debt. We used to look at the gross federal debt reaching $20 trillion in 2020 or something like that. When Obama leaves office the federal debt will be $20 trillion. Federal debt as a percentage of GDP. Again, it's still well over 100 percent of gross domestic product. We're not the worst in the world, but when I started in this business debt of this sort was the definition of a banana republic. So that's where we are in the United States, the world's reserve currency nation.

S&P500 versus federal reserve total assets. This is – this black line is the S&P500. The blue line is federal reserve assets. You see any sort of relationship there? In fact the correlation is 97.8 percent between the rise of fed assets and the S&P500. A number of our speakers have talked about the fact that we had this huge monetary reflation in the U.S. economy thanks to the federal reserve that did not result in inflation, it resulted in financial asset inflation. That's the evidence.

So what happens? We've already seen in August what happens when the fed really gets seriously hinting about raising rates and what happens to equities. And that's the risk we have. You see that the balance sheet leveled off, and then we leveled off right here. So that is the kind of thing that Alan Greenspan is talking about as far as a major market event.

I won't go into this in too much detail. I have done it before but you can see that gold didn't respond once we went into Operation Twist in QE3. The reason, I believe, is because the next piece of news out for the speculators that are setting the price would have been the end of QE and the beginning of rate normalization. Once we start raising rates I believe there's a very good chance that gold will have this pressure released upon it, this monkey off its back of gold shorting in anticipation of rate hikes. And that once that trade if over we'll see some short covering – and gold really does have a good chance of bouncing back at that point.

The excess bank reserves: $2.7 trillion of excess bank reserves. And again, this is what Alan Greenspan said about this in his presentation: "What this means is that we have this huge potential inflationary explosion tinder, but it's not been lit." This liquidity is not money, it's excess bank reserves. It's not in the economy. It's hanging over the economy like a giant water balloon in search of a pin.

This is why I believe that's a binary outlook for gold and really for the economy. Either we have a decelerating economy and the fed resorts – returns to QE and monetary reflation, which boosts gold, or we have economic growth which then releases this tinder, releases this ocean of liquidity into the economy and then we'll start seeing retail price inflation.

Purchasing power of the consumer dollar – I don't believe this inflation is going to end up with hyperinflation. Certainly possible but I'm not going to stand up here and use that word. But in the grand sweep of history down the road historians have looked back at our era like you would look back today on the Roman times, would say that the U.S. dollar has already been destroyed, the value of the dollar. Since 1965, when they took silver out of U.S. coinage, it's lost 87 percent of its value. That's in our lifetimes – or at least my lifetime.

Again, the Fed is painted into a corner. The global markets and investors are addicted to QE and ZIRP, even NIRP – Negative Interest Rate Policies. At this point if they have to begin loosening again they're going to have to do quantitative easing and negative interest rates. And that opens up the flood gates.

Real gold: where do we go from here? Always in this section of my presentations on what the upside potential. In current dollars the $850 peak in 1980 is now $2,600. That's where gold has to go just to equal the situation we had in 1980. Again, if gold gets up to $1,350, $1,400 the companies out there in that exhibit hall will be trading for double where they are right now – or more.

So let's look at some of these opportunities very quickly. Auryn Resources, the Keegan Asanko team, they did Cayden; they now have the Committee Bay Gold Project. Very good team, very good project, proven resources. Again, one of the things I recommend is buying proven resources in the ground. This is one of the best ones to do that with.

Avino Silver and Gold – they have their historic Avino Mine. They are producing, they're growing production fairly rapidly in fact right now. A great play in the metals because it is producing. Avrupa Minerals, a prospect generator in the far-flung frontier of Europe, which is actually home to some large historic gold and base metal deposits. They have an interesting discovery right now with tremendous grades, fairly small target and potentially deposit right now but it has room for expansion.

East Africa Metals – this is a very well-capitalized company that is actually exploring in some risky regimes. But I like the group; I like the fact that they have a lot of money. They're focused in Ethiopia and Tanzania, in fact.

Energy Fuels – I mentioned Energy Fuels – it's a merger between energy – the resulting merger – the result of a merger between Energy Fuels and Uranerz Energy, which was a longstanding uranium recommendation of mine. It's the second-largest producer in the United States next to

Cameco, very well-positioned to immediately benefit from a rise in uranium prices. And as I said earlier, within the next two years I think the uranium price will have to experience a fairly dramatic rise.

Eurasian Mineral – very well-managed, well-capitalized company was originally the prospect generator model. Now it actually is generating royalties and has a pipeline of royalties. An outstanding company for the longer term. Very well-managed, again.

First Mining Finance – this is one of the companies I hinted at in the mining share panel. They're actually picking up resources and projects and not advancing them, just bankrolling them for when the market turns. Are highly leveraged to weigh the benefit on the return of the market and very well-managed as well.

Fission Uranium – went through kind of a dust-up with trying to merge with Denison. I wasn't in favor of the merger; I'm glad it failed. In my view it was taking one of the greatest exploration discovery stories of recent times and turning into merely a play on uranium, the commodity. I think the discovery story is back in play now. So I'd like it to have a rebound from that episode.

Globex Mining, perhaps the most diversified junior explorer in the business, over 100 high-quality projects across all metals in minerals. Great management team as well.

GoGold Resources run by the indomitable Fred George. They actually have some great exploration projects. They took a tailings project and are growing the production. I don't think the market's recognizing the fact that this company is generating significant revenues right now from its gold production, gold and silver.

Gold Standard Ventures, exploring the Railroad-Pinion target deposit project in the Carlin Trend in Nevada. A great team. A lot of the smart money in Nevada is behind this team. It's one you really need to look at. Periodically the takeover rumor du jour – I don't know if those rumors are flying right now but it is one to look at for that potential as well.

Great Panther Silver, a primary silver producer but a longstanding recommendation of mine in Gold Newsletter. It's now actually expanding into Peru with an exciting project. It's another one I like. I think it's worth looking at.

Klondex Mines is actually a junior company that's exploiting and expanding the reserves of the historic Midas Mine that majors had passed on and the junior's actually making great money with that in finding resources that had been thought not to be there. Midland Exploration is a company that's been remarkably strong because it's remarkably well-managed. It's focused in Quebec and it's kind of – it is a prospect generator model but it has a number of really good projects that are being worked on by good partners.

Millrock Resources, another company that has always rebounded very well in the up cycle and traded very low on the down cycle. It offers huge potential right now. And it used to have a focus on Alaska but now it's spread its interest into the Southwest United States and even Mexico with a nice suite of projects that I was aware of before they took it over.

Newmarket Gold, unlike the prospect generators, or mineral banks Newmarket is acquiring producers and rolling them up into what will be a highly-leveraged mid-tier company. It has an outstanding team of financial backers. I suggest you visit the company's booth and get an idea of the people that are behind this company. It's really impressive.

Nova Copper, exceptionally large and rich copper projects in the Ambler District of Northwest Alaska. The one thing that this project was missing to really make it sing was road, a state road into the district. That road has just been approved as of a few weeks ago and I don't think the company, because of the decline in the metals prices, I don't think the company has reaped the benefits of that.

Riverside Resources, Brent mentioned this. I met with earlier this week. Again, $3 million in cash, $6 market cap, great pipeline of projects being explored with other people's money. And very well-managed. I hadn't recommended this company for years because it was never cheap because it was very well-managed. Now it is, and it's a bargain in my opinion.

Rye Patch Gold – Nevadan gold projects, they reap the benefits of probably another $20 million coming to them from a royalty due to a staking error by Coeur D'Alene Mines. And so they're well-cashed, they don't need to go to the market and then they actually have a clear path to economic production. I don't think people realize that about this company either.

Sabena Gold and Silver – I mentioned that in the mining panel. Bruce Macleod, the scion of one of the most famous mining families in Canadian history. Wields a lot. He's very smart, very focused, very energetic and has a lot of influence and has already turned this project around but his goal is to get it much higher before he even entertains the financing. This company I believe is turning down a lot of money at these levels because they're fairly confident it's going higher. I agree.

Select Sands is kind of an interesting, special situation in our portfolio. They have a very high-quality drill sand deposit in Arkansas. Yes, the energy industry is decimated, but this deposit has certain advantages. It's very close to all of the shale plays in Texas, Louisiana, Mississippi and the broader South and so it has an economic advantage and they can produce it very easily; you just scoop the stuff out. So I suggest you look at that closely at well.

TriMetals Mining is advancing a large, near-surface gold-silver project that straddles the Nevada/Utah border and they also have a very large copper project, Escalones in Chile. It's a kicker. I really like that company as well.

Finally Uranium Energy Corp, you know, what more can you say about that? Run by Amir Adnani, a producer that's basically shut down production awaiting higher uranium prices and is therefore very highly leveraged to the rise in uranium prices that I see coming. Has a great level of institutional support.

So I am over time, I see, but does anyone have any questions? As long as we don't have to interrupt anybody else's presentation?

Wow, everybody's ready to go out, huh? Yes, Don?

Audience: That means COMEX doesn't have physical gold?

Brien Lundin: COMEX, the futures and options. There is not – basically there's no gold backing those futures contracts. So if you stood for delivery and you stood for a – I didn't do the math but 200,000 ounces of gold – if you could buy 200,000 ounces of gold the cheapest way to do it is through the COMEX and that would create a bit of a problem for them.

Well thank you all. We'll see you bright and early in the morning, so don't stay out too late.

Mining Share Panel
Rick Rule (MC), Eric Coffin, Brent Cook, Marin Katusa, Brien Lundin, Gwen Preston

Gary Alexander: But I'd like to invite the panelists to come up to their nameplates on the stage while I name the major affiliation of all the five panelists, and then Rick Rule, our MC, can fill in more about their life's work as they are asked about it. We have Eric Coffin of HRA Advisories; Brent Cook of Exploration Insights; Marin Katusa of KC Research; Brien Lundin of this conference and gold newsletter; and Gwen Preston, resource maven. And to be the grand inquisitor, I invite Sprott Global Resource Investments Limited, MC, and torturer extraordinaire, Rick Rule.

Rick Rule: Someday, I'm gonna get Gary Alexander on a panel, I'll tell you. Turnaround will be fair play. I remember many years ago, at Doug Casey's heiress conference, taking a drive with Gary Alexander, and it was when the Y2K thing – does everybody remember the Y2K scare about how the world was gonna come to an end? And I was driving along with Gary Alexander – I said, "Gary, what do you think about Y2K?" And he says, "I think our group – the whole group of us that sort of launched from tier to tier – needs to form a 12-step self-help group, and we're gonna call it Apocaholics Anonymous."

We had Gary North there and all these guys. He said, "We need to acknowledge that we're addicted to apocalypse. We need to acknowledge that we have a problem that's above our ability to control, but we need the help of God." Anyway, Gary's a wonderful guy, and I look forward to teasing him the way he's teased the rest of us. The mining share panel's gonna be a lot of fun.

Those of you who know the origin of the New Orleans' Investment Conference know that it used to be called the National Committee for Monetary Reform. It was organized around gold, and the truth was, when Nixon made the mistake of legalizing gold and took away the excuse to have a conference, that it became much more commercial. And it's been focused between precious metals and precious metals mining for 30 years. We have a great panel today. We have a panel that has differing opinions about various things, and I hope some of that comes out.

It'll be useful to have this as an entertainment product as well as an information product, given the fact that you've been with us all day, starting at 7:00 in the morning. By the way, this is the hardest working audience in the conference business. I love the fact that some of you are hear at 7:15 in the morning taking notes, and you're here at 7:00 at night taking notes, too. So, give yourself a round of applause. You're a great group of people.

The harder you work, the more money you're gonna make – or at least the more you can avoid losing. So, let's get started. Marin, I'm gonna pick on you first, but I'll pick on Brien first later. Let's start with the bigger picture – the TSXV, an amazing index – an index that's off, what, 86 percent in nominal terms? Probably 90 percent in real terms in four years. Topographic map of a ski resort, sort of, in terms of the TSX graph, except a very hard ski resort to ski 'cause it's too steep.

Has it bottomed Marin? And if so, why or why not? Quickly.

Marin Katusa: No. It has not bottomed, and realistically, there's still way too many companies out there. I brought up an article saying that they need to bring in minimum market caps and minimum volumes. There's too many car salesmen pretending to be mining entrepreneurs and they actually have nothing in their assets other than a publicly listed shell to pretend to be a mining company. Too many zombies, and be very, very, very careful.

Rick Rule: Mister Coffin? We bottomed?

Eric Coffin: I don't know how much lower we go, but it's not gonna be a very fast climb out of it, essentially for the reasons that Marin just elucidated. 10 percent of the companies on the exchange are run by good management groups, have projects that probably have a shot, and hopefully have some money in the bank or at least some people have the ability to get it. 80 percent of the companies on the exchange are essentially dead wood at this point. I've had this kind of running argument with Brent and John Kaiser for years, telling them not to underestimate how long these guys can keep these things going. 'Cause everybody keeps expecting to see 800 companies disappear – and they probably will eventually – but don't underestimate the ability and the imagination that these guys can use to drag this out endlessly. Just don't get caught up owning any of them.

Rick Rule: Gwen, you look different than the other panelists, mercifully. Do you have a different opinion?

Gwen Preston: Not dramatically. I think we're in the bottom. It's a long, sideways, log, yet. There's not a huge amount of near-term upside for the entire index for exactly those reasons. That being said, there's opportunity within, because there's already – you can pull up a lot of – a good number of examples of companies that are far out-performing the average right now, and that's because there is structural reason for some of those assets to advance.

And as long as those assets are also within the right jurisdiction and the right management and have all of those questions answered, there are some mid-tier operators, there are some near-term developers, whose share price charts are not in a bear market. Right now, they're doing great. So, the overall index, I think, is gonna be sideways down for a while yet, but there's still opportunity within that.

Rick Rule: Classic New Orleans' answer. "The sector sucks, but subscribe to my letter. I'll get you through it." Brent?

Brent Cook: You know this is gonna surprise –

Marin Katusa: You're such a man, Rick.

Brent Cook: This might surprise Eric and a few people, but I'm actually feeling a bit more positive towards the sector than I have for the past four years.

Rick Rule: Bad sign.

Marin Katusa: Oh, man. We're screwed.

[Laughter]

Brent Cook: No, I don't – bottom? When can you call a bottom? I think what we're seeing is a very – there's no capitulation moment. It's just people dying by the wayside as we're going across this desert. But I think we're three quarters of the way across this desert, and I'm actually a bit more positively inclined than I have been for years.

Rick Rule: Brien, same question. TSXV – worst passed? Worst to come?

Brien Lundin: Well, I think it's – the same question, I think I'll have a bit of a different take on it. I think the question's really largely irrelevant, because we can –

Rick Rule: That's what he says about all my questions.

Brien Lundin: Well, I've told you this about a month ago in your offices, actually. I really think we can hyper-analyze the junior resource market. Sure, there's a lot of zombie companies. Sure, there's no way to kill them off. And it's easier to create other ones, but I don't think they're really diluting that much of the available capital out of the market, because nobody of much sense are investing in these things. I know you all aren't. That's a gratuitous compliment, by the way.

Rick Rule: He's sucking up.

Brien Lundin: And in case you didn't catch it, sign up for next year, please. But I do think it's irrelevant because none of these things – even the good companies aren't really gonna power ahead until we have an underlying bull market or at least a consistent uptrend into metals themselves – gold, silver – even the base metals. And I'm not that positive about the base metals, 'cause I'm not that positive about China. And I don't think they'll move without a bull market in gold and silver, and that's what gets people really excited. That's what gets people investing in these junior stocks.

Rick Rule: So, I'm gonna give people a chance to be a little bit more positive, but I want short answers, 'cause we've got a lot of questions. What surprise could you see in the junior market in the next 12 months? And it could either be an upside surprise or a downside surprise. But what sort of quantum change could occur in the market that most people aren't looking at that could accrue to our benefit, or it could be a negative surprise? And given that I picked on Marin first, I'm gonna pick on Brien first with this one.

Tell me one black swan out there. Or it could be a different color swan, but something that's gonna surprise us one way or another, Brien.

Brien Lundin: Well, the thing that could really move it is a quick jump in gold and silver and/or other metals, but I don't think that would be a surprise. At least everyone would be able to point to it in retrospect and say, "I called that." So, it won't be –

Marin Katusa: Obviously.

Brien Lundin: – technically a surprise. Really, in this sector that we're talking about, it's a discovery – any discovery that engenders an area play. It's happened before, and that's the one thing that can move at least part of the sector without a concomitant rise in the metals – like the diamond discoveries of the early '90s, et cetera – something that's going to happen, some discovery that creates an area play. That could get things moving.

Rick Rule: That was gonna be my answer, so I like it. Brent?

Brent Cook: You know, I really don't see anything out there. I don't see it in a catalyst, and I guess that's the nature of black swans – you don't see it. But I really don't see anything out there that's gonna jack up the gold price or base metal prices. I think we just struggle along and slowly get better. So, I don't see it.

Rick Rule: Well, I mean, $800.00 gold or $1.50 copper – that would be a surprise, too. What about negative surprises? We don't have to be cheerful.

Brent Cook: Well, I don't know what it's gonna take the gold price down or up.

Rick Rule: You don't see it stay there. Okay. Gwen?

Gwen Preston: I'm gonna sort of disagree and agree with Brien, 'cause his first answer was that he needs strength in the underlying metals, and then his second one was that a discovery would be great. Discovery – there have been discoveries over the last year. Quite a few of them have not gotten very much recognition, so I don't necessarily see a discovery igniting things. I think we need a commodity price to move and that might bring some interest. So, uranium is one of the – you guys have heard a lot about uranium already today, so you understand the argument there.

But I think a uranium price move could bring some pretty interesting returns in that sector. It could bring some interest back into that sector, and it could – if it makes some profits for some people, then people might remember a bit more why we like investing in this sector. And it's that generalist rotation back into mining that's really needed to help stabilize this bottom and move up. So, uranium.

Rick Rule: Eric, talk to me about a surprise.

Eric Coffin: I think a discovery would help a lot, but I think a discovery in a specific area – I mean, ideally, for me, I'd want to see a discovery in Canada. And I'm not saying that 'cause I'm Canadian. I'm saying that because it's got a tenure system that allows something like an area play to happen. It's very easy to go in, pick up ground – most of Canada you can sit at your laptop and stake. Getting a discovery, a very good one – you look at things like – a company like Reservoir.

They had a great discovery there in Freeport and Serbia, but it's not an area that by its nature, 100 companies can go in and land there and start grabbing ground. For an area play to work, it's gotta be a jurisdiction where it's easy to acquire property so that the promoters can all jump on top and wave their arms.

Rick Rule: Marin, you got a surprise?

Marin Katusa: Well, we do. We've had major discoveries in the Athabasca basin, and then not only one major discovery – with Fission right next door, you had Next-Gen come up with another major discovery. And there are tons of juniors and there is no area of play. You look what Africa oil's done in Africa and Kenya – world class, largest on-shore oil discovery in the last 15 years in the world. Bam. All the other companies around there – no area play. We are in an echo, okay? And the next turn that that's gonna – these majors are gonna have to replace the reserves buying out the best. That's gonna happen. Look what's going on with Africa oil – that's the story that's gonna happen. A bigger –

Rick Rule: Is that a surprise, Marin? I want a surprise.

Marin Katusa: No. But I don't think there is gonna be a surprise. Everyone's talking about black swans – I think it's gonna need a herd of black elephants to come and change these things. So, yes, you can have a major supply disruption, a major mine coming in. Indonesia has a revolution.

Grasberg's shutting down or something like that, but even there, there's so much supply available. So, in the near term, I'd be careful – especially of crappy area plays like lithium and all those types of things. Stay away from that. Do your portfolio a favor.

Rick Rule: Next question. We talked a little bit about discovery. I remember, with extraordinary fondness myself, the discovery cycle that we had in the early part of the decade – or the '90s – when Brent and I were starting to get to know each other. And just recently, we've seen things like Marianna. We've seen things like Ajer.

Serious reservoir. I mean, $0.35 to $4.00 in this market is not a bad move, however critical we might want to be of Serbia. Are we in the beginnings of a discovery cycle? Are we gonna see a discovery cycle? Some people say that market – particularly the Canadian market, has become so paper oriented that somebody's idea of exploration is twinning one hole out of 70 in a project that actually hits something, which is a hard way to make a discovery.

Are we gonna see a discovery cycle? Is enough money getting spent? Are there enough smart people in place? Brien, we're gonna start with you. Is a discovery cycle likely? Are we in it?

Brien Lundin: I don't think it's as likely. A discovery cycle, I don't think is ever likely, given the odds of making a discovery. But there has – there's just not that much money being employed right now in discovery, so it's less likely. And that's the kind of thing that will come with a lot of geologists getting fully funded and scurrying about and in other perspective regimes. And looking around, there's not a lot of that going on right now.

Rick Rule: Brent – discovery cycle?

Brent Cook: I don't see it coming. It's getting harder and harder to find these deposits. They're deeper. They're more metallurgic and complex. They're gonna cost more to build.

More and more countries are pulling ground off the exploration as those putting it on. What generated that last discovery cycle was the idea that – the fact that we could go into new areas and pick up ground where projects had not been tested before. So, I don't see that happening at all. I wish I did, but I don't see it.

Rick Rule: Gwen.

Gwen Preston: I certainly agree. I would say – I don't think, necessarily, that explorers want to be going and twinning historic holes. I don't think that that's what they believe is exploration. But the risk of putting out bad results and that just creating a liquidity event in your stock is so high, and capital is so valuable, that they've resorted to those things because they're somewhat more reliable. So, the dollars that are getting spent are not getting spent in very many places in ways that could generate something big and exciting and new. So, no, I don't see anything very near term.

Rick Rule: Eric?

Eric Coffin: Yeah. It's hard with the amount of money not being employed with this. So much smaller bank accounts. But also, the fact that it is – it's very difficult for explorationists to take those risks right now or at least to convince people to fund those risks. I keep a running list in my alert service – it's not companies that I follow, it's just things that I point out.

The ones I usually try to point out are guys that are trying to do something somewhere different, 'cause it's just so hard to raise money for that. It's so hard to get attention right now. It used to be a slam-dunk, but now it's tough.

Rick Rule: Marin.

Marin Katusa: I think we have been in a discovery cycle. Hello – shale? Horizontal fracking? It's been an incredible discovery. The key question is not whether you're in a discovery cycle – it's an economic discovery cycle.

Who cares if you drill something up that is fantastic that you need $4.00 or $5.00 copper to make it work? No one's gonna finance that. No one's gonna jump into it. That's the key issue here. There are tons of deposits in North America that are fantastic, but the Cap X is crippling those discovery projects or recycled projects with new technology that can improve it.

So, that's the question. It's not just discovery cycle. What about new improvements to technology that can change things. So, shales been known for 50 years, but the technology came to change it. So, these are the type of things that are gonna happen in our sector.

Rick Rule: I want to encourage the panel in the context of the question of the discovery cycle to become a little less ethnocentric and look at the Australian Stock Exchange. That's all I'm going to say. My suggestion is that we are, at least relative to where we've been in the last 10 years, in the beginning of a discovery cycle. And I think what's interesting about that is it's hard for butchers, bakers, candlestick makers, and car salesmen to raise money, but it's not hard for geologists to raise money. My suspicion is if you look at the success that they've enjoyed – the junior part of the ASX in the last months – it has to do with the fact that Canadians have generated for paper, and Australians have generated in the tip to turn rocks into money.

And I suspect that we all have an awful lot to learn from Australians, not merely about beer consumption. I'll give you a chance to redeem yourselves.

Gwen Preston: How kind.

Rick Rule: Your favorite commodity in the near-term. By near term, for me, that's 24 months. I'm an old guy. I can afford to hold stocks over a long weekend. Your favorite commodity for the next two years, starting with Marin.

Marin Katusa: Cash.

Rick Rule: Cash – that's a great answer. Eric? Favorite commodity next two years.

Eric Coffin: Probably gold because I think we're gonna see some slowdown in the U.S., so I'm not a gold bug, but I do expect to see the dollar start topping out here.

Rick Rule: Gwen?

Gwen Preston: Uranium.

Rick Rule: You want to tell me why, briefly?

Gwen Preston: Oh, I like –

Rick Rule: Most people here know the gold thesis.

Gwen Preston: Pardon?

Rick Rule: Most people here know the gold thesis.

Gwen Preston: Exactly. And I like the gold thesis. I would say I'm as optimistic as Eric is about gold. But the argument's there. When you look at Uranium, the argument is structural.

You're looking at demand that is rising quite rapidly. You're looking at secondary supply that is shrinking for a variety of reasons. You're looking at production that's declining, and there's a significant structural supply gap. So, I like that because gold – you can argue that left, right, up, and down every day of the week. And we have our opinions about it, and that's great, but I like something that's a little bit more fundamental in its rationale.

Rick Rule: Brent?

Brent Cook: I'm glad you asked that.

Rick Rule: Really?

Brent Cook: Brien and I have had a running bet –

[Laughter]

for the past, I don't know, five New Orleans' conferences. And I've always – the bet has been, "Is gold gonna be higher or lower by the end of the year?" And I've won most years, and I think I've won this year as well. We usually bet a bottle of some sort of alcohol, but this year, I'll go with the bet, but I'm hoping and thinking I'll probably use this year, Brien.

Brien Lundin: So, your bet is gold.

Brent Cook: Yes.

Brien Lundin: Well, probably your favorite commodity then is gonna be wrong 'cause I'm paying off the bet now.

You can never go wrong with that. You won't necessarily make any money, but you can drown your sorrows. If you're still interested in my answer, I agree with Gwen, and I think she said it better than I could. Uranium, in my view. And what's key to this, I think, is your 24 month time frame because I really think between – at some point, over the next couple of years, the utilities are going to have to go back on the market to replenish supplies and that's gonna be the real driver.

That's when we're gonna see it – the supply/demand situation start to impact prices. Right now, they're sitting on reserves and eating away at them. And at some point over the next two years, it's gotta happen. They've gotta go back in and the price has to rises.

Rick Rule: Brien has displayed special wisdom by plying a geologist with rum. That never fails. Never fails. Even geologists from Utah, which is as strange as it might seem.

Brent Cook: Keep that quiet now.

Rick Rule: We're gonna get a bit more pointed now. In terms of the exploration business – 'cause we've talked about a discovery cycle, we've talked about some of the misallocation of capital in the CSXV – I'm interested in the panelists – this is sort of a nuanced question. You know my view – sole risk exploration versus prospect generation, knowing that the market – at least the brokers – hate prospect generation because of the paucity of commission. And secondly, whether in a market like today where the costs of capital are high, but the entry price is low, whether this isn't the time – if anybody was ever gonna consider sole risk exploration or drill hole plays to do it. So, the first question involves sole risk exploration versus prospect generation in terms of constructing an exploration portfolio to make money. And the second is – sole risk exploration and bull markets versus bear markets. And I think I'll start with Marin in that one.

Marin Katusa: I'd also be very careful about the Australian exchange, Rick. I totally disagree with you. They invented the model –

Rick Rule: There's a question, Marin. A question.

Marin Katusa: I agree. But I –

Rick Rule: This is like MacNeil/Lehrer where the guy uses a platform for a statement.

Marin Katusa: No, I just – like, they invented the billion-share model. But anyways, the best way is to get in early with the joint venture prospect or model like a Myles Thompson or those kind of guys. They've done a great job with it. The problem is – can they sell it? So, in a bear market, that's the safest way if your partners can afford to make the payments.

In a bull market, everyone can raise cash. So, I think that we're in a market where you can buy proven assets so cheap, so why take either of those bets?

Rick Rule: Good answer. Eric?

Eric Coffin: Boring but good.

Marin; My conviction didn't sell ya?

Eric Coffin: I like boring.

Marin Katusa: Boring's usually right. Boring's usually right, though.

Eric Coffin: I'm gonna write that down. That's very quotable. One comment I'll make about prospect generators is that basically, when you're in a bear market, everybody's a prospect generator – which is really just a roundabout way of saying they can't raise money and they're hoping someone else is gonna spend it. If you're looking at prospect generators, I have nothing against the model. I have a couple of them on my list, but the number of companies that can actually execute that is actually extremely short.

And what you need to do if someone approaches you with that model is take a look at what they've done over the last four or five years. And if the guy's issuing 15 or 20 million shares a year, he's not a prospect generator – or he's not very good at it. Let's put it that way.

Marin Katusa: Accurate.

Rick Rule: So, the question?

Eric Coffin: I think in bear markets, they have the same problems. I don't – I just look at the particular assets of a given company. I'm not sold by the prospect generator model, per se, because when you're in a bear market, they, in fact – they're selling to a different audience, but they have the same problem. Their audience doesn't feel like spending money either. It's tough to get a good joint venture agreement right now because everybody's broke.

Rick Rule: Gwen?

Gwen Preston: I'd say both, in that echoing Eric a bit here, the key thing with the prospect generator isn't that that's what they call themselves. It's that that's what they actually do. A big part of that, too, is sure, they absolutely shouldn't be financing, or else they're failing. They also need to strike very good deals, and that's a complicated process that requires experience. So, people who are new into the prospect generator model, be very careful. Because the deals that they strike often leave the company without the asset in a way that they – in a way that's – with an ownership or a royalty, whatever it is – that it's not structured in a way that's actually beneficial for the company and doesn't create the income that's needed.

So, be very careful about how the deals are structured when it comes to prospect generators. As for sole – like, single focus exploration in bull or bear market, it's really just about the management and the asset they can perform. So, the companies that are performing either right now – that are starting to perform – outperform their peers on the exploration or development – near development side right now, are those who have managed to continue advancing their assets despite the bear market. So, it's not easy. Sure, it would be easier for them to raise a bunch of capital and maybe move things along faster if things were hot. They're not.

But they're going to outperform – some of them already are outperforming. So, it doesn't matter whether it's a bull or bear market. It's about choosing the right asset.

Rick Rule: Brent.

Brent Cook: In my exploration insights portfolio – which is what I actually own and buy with my money – I own both, and I think both models can work. I think if you're gonna invest in the sole exploration model, it really comes down to knowing – better than anyone – what the property is, what its potential is, what it's gonna take to get it to that potential, and how the company can execute. So, if you can find a company that fits all that, that's a great way to go. Otherwise, the prospect generator makes more money. It makes more sense.

If it was me that was gonna start a company, I would go with a prospect generator model because it takes years to churn through properties until you finally come across the property that keeps getting better with every level of work. And using the prospect generator model, when you finally do get there, you've got a tight share structure, generally, and you're able to advance that further. And I'll say – the most money I've made on prospect generators is on the ones that churn through projects for many, many, many years until finally, something came up that just kept getting better – I'll point to Kaminak, Virginia, Mirasol. That's where I've made most of my money. But they're –

Rick Rule: Francisco? You forget one of the earlier successes – Francisco.

Brent Cook: Francisco. That's right. That was my first job for you. That was a good job.

Rick Rule: I have a fond memory.

Brent Cook: So, anyway, that's my view on it.

Rick Rule: Brien?

Brien Lundin: I'm just pleased as punch at my panel here. I've really got some smart people on this panel. I agree with everything they say. I probably can't add much intelligence to it, but that won't stop me from trying. In a bad market, Eric's right – nothing works.

Everybody's prospect generator's hunting for money. In a bull market where the majors are spending money, then everybody's a prospect generator. They sprout up like mushrooms after a rainstorm. The thing you have to watch in that instance is the companies that are really doing – working on real projects and not just trying to keep the management contracts funded. A bad prospect generator is a company that's just trying to keep themselves employed forever and ever by getting other people to fund projects.

So, you have to be wary of that. But I do also want to stress that it all is a bit moot. It's a bit irrelevant, because what you should buy now is what you need to worry about and I agree with Marin on that point. There are a lot of companies out there that have proven, world-class, large scale deposits that are selling for prices that would have resembled grass-roots exploration companies a few years ago. And that's really what we need to be buying right now.

Rick Rule: One other theme I want to talk about before I get nasty with y'all, and that's optionality. In my own history speculating, one of the techniques that's worked for me in market cycle after market cycle after market cycle is optionality. And if you talk to a crowd that's been in the gold business and you say, "What would you say about an investment that's incumbent on $1,500.00 gold?" People say, "Are you out of your mind? I just watched gold go from $1,900.00 to $1,100.00. Why would I care about $1,500.00?"

When the truth is that every gold investment that we make is predicated on higher gold prices. And so if all of the speculations that you're making are predicated on higher prices, why wouldn't you isolate the investment thesis to pure optionality? In other words, as opposed to going through this idiocy of taking gold from a hole in the ground called a mine and putting it in a hole in the ground called a vault and losing $100.00 per ounce, you know, the gold price goes up and what you own now is a hole in the ground that used to have gold in it that somebody else now owns, and you did that at a loss. Why wouldn't you leave the gold in the first hole and then wait until the price went up and then just sell the hole? Why wouldn't you do Pan-American, again?

Why wouldn't you do Silver Standard again? Why wouldn't you do Lumina again? My own – and I have some answers to that, by the way, but I'd be interested in everybody else's answers and I'm gonna start this time, Brien, with you. What do you think about optionality? If people believe in higher prices, why should they produce it now when they could buy it, hoard it, and sell it back to the market later without having wasted hundreds of millions of dollars in the interim?

Brien Lundin: Well, I don't think you're going to find many companies that have at least mildly economic deposits that are mining then that are gonna shut down and fire people right now. So, that, I don't is going to happen. But, you make a good point in that there are companies out there that are stronger than others, that are taking advantage of a down cycle. In a normal business, in an industrial business, in a down-cycle, the strong eat up market share. A point I made in my opening remarks is that the companies you see here who are out here at this conference and exhibiting and doing something and not just sitting on their hands and trying to wait out the bear market – they're the strong companies that are out there picking up these gems, these nuggets, that are lying on the ground that nobody else can take advantage of.

There are a few companies out there who are building up either mineral banks that are agnostic as to the precious metal – not like Pan-American did or Silver Standard did focusing on silver, but just good projects. And there are companies that are trying to roll up producers that are maybe struggling that they can bring some type of an advantage to that are undervalued. So, there are companies out there that provide that.

Rick Rule: So, you'd prefer to see companies advance their projects as opposed to hold them for pure optionality.

Brien Lundin: I think companies – really kind of agnostic on that point, but I think there are companies out there that are looking for projects that had been dropped by others.

Rick Rule: Agreed. But the question is – should you advance them or just hoard them?

Brien Lundin: No, no, no, no, no. If the work's been done and it's been good work, there may be something you can do to create value. But the people that are smart enough to go out there and acquire them are usually smart enough to do only the minimal work – the work that's gonna get them value in the market.

Rick Rule: Brent – mine or not to mine?

Brent Cook: I thought it was optionality.

Rick Rule: It is.

Brent Cook: If your investment thesis is the gold price is going to $2,000.00 or whatever, then buying into a company with a large deposit that even, in my opinion, will never be mined in my lifetime, is a good way to go. And there's plenty of companies that fall into that category that are liquid. They move really well with the gold price. And throw a basket of those together – say, Sea Bridge, Nova Gold, Tower Hill, Northern Dynasty – companies like that with deposits that, in my opinion, will not be built in my lifetime, but they move really well with the gold price. So, it's a fine idea.

It's not something I do. I prefer to look for the deposits that are coming on stream or are being discovered and found that actually work at this gold price or lower and are gonna be bought up by larger mining companies.

Rick Rule: Gwen.

Gwen Preston: Similar in some ways to what Brent was saying, I think companies that have assets that they believe in right now, they believe in those assets because they work at today's gold price or lower. So, if that's their perspective, then the game is not to get exposure to a higher gold price. Or, if there is optimism that the gold price will be higher, then the point is to build the mines so that you're actually producing gold once the price is higher.

Rick Rule: Now, Gwen, I've never roughed you up on this panel before because you're pretty and you're new. Have you ever, in your experience – with 1,500 companies on the TSXV – seen one of these schmucks that didn't believe in their project at current prices? I mean, I've been doing this for 35 years and I've never seen 1 where these morons didn't believe.

Gwen Preston: Well, stated versus successes. So, what I mean is the companies that are still actually advancing and having success right now. Of course they all say they believe in their project, but they don't all actually believe in their project because they know that the numbers don't work on a lot of those projects at today's gold prices. But, there are projects out there where the numbers do work at today's gold prices.

Rick Rule: So, what you're really saying is you have to believe. That's what I wanted to get out of you. Not that they have to believe. You have to believe.

Gwen Preston: Yeah. Sure.

Rick Rule: Okay. Welcome to New Orleans. I've beat up everybody else here, but you're brand new.

Gwen Preston: But I also do believe in the – in banking – do what you're gonna do. Decide what you're gonna do. If you have an asset that works at $1,000.00 gold and you have a way of building it and you believe that that will create good returns for your shareholders, then focus on that and do it. If you have capital and connections and a goal of assembling a portfolio of projects that you think will create really good shareholder value down the road because of a better market in general or a better gold price, then do that. But choose what you're gonna do and do it.

Rick Rule: Eric?

Eric Coffin: I'd like to think that after so many cycles, the management of the major mining companies have learned not to make the same stupid mistakes over and over again. I'm probably being naïve in that belief, I admit, but –

Brent Cook: I hope so.

Eric Coffin: Yeah. No shit.

[Laughter]

That being the case, if you're going for that sort of optionality, you've got to understand that what you're doing is a trade. You're not saying, "I'm gonna buy a little piece of this deposit because it's gonna get sold to a major in 5 years when gold's $1,500.00." Because the way things have gone in the last five or six years, and the amount of turnover that's been in the management suites, I think expecting a large miner to come in 3 years, if gold's $1,500.00 and buy out a gold deposit that's marginal at that price, I personally don't think that's gonna happen. So, I prefer to track and invest in companies and approaches that make sense at today's prices or, better yet, make sense at lower prices, and then anything that comes on top is gravy.

Rick Rule: You realize that was a great answer to an earlier question – the surprise.

[Crosstalk]

Rationale action by a major money company. Managments would be a real true surprise. Marin?

Eric Coffin: No, that would be a pink swan or something. I'm not sure what that would be, but yeah.

Marin Katusa: So, my answer to this is quite simple. When Rick talks about the Lumina or Pan-America, it starts with the people. And you look at Ross – he's even cheaper than I am, and you have to figure out what are the holding costs. So, great, you can have this great asset, but if the management's burn ring – they like ripping around town in first class flights and all that – and your dilution of that – and then you also remember that governments have these permits – exploration permits – you have to meet that. So, can they survive that time frame?

I'll give you optionality on steroids is through private placements with warrants. All of these companies need to do this. And when Rick did Lumina, it was through the private placement. So, walk over to the Sprott booth. You got a young guy, Takowa, and Rick standing there.

And I'm not getting paid to promote them but –

Rick Rule: I'll pay you later.

Marin Katusa: But that's how you do this. You get into the private placements and then warrants are the ultimate optionality.

Rick Rule: Okay. So, we have 10 minutes left, and I've noticed in 45 minutes, that when my clients tell me what they enjoyed about the panel, they said the first 35 minutes were lousy, but the last 10 minutes were great. And here's why. For 35 minutes, we've been, in a biblical sense, teaching people how to fish, which is not what they want. They want you all to catch them a fish, clean the fish, filet the fish, and serve it up with garnish.

So, there's five you – you're each long-winded. You each have one minute to give me two stocks. Okay? Never mind optionality. Never mind prospect generation.

Never mind the TSXV. Make folks some money so they'll come back here next year and like you as opposed to dislike you. Marin – two stocks, quickly.

Marin Katusa: Mining? Do they have to be mining stock?

Rick Rule: It doesn't have to be mining. People here want to make money.

Marin Katusa: Same ones as I talked about yesterday – Altera – AXY. Ross Beady, watch this thing roll. He's doing it. And the second one, I – BRI. And I'm a shareholder of both.

I will never tell you to buy something that I haven't bought. My average cost base for Altera's about just under $0.35 and for BRI, it's a little bit higher than what it's trading at right now. I think it's about $0.55 cost base. The first one's Altera – AXY. The second one is Brazil Resources – BRI.bn.

Rick Rule: Okay. Eric – two stocks, quickly.

Eric Coffin: Nevsun – NSU. Terms – they're about 80 percent cash. Their current share price – they just put out their quarterly. Actually, they made not a lot of money. They made $3 million or $4 million but not many copper producers can say they made anything in the last quarter.

They keep piling up cash. Personally, I think it's good, dare I say it, optionality on zinc or copper, but it's also one of those deals where if they can keep rolling along for another year, at some point, somebody probably takes them out 'cause the cash is gonna pretty much be worth more than the market cap. The other one's Kamnak, just 'cause it's a – I like the project. Great management group. And I think they'll probably –

they're on a very short list of companies that are lucky to get taken out sooner rather than later for that deposit.

Rick Rule: Gwen – two stocks.

Gwen Preston: So, Eric stole one of mine, which was Nevsun. I can replace it, but I like Nevsun for the reasons he stated – the cash backing, the exposure to zinc, and the prospectivity of that land package. I voiced my opinion about uranium already, so one of them has to be a uranium stock, and I'd go with UEC on that – Uranium Energy. They're ready to roll. When prices rise not even that much more, they'll be able to turn on production, and that means turning on cash flow.

So, that's got great leverage to a rising price of uranium that I expect. And then, because I do like gold and I do have – I am optimistic about gold – I'll say Newmarket Gold. So, this is sort of a dream team of management and board that's gone out and acquired assets in the down turn with the goal of becoming a low-cost, growing, gold mid-tier for the next cycle.

Rick Rule: Brent – two stocks.

Brent Cook: All right. I threw out five during my presentation who were actually out in the hall there. So, I won't do that again. But one is a prospect generator called Mirasol Resources – MRZ. They've got $25 million in the bank.

They've got a couple of joint ventures going. One of the projects they're drilling in Chile is quite sexy. I've been on it. And actually, I will throw in one more out there – another prospect generator – Riverside Resources, which is about a $6 million market cap company with $3 million in the bank, $3 million being spent, and they're out acquiring ground they've been sort of anxious to get for many, many years and it's finally becoming free. RRI.

Rick Rule: Brien. I know with all these exhibitors, it's gonna be tough to name two. You're gonna have a bunch of people who don't like you.

Brien Lundin: I'm telling you – there's about 60 favorites and they're right outside these doors. But I did have a more extensive list I'm trying to winnow down. They stole some from me. Uranium is – again, I agree with Gwen. I like Uranium.

I like UEC. I like Energy Fuels – that's a recent recommendation of mine since it merged with Uranerz. It's a fairly substantial uranium explorer and producer, so it's immediately leveraged to the rise in the uranium price. Touching on gold and silver –Sabina Gold and Silver. I really like that.

I like what Bruce McCloud is doing. He's really generated some new energy into that. He had the Back River project in Nunavut– about five million high grade ounces – which you need to have high grade ounces there – and he's doing a great job of getting that some exposure. That symbol is SBB.TO. And frankly, I've forgotten Energy Fuels' symbol. I didn't have the chance to look it up.

Rick Rule: UUUU.

Brien Lundin: That's right. Thank you. Four U's. And I agree with everything everybody else said as well.

Marin Katusa: Do you have one, Rick? Just one.

Rick Rule: Just one?

Gwen Preston: Just one.

Rick Rule: I have to give you two if I'm gonna give you one. My two largest positions at cost – not my two largest positions by value – my two largest positions at cost – that is the two that I'm at risk at – are one, the place I work – Sprott Inc., which I like a lot. I think Sprott Inc. is the brand name worldwide for junior resources. With 230,000 clients worldwide when junior resources returns to favor, there will be one global brand in junior resources, which is Sprott Inc. About a 60 percent worldwide market share in that space in terms of public money managers. I have to say that.

I believe it. I've been part of the success, and I believe that we're going to do extraordinarily well in the rebound. The other is the quintessential Rick Rule stock. It's Ivanhoe Mines – the best collection of assets I've ever seen in a junior. The best mining stock promoter of his era – the best, probably, since Cecil Rhodes. And, if Robert had an army, he would have done better than Cecil had done.

Some risks? South Africa's a lousy country and the Congo's even worse. Great big deposits – they need to raise a bunch of money. In my experience, big deposits finance themselves. So, those would be my two. That's the wrong choice of words. Those are my two.

Those are my largest positions at cost, and they are enormous outsized positions. So, that would be it for me. Ladies and gentlemen, I think we've given you an outstanding panel discussion, because I have outstanding panelists and we have an outstanding audience in a great venue. Brien, thank you for New Orleans. Ladies and gentlemen, give my panelists a round of applause, please.

David Morgan
"Silver In The 21st Century"

Moderator: Our next speaker is David Morgan, head of SilverInvestor.com. And David, at this moment, is adjusting some of his slides with the technology man in the back, so there may be a several minute delay here before we can get David to the – oh, David is here, and a familiar face, I'm sure. David, please.

David Morgan: Kind of tough coming from a panel to a main presentation and realizing I hadn't given my presentation to the tech support in the back.

So as you know I'm David Morgan and I'm the publisher of *The Morgan Report*. I wanted to start off on the monetary side, and this is a quote that I've used many times, especially my early work in the early 2000s, being very concerned with what we just got done talking about on the panel. But this is from Robert Hemphill, who was the Federal Reserve Bank of Atlanta. And he said that, "Money is the most important subject intellectual persons can investigate and reflect upon. It is so important that our present civilization may collapse unless it is widely understood and its defects remedied very soon."

Now gray hairs like me have been saying stuff like that for a very long time and it hasn't happened – yet. But I suggest for your consideration that it's happening. This is the expansion of money and credit from roughly 1970 to present day, which is when we went off the gold standard on an international basis. If you took that curve back another 100 years you would see some general inflation but it's really accelerated from the time that the tie to gold was banished.

And for those that don't know there have been 536 currency collapses in the 20th century. Now some of those on that chart, and I know it's not an easy chart to read – I didn't put it up there so you could read every country that's had a currency collapse, I put it up there so you could understand that five percent of the population lives within the continental United States and yet we use 25 percent of the world's resources. So if everyone on the planet is going to have a lifestyle that most middle class Americans are accustomed to something's got to give.

And again, to repeat myself, we've been living the lie because the lie is that we can continue on this path indefinitely and the answer to that is it will not. So we need to really rethink the system. And that's the challenge.

If you use those same metrics I just showed you and you adjust it for the price of silver for those metrics what you'd come out with is roughly $100 an ounce silver in today's world. I don't like to belabor the paper price of silver; it would be substantially highly. If that's the exact number of not it's just a math problem; it doesn't guarantee anything other than the fact that silver is certainly undervalued relative to the amount of expansion in the money and credit supply.

Looking at the silver supply I think it's important to note that it's been a vast increase in the amount of silver produced over the last 20 years or so, as outlined by this chart. And what's very interesting is the gentleman, Omar, that was here on the panel with me, the Aden sisters were actually students of Jerome Smith, who was the silver guru during the last great bull market from the '60s through 1980. And he made one very big mistake in his silver prophecy in the '80s because he suggested that we had it a ceiling amount about the amount of silver that can be minded in an annual basis of 365 million ounces.

And based on that fact he was predicting a silver shortage in the middle of the '90s. And if that were true, meaning that that was the ceiling, you couldn't produce anymore, it probably would have. However, technologies change. And so I'm very careful to say something along those lines because as you can see from this curve it rapidly accelerated from the time that it was plateauing.

Transparent Holdings – these are all the ETFs. We're not going to name them all. All I'm going to say is once they started it was a huge rapid influx into the silver market because so many people that run hedge funds and manage money and are on let's call it the hard money or the honest money camp could only acquire through the mining shares. And then the ability to create these ETFs came along and these holding companies like Central Funded existed before that, put the ability for these fund managers to acquire physical silver, or at least a paper representation over the physical without the risk that is associated with a mining company, be that labor problems or a country disharmony or a flood or any of these other things.

So what we have witnessed during this bull market that we didn't see in a previous one is a huge influx in the institutional money that goes into the raw material itself, silver and gold, rather than participate in the underlying mining equities. And I think that's important to bear in mind because there used to be at least a three to one leverage between what you would get in a mining equity versus what you would get in the physical market. That has not held as much this time around. However, I do believe it's going to be even better this time around for reasons I'll discuss either in this lecture or later. If I remember it I'll do it this lecture.

Just to break this out I think the gentleman in the front here, he may be gone, asked me about the amount of deliveries on the COMEX. And I tried to explain that; hopefully I did. If you look at this green background it shows the total inventory of the COMEX in silver, and what we're looking at are two different categories. Much of the silver, most of the silver, the lion's share of the silver is in the eligible category which means that you've bought it, you've paid for it and it's resting in a COMEX vault. I call them warehouses, which is the slang in the industry, but these are vaults that are for safekeeping of precious metals. That is not obtainable by the market, until the owner signs a piece of paper saying that they want to sell it.

The only availability to the market, to be delivered upon the contract in the overall scheme of things is called the register category and that is a smaller amount, a much smaller amount, the dark green, on this chart. Most people don't understand that.

Talked a lot about what would the correct gold to silver ratio be, so I'd like you to consider these points. Gold role as a monetary metal currently is greater than in silver. That's not true throughout history. Throughout history there's been silver used more place, more times and more transactions than gold by far. In fact one of the early Blanchard conferences in this very area, Milton Friedman said that silver is the monetary metal of history, not gold and that is a fact. But in today's environment I would say gold outshines silver there.

Inflationary environments, as I did on my morning presentation or earlier presentation I should say, silver outshines gold. Industrial consumption there's really no comparison. The mining ratio we've discussed ad nauseam if you've been here the whole time, is about 10 to 1. A total supply ratio of about 12-1/2 to 1. And a proportion consumed by industry gold may be 1 percent or so; silver better than 50 percent of the market.

This chart shows what I had talked about earlier, which is this spike low in silver. You can see that spike and note two things. One – you see that huge spike down into the $14 level, and at the bottom I show volume, which is a huge spike up. In fact they're almost kissing there on the chart. And this is typical of the silver market. I wrote an article for *Futures* magazine many, many years ago called, "Don't Get Spiked" or something along those lines. And I explained with my 40+ years in the silver market that a spike low is very typical to determine the bottom in a silver market. I just point that out.

Now the amount of volume that took place on that trading day is astronomically absurd relative to the physical supply. But this is allowed in the futures exchanges. And the only reason you would sell that much silver in that rapid a fashion is to drive the price lower. There is no other reason. There cannot be, will not be, and I guess there's a third phrase I'm not thinking of. But that's impossible. So there's a very important reason that was done.

Now this is one that I want to take a little time with. And this is where I think we are in the market. All markets that have major or secular bull markets actually go in about three phases. And we, in my view, have had two phases in this market, in this precious metals market. If you're an Elliott Waver, and I'm not, I know the theory, I know a little bit about it, I can talk it, but I'm not a big proponent of it, but they basically talk about the three waves, or actually five, three up and two down. I basically buy into the overall premise of that.

What I'm suggesting is that as bad as it's been over the last four years, and being *[off mic conversation]* –

He point is that we have got, in my view, the largest, longest – well I wouldn't say longest – largest bull market rise because we're bottoming now – I'm pretty certain the bottom is in, and we're going to have to get up probably to the $26 to $30 level in silver, and probably around the $1,500 level I gold. And at that time – and you can see on this chart you'll see some media attention – they'll start having people back on CNBC or BNN or whatever and talking about, "Well, you know, silver's back over $25. What do you think? Is that it? Is it going to stall out here?" or whatever they ask. And then you'll start to get enthusiasm as silver starts to make it back up toward the $50 level, and gold's approaching $1,900. In fact I expect – it's hard to predict these things but I expect that gold may make a new nominal high – I say nominal because in inflation-adjusted dollars it should be far higher than $1,900, but I'll go to that level and silver may still be below $50. So that'll get some enthusiasm into the market.

And now depending what's going on at the same time, which I believe will be further deterioration in the overall financial system, then you'll get into the public buying phase, and that's what'll take this market far, far higher, just like the housing bubble and just like the tech wreck, just like the bond bubble we're experiencing now. You'll see all this happen, but you have to remember that the amount of gold and silver, even in the derivative space, is extremely small, relative to the financial markets as a whole.

And then we'll get into the greed phase – and this is where you'll see the penny mining shares go nuts again. Remember I said that the equities weren't doing very well. Well what will happen is as gold goes to – the idea is important, not the numbers, but I'll give you numbers so it will clarify your thinking, when you see gold going to $2,500 an ounce and silver's at $70 the latecomers that are getting greedy will say to themselves, "My, my, my, look at the price of gold. My, my, look at the price of silver. But I can't buy silver at $70. I remember that crazy guy Morgan up there at the event in New Orleans saying I should buy it at $16."

So what will happen is a lot of the – let's say unwashed – will look for the cheapest mining company they can find that has gold and silver in its name and they will buy it. And that will push the whole equities sector up, not necessarily the top tiers like Pan American and Newmont and those kind of stocks, although those will also go up because institutions will be looking.

And imagine if that were taking place at the same time there were physical shortages in the metals themselves, which means that it was almost impossible for Sprott Asset Management to buy 20 million ounces of physical through the dealer relationships. Or there was a balking of the amount of gold that was supposed to be delivered to the Texas depository for their teacher's pension fund that they've promised. Three years have gone by and they can't show up and they make some lame excuse.

Imagine what would happen if the only thing that could take place as far as your getting some exposure to gold and silver was through the equity market – where would that take the price of these equities? Now I'm not saying that's going to happen but I want you to imagine it could happen. Because I believe it could. I'm not saying you wouldn't be able to buy gold and silver – price is the mechanism to make a transaction. We all know that. What I'm suggesting for your consideration you wouldn't be able to buy it in size. And again, to emphasize it, if at the same time that were taking place there was, let's say, further financial destruction that was so obvious that even the most laid back teenager saw it, think of what that would do to these markets. That's why I believe that we are going to see these financial markets, or these metals markets, I should say, go into the financial record books.

Let's look at the demand side for a moment. Solar did exactly what Jessica Cross forecast back in the early 2000s, when she wrote her treatise on the solar industry up until about 2011. From that time there's actually been more solar panels made than the previous year, but the efficiencies got better, meaning less silver up a solar panel. And that's been the case for the last few years. I think solar has probably leveled off. Natcore Technology (NXT.V) is out here; I think you can take a look at their booth. They're going to make solar panels with aluminum. I wrote about that in this month's issue of the Morgan Report, which will be issued this weekend.

And is it going to devastate the silver market? And the answer is no. It's very similar to the argument I had that the photography industry was going to cripple the silver industry. I said not a chance. And I wrote about it in detail my first book: *Get the Skinny on Silver Investing* which, again, you can buy it or not, but it explains that. I don't have time to go into it. But nonetheless solar is important to silver, but a replacement industry is not going to cripple the silver market.

Interesting, India has a very, very long love affair with the silver market. Generally speaking up until the late 2000s, meaning as this chart shows like 2009 or '10 onward silver was the primary means for the working class, I'll call them, to save. They didn't trust government paper so they saved in silver bracelets, mostly.

However, as it became more and more affluent they certainly loved gold as well and you basically heard nothing about silver in the mainstream press anyway. It was all about how much gold India is utilizing, buying, storing, hoarding, in fact to the level where they were starting to punish them by putting on some value-added type taxes to curtail some of the demand for gold.

Regardless, they've been longtime silver savers for centuries, and this chart's interesting because you can see at the current rate the last few years silver imports into India have been significant, and part of that is their solar program. But if we're on track it'd probably be somewhere around 10,000 tons into the silver market into India from the silver market, which is roughly a quarter of the annual silver production – quite substantial.

Silver coin sales – when I wrote, *The Next Decade in Silver* for our members and looked out at monetary demand and the industrial demand my forecast was actually rather conservative because I was looking for the physical offtake for silver to be somewhere around 100 million ounces a year. Now we're seeing physical offtake in silver of 122 million ounces a year of just government minted coins, not counting – and by the way, we haven't seen really any institutional demand come back into the silver market for this four-year bear market, really. You haven't seen Sprott Asset Management, Central Fund of Canada, Zurich Cantonal Bank, I mean any of these big funds or banks that bought silver in a physical form really have been absent. But the public hasn't, as you can see by this chart.

If you look at the next one, the gray matches the gray of the previous chart and the copper color is other countries that are smaller, that produce silver coins. So you can see if you add everything that's produced by a government mint in 2015 you're looking at about 150 million ounces on an annual basis – very significant.

So the title of this lecture is "Silver in the 21st Century". There are so many uses for silver I can't even begin to go into them, but there are some of the main ones that are listed there. And just some of the highlights: health and medicine more and more all the time, a natural biocide. Used in textiles more and more. Lance Armstrong, like him or not, he was wearing silver-coated textiles during his run in his biking career. Gorilla glass uses silver. A lot of cell phones obviously use gorilla glass. Nanotech, fairly significant amount: 10 million ounces in 2013, growing. Nanotech is huge. It's going to continue. And the amount of silver used overall in industry is probably ready for another up-leg, believe it or not. I don't expect that to happen in 2015 or '16, but as the economy is squeezed they're always looking for the best benefit for the least amount of cost. Silver plays into that significantly because it's the lowest-priced metal for what it can do.

Coming back I just want to emphasize what I started this lecture with: that it is so important to our present civilization that it may collapse unless it is widely understood, and the defects remedied soon. Our monetary system has some serious flaws.

Those cards are available; I have them out there. You can get to our website: Silver-Investor.com/NewOrleans. So just Google "David Morgan silver"; you'll find the website instantly. Just remember to hit a backslash with where we're sitting today in New Orleans and I'll have a special report for you.

That was a bad hair day; that's the first page. Usually it's about a 12-15 page report. And that's the website. It's been an honor to speak at the New Orleans 2015 Investment Conference. Thank you.

Chris Powell

"Gold Market Manipulation Update"

Moderator: At this time I would like to move on to our next speaker, someone very well-known to many, many in the professional side of the precious metals. It's Chris Powell with the Gold Antitrust Action Committee, Inc. He is going to give us a speech entitled, "Gold Market Manipulation Update".

Chris Powell is managing editor of the journal *Inquirer* in Manchester, Connecticut, where he has worked since 1967. His political columns are published in a dozen newspapers in Connecticut and Rhode Island. He and LeMetropoleCafe.com proprietor Bill Murphy, founded the Gold Antitrust Action Committee in 1999 to expose manipulation in the gold market. So at this time I would like to offer Chris to please come to the podium for an update on gold manipulation and its impact.

Chris Powell: Thank you, Bob, and thank you folks for coming to New Orleans. It's always an honor to be here in this great conference and this great city.

Everything about the financial markets today must begin with two documents. *[Off mic conversation]*. The first is the 2013 10K filing with the U.S. Securities and Exchange Commission by CME Group, operator of the major futures exchanges in the United States. In August, 2014 Eric Scott Hunsader, founder of the market data firm Nanex in Winnetka, Illinois called attention to a telling paragraph in the filing. The telling paragraph discloses that the customers of CME Group include governments and central banks.

Also in August, 2014, Hunsader called attention to another filing by the CME Group, a letter sent in January, 2014 to the U.S. Commodity Futures Trading Commission by CME Group's managing director and chief regulatory counsel, Christopher Bowen. The letter disclosed that CME Group futures exchanges offer volume trading discounts to central banks for all futures contracts, not just financial futures contracts but also futures contracts for the monetary metals and commodities including agricultural products.

The CME Group letter to the CFTC justified secret futures market trading by central banks as a matter of providing the markets with quote, "a liquidity", unquote that would benefit all traders. But if governments and central banks, creators of infinite money are secretly trading the markets there are no markets anymore, just interventions, as a high school graduate told GATA's conference in Washington in 2008. And as the British economist Peter Warburton suspected in his incisive 2001 essay, "The Debasement of World Currency": "It is inflation, but not as we know it."

If governments and central banks are secretly trading the markets no fundamental or technical analysis of markets is worth much. If governments and central banks are secretly trading the markets the only market information worth much is information about government and central bank trading.

GATA has continued to document that central bank trading and related maneuvers since we met here in New Orleans a year ago. Let's review some of the new documentation.

On September 21 this year gold researcher Koos Jansen reported that the rules of the International Monetary Fund exempt imports and exports of monetary gold from reporting by national customs agencies. That is the purchase and sale of monetary gold by governments and central banks across international borders can be withheld from customs reporting, thereby facilitating secret intervention in the gold market.

On September 16 this year gold researcher Ronan Manly disclosed that while the new daily London gold auction was established in the name of reducing the possibility of market intervention – I'm sorry, market manipulation – the auctions operator, the international intercontinental exchange has reported to the United Kingdom's financial conduct authority that spikes in COMEX gold futures prices seem to have been undertaken to manipulate the afternoon gold auction in London.

On August 6th this year Manly disclosed a policy study by the Bank of England written in 1988 that concluded that gold is the best money because it has no counter party risk, but that mine risks insulting the U.S. dollar and the U.S. government.

On June 9 this year the Colorado securities lawyer, Avery Goodman, who researches the gold market, called attention to the hugely disproportionate COMEX futures contract gold deliveries being made by the investment bank, JP Morgan Chase. The disproportion of the deliveries assigned to Morgan Chase, Goodman wrote, suggested strongly that the investment bank is administering the U.S. Federal Reserve's gold swapping and leasing operations, and that at least for the time being the U.S. government and U.S. gold reserve are guaranteeing COMEX gold futures contracts.

On May 3 this year gold researcher Manly called attention to the internet site of the gold market consultancy started last year by the former Barclay's bank representative and the London gold market fixing company Jonathan Spall. Spall's new company is called G Cubed Metals. The G Cubed Metals internet site says, quote, "All connected with G Cubed Metals are well aware of the need for confidentiality in all financial markets, as well as the additional sensitivity that comes from transacting in precious metals, particularly when it involves the official sectors such as government, central banks and sovereign wealth funds," end quote. Why do governments and central banks need such confidentiality in their gold market operations, unless they mean to do something they don't want the market to know?

On April 6 this year gold researcher Manly disclosed a letter written January 30 by the chief executive of the London Bullion Market Association, Ruth Crowell, to the Bank of England's Fair and Effective Market Review committee. Crowell wrote, quote, "The role of the central banks in the bullion market may preclude total transparency, at least at the public level." While Crowell wrote that the LBMA welcomes more transparency in the London gold market, particularly through what she called post-trade reporting she also praised gold lending by central banks for providing quote, "Liquidity" unquote, to the market, asserting that it is, quote, "Vital that the role of the liquidity provider is not diminished but in fact strengthened to make sure the markets remain fair and effective," end quote.

The Bank of England's review of the gold market, Crowell's letter said, quote, "Should prioritize liquidity. As greater liquidity results in markets which are less easily manipulated and consequently regulators should afford market participants the tools with which to foster liquidity," end quote.

But if the foremost providers of liquidity in the gold market are central banks their provision of liquidity is likely the primary mechanism of market manipulation, that central banks have not just access to effectively infinite financial resources but also the powerful motive to manipulate the markets in which their currencies and bonds trade.

Thus with its chief executives letter to the Bank of England the LBMA made the same bogus and self-serving claim that was made by future exchange operator CME Group in support of the volume trading discounts it gives to central banks for secretly trading the U.S. futures markets CME Group operates. The claim that secret trading by central banks deters market manipulation rather than constitutes it.

On March 1 this year GATA supporter discover a Ramparts magazine article from May, 1968, written just after the collapse of the London gold pool. The article was written by Michael Hudson, who was then an analyst for Chase Manhattan bank and lately has been professor of economics at the University of Missouri at Kansas City. Hudson wrote, quote, "America's desire to see gold eliminated from the world's monetary system is understandable. It had used gold as a lever with which to exercise world power, not only to purchase foreign businesses but also to finance its overseas Cold War operations. Gold, America perceived, was power, as long as gold was the basis of the world monetary system power followed it.

"Therefore when its gold stock pile was depleted America naturally wanted to transform the monetary system in such a way as to phase gold out, thereby preventing any other nation from using the power gold provides, especially in view of the fact that the major potential gold bloc nations of the Soviet Union, South Africa and France." End quote.

On February 28 this year gold researcher Manly located comments made by a high official of the Bank of England in a 2007 issue of the magazine *Central Banking* indicating that the Bank of England secretly traded gold in 1980s to control its price and even made a profit doing so.

In January this year the chief of market operations for the Banque de France, Alexander Gautier, replied to an email inquiry from GATA's friend Fabrice Drouin Ristori, chief executive of GoldBroker.com in Malta. Gautier had told the London Bullion Market Association meeting in Rome in September 2013 that the Banque de France secretly trades gold quote, "Nearly every day," end quote, for its own account and for the accounts of other central banks.

So Ristori asked Gautier to explain the purposes of the Banque de France's gold trading. Gautier replied cordially that the French central bank never explains its operations in the gold market, but the only purpose of such daily trading by central banks is market manipulation.

A week ago the executive director of Austria's central bank, Peter Mooslechner, was interviewed by Daniela Cambone of Kitco News on the sidelines of the LBMA conference in Vienna. Mooslechner volunteered to Cambone that central banks are intervening surreptitiously in the gold market. Cambone had asked Mooslechner to explain the role of central bank gold reserves. Mooslechner replied, quote, "I think for small countries it's more or less this buffer role in the end. It's quite different, I think, for central banks in Asia, for example, where they are increasing their reserves a lot and they are much more active in using also their reserves and trading in the market and intervening into the market," end quote. But Cambone seemed to fail to understand what she'd just been told. She asked no follow-up questions about secret central bank interventions in the gold market.

GATA's friend, the German financial journalist Lars Schall noticed Cambone's gross omission and understood its importance. So Schall sent his own follow-up questions to the Austrian Central Bank in the hope that Mooslechner would reply. Schall asked Mooslechner the following questions: "Can you elaborate on the trading of gold by central banks in their use of gold for market intervention? Exactly which central banks are doing this trading in intervention? What are its purposes, objectives and results? And what markets are involved? Are this trading and intervention public and announced or are they secret and surreptitious? Are this trading and intervention undertaken directly by central banks or through intermediaries? If this trading and intervention are undertaken through intermediaries who are they? Should markets and citizens generally have the right to know about this trading and intervention? And how do you know about it, Herr Mooslechner?"

Schall reported this morning that the Austrian Central Bank's press office replied to him as follows, quote: "Sorry, we are not going to answer your questions. We never comment on our investment strategy and trading," unquote. But Schall had not asked about the Austrian Central Bank's strategy and trading. He asked about Mooslechner's comment on Asian Central Bank intervention in the gold market.

Even so, Mooslechner's lapse into candor about secret central bank intervention in the gold market was notable enough. Maybe Mooslechner is not available to answer Schall's questions because he's floating in the Danube.

Of course Cambone's job at Kitco News is not to commit journalism, it's just to look pretty. But a few days after Cambone flubbed her interview with the Austrian central banker the star columnist of *The Financial Times*, Martin Wolf, did no better with his interview with former Fed Chairman Ben Bernanke over lunch at a restaurant in Chicago. Amazingly, Wolf never asked Bernanke an inconvenient question. Wolf asked no questions about surreptitious intervention in the market by the Fed, and no questions about the many documents involving market intervention that the Fed refuses to disclose. Wolf's job at *The Financial Times* is not to commit journalism either; it's just to shill for the government and ingratiate the newspaper with it.

The primary objective of these largely surreptitious interventions by central banks in the gold market has been to keep the gold price down, and thereby destroy the natural inverse relationship of the gold price with interest rates and currency values, to prevent gold from serving its traditional function as a hedge against government mismanagement of currencies and markets, to prevent people from using the monetary metals to escape the central bank system. By any traditional market standard it is absurd that gold should be priced below the cost of its production when, as now, real interest rates and even nominal interest rates are negative. Gold can be priced this way only because of massive intervention, constantly daily, even hourly intervention by central banks using derivatives, high frequency trading and desorting from central bank gold reserves.

If you rig the risk-free rate of return the price of money from the government, and rig the price of the traditional safe haven money, gold, you rig all prices. Rig the price of all capital labor goods and services in the world and thereby destroy the market economy. Even some central bankers have been calling this policy financial repression.

In today's environment of financial repression any investment in gold and gold mining companies is a bet on the restoration of a market economy, or a bet that eventually yielding to market pressures central banks will choose to devalue currencies and debt by resetting the gold price much higher and resuming their gold price suppression scheme at a more sustainable level, a level with less offtake from the gold reserves. This would be the sort of thing central banks have done before, as in 1933, 1934, 1968 and 1971.

I have no insight into exactly what will happen or when. I think the best that advocates of free and transparent markets can hope for is to drag financial repression fully into the open so that even mainstream financial news organizations like *The Financial Times* are forced to acknowledge it. Then the world can plainly decide between totalitarianism and democracy.

And by the way, the interview that Kitco News had with that Austrian central banker has been sent to all the major financial news organizations in the world and they're not interested in this central banker's admission of gold market rigging. They have been covering this up for many years. Everything important we find we send to our mailing list. And I can tell you whenever anybody at *The Financial Times* or *The Telegraph* or Reuters or Bloomberg is on vacation because I get the auto-respond but that's about the only time I ever hear from them.

Much more documentation of the rigging of the gold market by central banks is posted in the documentation file at GATA's internet site. GATA Chairman Bill Murphy and I will hold a 45-minute workshop tonight in the Bell Chase Room and will be glad to try to answer questions there, or you can email me at the address on the screen: CPowell@GATA.org.

If you think GATA's work is worth sustaining please visit our internet site at GATA.org and consider supporting us with a federally tax deductible contribution. We're a non-profit educational and civil rights organization and more than ever we could use your help now. Thanks for your kind attention.

Robert Prechter
"Big Changes Ahead For Stocks, Gold And Interest Rates"

Moderator: Our next speaker, Robert Prechter, is one of the more interesting and influential market analysts in the world, and has been for many decades. He is unusual in many respects, but one in particular has always impressed me. And that is there tend to be analysts and newsletter writers who are very influential with the investing public like you. They're dealing directly with you, you're getting their newsletters, you're taking their advice, but that is what we call the retail side of the investment advisory industry.

And then we have the institutional side, which tend to be another whole set of analysts, money advisors and consultants. And they work with mutual funds, bank trust departments, pension funds and so forth. Robert Prechter is one of the only very tiny handful of analysts and forecasters who holds equal influence both to private retail investors and to the institutional investor. And that makes him a very, very unusual type of analyst. His opinions and suggestions are almost always covered immediately in the press and he has a legacy of credibility that I know goes back at least 30 years.

So it's a real pleasure to have him here again this morning. His 1978 book *Elliott Wave Principle* forecast a 1920s-style stock market boom. His 2002 book *Conquer The Crash* predicted the global debt crisis. His firm, Elliott Wave International, forecasts stocks, precious metals, commodities and currencies from the interday price action to the very long term. He has co-authored academic papers on financial theory and predicting election outcomes, which you can access at the following website address, I'll repeat it after I give it to you. The website address is SSRN.com. You can also read more later about Mr. Prechter at www.RobertPrechter.com. His topic this morning is big changes ahead for stocks, gold and interest rates, and he has a forthcoming book, by the way, on the theory of finance, which will be done in 2016, and I suspect will become a classic, as have his first 2. So at this time, one of the real deans of financial analysts worldwide, Robert Prechter.

Robert Prechter: Good morning. The first time I spoke for the New Orleans conference was 1980. I can hardly believe it's been that many years, and Bob Meier was there. It's always a pleasure to have him emcee. Usually I start off with a discussion of the stock market, but I think commodities and gold are more interesting than anything in this particular juncture. So that's where I'm going to focus today, and we're going to start with oil.

I'm going to start with this one because we're going to go through a little bit of history and that's going to set up the way we're going to look at the commodity markets and the gold market. This is a picture of the bull market in oil for the 10 years from 1998 to 2008. Now the – one of the approaches we use is we look for a particular pattern, it's a fractal pattern, we call it the Elliott wave model, where we're looking for five movements, five waves in the direction of the larger trend and we're looking for three waves as the countertrend moves. o you'll see some labels on there and I'm going to refer to that a little bit as we go along.

But as you can see by those numbers on there, we were looking at this as being in a terminal move, it was the fifth wave up and oil was going straight up, it was just flying at the time. And if you recall, there were dozens of books that had been published with the title peak oil, somewhere in the title. And what the argument was was that the world was running out of oil and we wouldn't have any more. People were predicting crazy prices for it. And we said at this particular time that one of the greatest commodity tops of all time is due very soon.

We were looking for a spike top because that's the way commodities usually go into their highs and reverse, around $160 a barrel. It didn't even quite get that high, it peaked at $147.50 a barrel, and this is what happened next.

That was one of the biggest crashes in commodities ever, a huge 78 percent decline in just 5 months. Now, you'll notice that little A we put down there. That means we think that is one wave of a larger bear market and there's more to go. But at this particular time, oil was ready for a big rally.

And here's what happened since. It rallied up into 2011 and then continued to go sideways and have numerous rallies into this particular time, which is early 2014. Now, at this point, we were watching a number of other indicators. One of the things we look for is extreme optimism near highs or extreme pessimism near lows and we were getting that in spades in March of 2014.

For one thing, on the daily reading of the percentage of bulls versus bears, people who are bullish versus bearish, on oil futures, we got 91 percent of the traders who were optimistic and thought oil would go higher. Usually that means they've already bought the stuff, it's not likely to go much higher.

We also had an all-time record long position among the large speculators, and even the smart guys with a lot of money tend to be wrong when they're on the speculative side of the market. We also had an all-time record short position among commercials. Commercials are the people that buy and sell commodities for their businesses, not to speculate.

This was what we called a deadly combination, in other words we were looking for some kind of drop in oil just about as big at the one we had in 2008. And here's what's happened since, this is a close up of that particular time from early 2014 until 7 months later. That was a huge decline in oil, 60 percent in just that short period of time. That's the kind of power you can get from these kind of indicators that tell you how other investors are behaving.

Now we're going to put it back in perspective with that previous long-term chart that I showed you. That's the decline in prospective from the bear market top – bull market top in 2008. All right, now at this time, of course, everybody's brains began to shift and instead of being 91 percent bulls, we were getting 5 percent, 4 percent, 6 percent bulls. That means 90-plus percent of people thought it was going to go lower.

And if I remember the headlines from that period, even in average newspapers, not just financial media, there were headlines such as no bottom in sight for oil. That's the kind of thing we like to see if we're going to look for a low. So we said at that time, now that bearish conviction has crystallized, which it absolutely had at that time, oil is likely to rally. This is what happened thereafter. Now, on this chart, it doesn't look like a huge rally, but that was a 50 percent move in a very short period of time. And at that time, this was in June now, just a few months ago, we said the rally should be about over, you can see why because of the numbers on there. We're looking for a fifth-wave decline to complete something in the oil market.

And oil did fall from there, this – again, predictions began to come it's going to $10 a barrel, it's going to $20 a barrel. But we said oil is heading into the low of wave five, this is just two months ago in August. And here's what happened shortly thereafter, oil sees its biggest 3-day surge in 25 years.

We think that was a pretty significant low, not the final one, but a significant low. It started upward, we don't know if we're going to be right, but we're looking for a multi-month rally in the oil market. I'm showing you this because we're going to orient this toward commodities and we're going to look at gold in pretty much the same light.

One of the things that, to me, helps confirm the idea that oil could have a pretty good rally here is that the media and the people they interview are staying negative even during this bounce. See, the last bounce didn't work out right, they all got caught in it, this time is okay, we don't believe it now. We love to see that.

Now this just came out just a few days ago. Remember how when oil was soaring into its all-time high at $147.50, people said the world is running out of oil, we'll never have enough. Suddenly, British Petroleum has come out and said oil will never be used up. Now, most people look at this kind of information, they go oh, well then I shouldn't own it. We look at it completely differently. We say oh, this is why oil is low, because everybody has this belief.

As long as you can see that kind of thing in the news, you can be pretty confident that you're on the right track, as long as you can disagree with the vast majority. Just to put it in perspective, and this is a long term, this is 100-year history of oil prices, notice that beautiful trend channel that it's held within. The five-wave structure right into the high. See the peak in 2008, see how prices went above the upper line, that's pretty normal. Usually we'd call that a throw over, when there's so much excitement that the final wave up goes through the upper trend channel line and then falls back below it. That's often an exhaustion move.

Keep that in mind because I'm going to show you that in gold in just a moment. So we had the A wave low, that was in late 2008, we had that B wave top in 2011, it held up into 2014, had the plunge, we still think there's more to go. There's going to be a better long-term buying opportunity in oil later on. But for the time being, you could easily make a 50 percent move or even a little bit more on a short-term basis on the upside.

So that should give you a pretty good idea where we think oil is in the entire long-term structure. Let's take a quick look at the commodities index. This was going to include the agriculturals, for example. It had a very similar picture to oil. The commodities in general topped out in the summer of 2008, plunged into late 2008, and even made a lower low in early 2009, right along with the stock market. Then they had a three-step countertrend move.

It was a 60 percent retracement, that's quite normal, and we said we think this rally's over now. And commodities should resume the bear market that started in 2008. This is what's been going on every since. Nothing but bear market, bear market, bear market. Now, you notice at the recent low we put a three there. That implies that we don't think that's the final bottom. So it's in the same position that oil, which is one of its components, is in.

Commodities are looking better, they're looking attractive for rallies for the first time in all these years. Not quite at a final bottom. Now we're going to get to the one that I think is very interesting and that's gold. This is a chart that I showed right here at this conference in October

2011, 4 years ago. We showed the 10-year bull market in gold, from 1999 or actually 12 years if you start from 1999 up into 2011. Notice that it's a very nice trend channel. The final wave up went through the upper end and then fell back below it. That's just like what we saw in the oil picture on the long-term, 100-year chart.

And we said, look, that's probably the end of the oil bull market. This is a couple of weeks after that top. And this is what has followed ever since. We've gotten in a bear market situation, it's the biggest decline since that bull market started in 1999. Now, this is on log scale, so it's going to understate the bear market just a little bit. That was a 40 percent drop, which is probably painful. Silver, of course, dropped 70 percent, that's a much more serious bear period. So this was a really serious bear market.

Well, is it over yet? You can't quite tell, just by looking at this chart. I want to go back again to 2011, October 2011, this is when we were here at the New Orleans conference and we were looking at this chart, as well. This was a close up of the last few years of the bull market in gold, and we pointed out some of the reasons why we were so bearish, not just because we'd finished this wave structure, but also because of the incredible extreme and optimism that was going on at the time. And you can see it from several of these highlighted things, news announcements that I put on here.

Société Generale is one of the biggest investment banks in Europe, and they had just come out with a report, this was actually about six days after the peak in gold, so they were writing it probably on the top day, and they said that the – we think the fair value for gold is $10,000 an ounce. It was about $1,900 at the time. So that's more than 5 times where it was, after coming all the way up from $253 an ounce.

And we said now that is bullish conviction, and they're willing to put it in print, a major institution, that means there are a lot of people who must agree with that. We had 98, not 91 as we had in oil, 98 percent of traders in gold futures thought gold would go higher. That's an incredible number, it's hard to get any higher than that, and it usually means that everybody's already in on the long side.

One of our favorite discoveries at the time was that Gallup just completed a poll, it was in August of that year, saying that the average guy on the street, which is the kind of people they poll, thought that gold was the very best long-term investment. Now, the public doesn't think anything's a good long-term investment unless it's way overpriced, and it was at the time. So we used that as an arsenal, as well.

And now this one is really cool. The last one I've highlighted there was the headline from the World Gold Council saying that central banks were pouring into gold. In other words, central banks were buying gold. Now, many people at that time were saying this is a reason to be really bullish on gold, the central banks have unlimited funds and they're buying gold all of a sudden like crazy, that's going to make it go to $5,000, $6,000, $10,000 an ounce.

And we saw it as an opposite sentiment reading, that the central banks are a big committee, they're going to be the last people to herd into a market and that's exactly what they were doing. Now, I'm going to show you a chart about that later and I want you to take that idea home with you, but right now we're just looking at these indications and I will show you what happened since. This is the same picture we looked at before, but this is on arithmetic scale. So you can see what a long period of declining prices resulted from this over optimism.

A month after that conference, I published a chart, started looking at the gold stocks, because we were starting to turn bearish on the metals and well, actually, we'd been bearish too long on the metals for that matter. But we were pretty sure our top was in. And we said let's take a look at the gold stocks. Man, was that interesting. Because here's a picture of the gold stocks and we pointed out at the time, gold had doubled since 2008, 2008 and '08. And yet the gold stock index was unchanged.

Now, when you bet on gold, that's one thing. If you want to bet on gold mining, that's something else, because now you're bringing in is the management any good and do they have a lot of debt, have they borrowed money to do what they're doing. So this – the market did not like the gold stocks, even though gold had gone a lot higher, it was pricing gold stocks in the same place. We said if gold goes down, these companies are going to be in big trouble. This is extremely bearish.

Well, here's what has happened since. Gold stocks fell 81 percent from that time into this year. And you can see that at the starting point of this particular chart in the late '90s, gold was $400 an ounce, it's $1,100 an ounce, which is 2.5 times as much, but it's – the stocks are still down. You can't really count on one to predict the other, you have to do them separately.

Now, some people think gold stocks are a good long-term investment, but I'd like you to study this next chart with me. This is a history of the gold stock index going back to 1979. You can see that even from the peak in 1980 when gold made its high at $850 an ounce, it was actually in the summer and fall when gold stocks finally topped out. They've had a net loss of 73 percent over 35 years, despite all the massive inflation that's been going on. So if you're going to bet on gold, my feeling is bet on gold. If you're a gold stock analyst, that's different, and you might – if you're really good, you might be able to pick some of these swings. But notice how they – the turns often occur on spikes. It's very hard to catch the turns in gold stocks.

What about the Fed? A lot of people do their buying and selling of gold or silver and their advising on investing and buying in gold and silver based on what the Fed's doing. Obviously they're a big engine of inflation. Isn't that a good reason – shouldn't we follow them to decide when to buy and sell gold, and my answer to that is a very firm no.

This is a picture of that gold bull market again, but I carried it out a year into 2012. 2012 gold was still holding up, and you notice between 2011 and 2012 that it had a setback for a while, it looks like the one that occurred back in 2008. And a lot of people were saying oh, this is a tremendous buying opportunity because the central bank is now going to inflate at the unbelievable rate of one trillion dollars per year for the unforeseeable future. They said, we don't know when we're going to stop.

We're going to buy a trillion dollars worth of bonds and mortgages as far as the eye can see, and again, most people in the gold market were saying, oh, this is unbelievable, gold's going to go to the moon. Well, I want to show you how we looked at that information. We published this headline just a couple of months later and said the biggest inflationary Fed commitment in history provides another selling opportunity in the metals.

We do that because what they do doesn't matter, it's the way the market feels about it and people were so optimistic, that meant they were invested to the gills for that very reason. And what happened? Gold fell throughout the time the Fed had its QE program in place. You can't use this kind of information to trade the gold market. You've got to look internally as to what investors are doing in that market.

Now, we're going to get up to date here. This is something that Steve Hochberg, my colleague, and I published in the summer, July 24th. Gold at short-term bullish juncture. And we've been pretty well known as bears on gold, so this is something new for us. We actually put this report together and we waited three days. We wanted to see one more new low on the daily chart to finish up the fractal pattern that we thought was developing, and we got a little bit lucky on this one.

We put it out on the low day so far. Now, again, just like oil, we don't know that this is an important low yet. But gold so far has responded and so has silver. So we're feeling pretty good about this and here's some things that we like to see. First of all, I want to review something that came out in 2001 and I showed this last year because I said okay, people might want to know when would we turn bullish on gold. And I said, when we see something like this.

This is an article that came out the very week of the bottom at $253 an ounce in gold in 2001. And as you can see, they interviewed people in the gold industry and couldn't find one optimistic person. The subhead is nobody expects gold prices to turn up soon. There were people who were saying there is nothing on the horizon even that could make gold prices go up. Why? Because they're looking at all this stuff like the Fed and other outside – how's the economy doing, what's the inflation rate, and those things aren't going to help you.

What we noticed was everyone was bearish. That's a good sign. Well, how are they feeling now, now that gold dropped 40 percent? Guess what? This is four days after our buy went out and we were so happy to see it. Our survey, says Bloomberg, shows a majority of traders and investors aren't optimistic. And the main headline says gold is only going to get worse. Now, that's the kind of thing that we saw in February of 2001. That's great.

So this is kind of giving us a little confidence that we might have a decent low here in gold. This was just from a few days ago. They're continuing to say this, even though gold has rallied. Now, all the way down previously during the rallies, it's okay, gold's taking off again. They're not saying that this time. They're saying gold's role as a safe haven investment wanes, and they're giving you all kinds of reasons if you read the bold print there, as to why gold isn't going to go up and why it's a mess now and nobody wants it. So we feel pretty confident that most people washed themselves out of the gold market and it's going to have a good rally.

It's nice to have this after our buy came out. But I want to put a little perspective on this one, this takes gold now back to when the Fed was created in 1913. I showed this in the last few years, as well, starting I think in 2011 at the highs, and I showed that the multiple in the price of gold since the Fed was created was 4 times the multiple of the CPI. So I said even though we've got all these people saying gold should go to $10,000 an ounce, it's expensive at $1,900, let me tell you. It's gone up four times as much.

Now, the CPI's a little bit manipulated by the government, so maybe it was only double the amount. But that was still enough to say it was expensive. Now you come up to today and gold is up 56 times since 1913, the CPI is up 24 times, that's 2.3 times, again, not 4 times. So it's come back. It's improved. But does that look like a real bargain? Does gold look cheap? I don't think so, not yet. Long term it's not ready, but short term it's going to have a great rally, should last a year.

Now, I promised you I would leave you with a really good picture showing you about the central banks. Next time you read a headline saying the central banks are buying something, I want you to run from it, don't believe that this is a great idea. What we have here is the annual range of gold prices on the top and at the bottom, the net selling or net buying by central banks in gold. Notice at the low in 2000 and 2001, they were selling. Those are the grey bars over on the left. They're selling gold at 253 and 263 and 273 and 300 and so on, they're selling, because they're not good investors.

They can – they didn't believe the bull market. They kept selling and selling and selling, and you notice by the time they got into 2009, they're not selling as much. And in 2010, they're kind of edging toward the buy side. What year did they surge to be big buyers? The first big, black bar. 2011. That was the year of the top. That's when they finally said okay, we can't stand it anymore, we've got to own more gold, they didn't want it at 250, they didn't want it at 1,700, 1,800 and 1,900.

Now, they have continued to buy the decline. That's not bullish. It means they don't believe the bear market. So one of these years, when I come back to the New Orleans conference, I hope to show you this chart again with some grey bars on it and a lower price in gold on a long-term basis. If we patiently wait for that time when they finally give up and start selling their hoard of gold, you'll know that it's going to be the next greatest buying opportunity in that precious metal.

So you should look at markets backwards. Whenever you read all the great stuff for a reason why a market should go up, you should start thinking the other way and when everybody hates it, you should start liking it. It's interesting when bargains occur in markets, nobody is interested. When they're flying high, everybody wants to know about them. If you can flip your orientation upside down, you'll be a much better investor. Now, I didn't have time today, because I've only got 20 minutes, to talk about some very important markets. The stock market, the real estate market, interest rates.

My colleague Steve is going to cover these tonight, I hope you can have a chance to go see him. He's going to be speaking at 8:00, a little after 8:00, 3rd floor, Bellchase Room. Thanks so much for your time, I hope you have a great time here and in New Orleans.

Precious Metals Panel
Thom Calandra (MC), Omar Ayales Aden, Brien Lundin, David Morgan, Dana Samuelson, James Turk

Bob: What we're doing now is we're setting up our precious metals panel, and this gives you an opportunity to get the views of a cross-section of some of the best analytical minds in the metals as reflected in their publicity, in their notoriety, in the mainstream financial press, and their following as advisors to clients. The participants are Thom Calandra, The Calandra Report. He'll be moderating. Omar Ayales, from The Aiden Forecast, and I might mention that Omar's mother Pamela Aiden first spoke here in 1980. So the tradition goes on.

Anthem Blanchard, whose father was Jim Blanchard, founder of the corporation and also of this conference. David Morgan of SilverInvestor.com. Dana Samuelson of the American Gold Exchange, and James Turk from Gold Money Incorporated. So I'm putting Tom's sign up here, so he's officially in charge, and I think we're ready to have everyone come out. Look at that.

Thom Calandra: Oh, that's fantastic. Thank you, Bob. Thank you, Bob. Hello everyone, how are you doing? I think we have a vibrant panel today, and I know every single one of these people except for Omar who is kind of a fresh face here with The Aiden Forecast. And that's Omar, he's a Costa Rica lawyer. Of course this is all there. Anthem of course needs no introduction as his dad was the guy who started this thing 41 years ago. Dana Samuelson from American Gold Exchange, just he really hits it out of the park when it comes to _____, coin collecting. Now I'm sorry, collectibles, and also the movement of gold and silver and position factors.

James Turk I haven't seen in three or four years. We used to interact all the time when I lived in London and when he was creating GoldMoney.com. He's not just staff, but he's an economist, and he spends a lot of time now with GoldMoney.com and Bit Coin, but he's also very, very good on economics, and he's a newsletter writer in his own right.

I'm sorry, I gave short shrift to Omar here. He's also a stock chartist for The Aden Forecast and an attorney who is fairly well known as an entrepreneur in Costa Rica. You know, in fact last time I was there with my family, one of his companies was always trying to sell me like a kayak or something like that. But he does stuff like that.

And finally, we have Dave Morgan. Dave and I go back. It's funny, I was joking with him that every time I'm at a silver project, the last three or four months there have been three or four of them, he has his silver operation has someone there covering it. I'm going to break it open and just throw a couple themes out. I would love if everyone also threw out a couple questions.

And also just one other note, a little sad note, and Brien and I discussed this. I know it's not the Oscars and stuff, but every year we do lose people from our business, whether it's natural resources, small cap companies, and there are a few people this year. I'd love anyone who lost someone to the golden gates as Jim Blanchard passed through those golden gates in what, 1999. I know Gene Arensburg who used to be a speaker here, we lost him after a lung transplant earlier this year, and he's from Houston. Way, way too young.

Ed Flood, a geologist who was involved in a ton of companies. In fact, I remember being here with Ed in '03 when this room was like crazy because of Ivanhoe and a lot of other things going on. Ed succumbed to ALS, and like I said, I'm sure there are others. So we're going to throw it open, and why not just go down the line. Omar, and please, I want you all to feel like you can break in at any time and discuss these things with the panel members. I know that would be really terrific. Omar, what kind of view? I know you do the stock – is it called Gold Charts Are Us?

Omar Ayales: Yes, correct.

Thom Calandra: Okay, so Gold Charts Are Us is a subservice of The Aden Sisters operation there in San Jose and Costa Rica. What kind of perspective do you get from Central America about gold that could be useful to our audience?

Omar Ayales: Well from Central America, not sure. Globally, definitely everything that everybody here probably knows the value that gold has, preservation of wealth, basically, from that perspective, I tend to look things more from a chartist perspective.

Thom Calandra: Tell us some charts. Give us a couple charts off the top of your head. What happened today after the usual dead heads at the fed kind of said they're probably going to raise rates in December. Gold was up, and then it lost all its gains, and then put a little on at the end of the day.

Omar Ayales: I think people were maybe anticipating that the fed was going to remain dovish or probably a little continuation of what happened during September, and gold in the morning actually rose I believe it was about $15.00. It ended up coming down after more of a hawkish statement from the federal open market committee, and I think that's pretty much keeping a lid on it. But it's very interesting what's going on. If you draw a line, a trend from the high of 2012, which obviously is not the high high, but from 2012 down to January of this year, there's a trend, and actually right now gold is at that trend. It's resisting at that trend, which is right below the 1,200 level, and I think a breakup in from that level would actually show us a lot of room for upside potential from a chart perspective.

Thom Calandra: And you hear some hallelujahs in this room. And also on the French quarter, but mostly in this room. Thank you. I kind of shorted Anthem here. Anthem has a service that's in a friendly competition with Gold Money/Bit Gold. And that's the Anthem Vault, and the Anthem Vault is once again a payment transaction system that will try to take advantage of gold. Anthem, you're living in Vegas these days. I like to always make things real. Costa Rica, Vegas, we have people from all over the map. Also, I know you're a chartist too. You look at charts once in a while. Tell us what's happening in relation to the gold and your business.

Anthem Blanchard: Yeah, I'd love to, Thom. So yeah, I've been at Anthem Vault. We're a financial technology business, and we're really big into innovation, crypto currency, and also really keen on what's happening in the gold markets as well. I actually think what's interesting of an opportunity here outside of the gold markets is potentially shorting the stock market if the fed does get hasty here. So as one way to play the federal reserve policy, I've been very vocal about this. We were on Fox Business with Mayor Botero a few weeks ago stating that really, the fed was in a corner.

And if they raised rates any, I think it's going to be a big calamity. I actually think rates are too high right now at a negative, or real negative interest rate. So I think if the fed doesn't come out with more quantitative easing, doesn't come out of something very, very, very dovish, and God forbid if they actually decide to raise, I think that will be a tremendous catalyst for market decline, and I think that's where gold will benefit from the credit risk trade, which is ultimately the most powerful trade.

When people are worried about systemic risk and the things I learned from my mentors here on stage, including James Turk of my time at Gold Money. So ultimately, gold is no one else's liability, and it's a preservation of value. So I think this is a real crucial year, Thom.

Thom Calandra: I think your transaction risks angle is very real. We had our – we're expecting El Nino again this year in California where I'm from, so we had the skylights re-sealed. We have five skylights in our house, and the contractor at the end, "So how do you want to pay me?" And he says, "What do you got?" I said, "We have some collectibles. We have gold, we have cash, and we have credit cards." He said, "I'll take the gold." I said, "Why?" He said, "You have to pay less money using the gold. There's no transaction risk for me," and of course being a contractor, even though he was a licensed contractor, I hope I'm not being taped here, he probably isn't going to report that income. Anyway, Dana, last year, he's from American Gold Exchange – are you guys in Maryland? Where are you again?

Dana Samuelson: Austin, Texas.

Thom Calandra: That's right, Austin, Texas, home of some stomping good music and food. Look out, New Orleans, Austin is coming at you. Anyway, Dana actually called for around 1,120 to 1,140 at this time from last year when we had the panel. Dana also was telling us a little bit about a physical shortage of silver, and I know I want to hear about that because I haven't really been paying attention to that side of the market.

Dana Samuelson: Well last year, we had a strong US economy in the fall. We had a rip snort and GDP, the second and third quarters of over four percent and a strong US economy with a weakened European economy and Asian economy in Japan specifically. Created an imbalance where the dollar was relatively strong, and those currencies were weak. And that created more of a cycle as money from Europe and Asia came into the dollar and pushed the dollar to 12-year highs earlier this year. And that was the catalyst for what I think at this point in time are hard bottoms for gold, silver, platinum, and palladium, especially in silver and palladium. So I do think that we have turned a corner, and we've got hard bottoms.

One of the reasons why is because when silver went under 14.75 in July for the first time since 2009, it created a huge buying wave from the public, and the public bought so much silver that they wiped out the on the shelf supply of the US mint, and that happened in 2009 primarily because US mint doesn't make their own silver eagle blanks. But this time, it dominoed into the Canadian mint, the Austrian mint, the Australian mint, the British Royal mint, the China mint, and even the hundred ounce bar producer Johnson Matthey, which is now Asahi. They've been bought out by Asahi. They all got backed up. They couldn't deliver. Timely premiums doubled, and wait times for physical product went out four, eight and ten weeks.

Now that's reversing itself now, but its taken this long since the middle of July. That tells me that the world didn't care that the price of silver to buy it was 19 when the contract price was 14.50. So I think we have a hard bottom in silver. If silver gets too cheap, they're going to buy it. Palladium got too cheap at 531. It's 675 today?

Thom Calandra: Yeah, and platinum, too.

Dana Samuelson: Yeah, platinum and gold are up, but not as much, but all four metals have made real hard turns in the last two months or three months, depending on which metal, and I think they're meaningful. With the US economy not firing like it was last year, despite what the fed just said today, and Asia, China in particular, they sneezed in June, or July rather, and the whole world caught their cough, where it used to be the US would sneeze. It's the other way around. And that weakening is going to create more quantitative easing, which is good for metals.

Thom Calandra: Let's just move on for a second, but I do want to come back to something on silver that David Morgan mentioned in his talk about an hour ago. But James, I have fond memories of spending an hour in London when I was working there at The Financial Times and Market Watch, sipping a cappuccino with James and stuff like that, I do. And that was in the late '90s and early 2000s. He's been into this gold money transaction thing for a long time, but he's also an economist, and he has very firm views on gold and silver.

James Turk: Yeah, I started Gold Money in 2001 on a proposition that gold is indeed money, and silver is too for that matter. I remember it very well as a young boy growing up in Ohio. My family could drive – or my father could drive the family car into the gas station, fill up the car with two silver dollars. Today, $2.00 don't even buy you a gallon of gasoline, but if you take the content of those two silver dollars, you can still fill up the family car. The problem is that gold and silver don't circulate as currency anymore, and what I intended to do with Gold Money was to enable gold and silver to circulate once again as currency, but in a digital form, modern money, rather than in actual coins.

And Gold Money actually became quite successful as a way to store and keep gold and silver safe in a variety of different vault locations throughout the world. We eventually developed over 20,000 customers and we're safeguarding $1.4 billion worth of precious metals according to customer instructions. And then earlier this year ran into a chap by the name of Roysa Bog who started a company called Bit Gold, and you probably heard about the transaction earlier this year where Bit Gold and Gold Money combined, so we now have the ability to circulate gold through Bit Gold, and Gold Money is still the place to accumulate precious metals.

So it's sort of like operating – looking at your bank. You have a current account and you have a savings account. Bit Gold is the current account, Gold Money is the savings account. We're quite pleased about the transaction, and I will be explaining that in a corporate presentation I'm doing on Friday afternoon.

Thom Calandra: And also what that transaction did is created another kind of gauge. Right? Since this trades under the ticker XAU in Canada, correct –

James Turk: Yeah, on the Toronto Stock Venture Exchange symbol XAU.

Thom Calandra: Yeah, so you know how as where investors we're always looking for – as journalists and as students, we're always looking for gauges or barometers, and I know David Morgan, you had kind of a barometer earlier where you talked a little bit. You just mentioned it in passing, but I've really never thought about this. It maybe has something to do with the shortage of silver, but that silver a lot of the time is used in the world's leading industry. I call it the world's leading industry. Bottled water. Otherwise known as stupid, stupid, stupid water. Anyway, why does anybody buy bottled water?

I don't get it. I go to Ghana and Cambodia and I drink from the faucet. I've never been sick. But anyway, that's a good point. David, can you kind of expand on that a little bit? Could something like that actually create more of a shortage, the use of silver in technologies like that?

David Morgan: First of all, thank you, Thom. I'll be speaking in the general session here at 4:25 and go into depth more on that topic. But actually, in the nanotechnology sector and in the water purification modality, we're talking parts per billion. We're not talking enough to be significant as far as causing any kind of physical problems in the market. But the expansiveness of silvers abilities to conduct heat, reflect light, and be a bio-site naturally are being tapped at ever increasing rates. That's why we saw silver at 35 percent of the industrial market in 2000, and by about 2005 or '06, it's 50 percent of the market. And during those five years, there was an increase in supply due to mining activity on a global basis.

However, it's basically been flat industrial wise from that time to now, and again, I'll into that a little more during my presentation.

Thom Calandra: Do you think – by the way, we've had this conversation before years ago on a panel, that silver could become as potent a currency – let's say we get to a world whenever it happens where gold is really the new currency in terms of evaluating wealth, evaluating purchasing power, creating new standards for treasuries and foreign reserves in different governments treasuries? Could silver become as potent a financial tool or as money?

David Morgan: Well you're talking to David Morgan, and therefore you're talking to someone that is extremely biased. However, as objectively as I could state, I'm an absolute firm believer that even Rothbard maybe missed part of it. Because if you study monetary history, it's a bio-metallic standard that is the best. In fact, really a tri-metallic standard with copper, silver, and gold without a manmade fixed ratio between them is what serves humanity the best as far as the best currency available as voted by the people themselves. If you're on a gold only standard, you have one step left to control it back into a fiat system.

The whole premise of the Wizard of Oz was about the eastern banking establishment going down the yellow brick road, and for those that are knowledgeable about the metaphor, Dorothy had silver slippers and represented the working class Americans with the representations of the heart, the head, and the back of the American public.

Thom Calandra: No, I like that. In fact, I'm also into – I'm not poking fun here, David, because you're my guy on silver. You truly are. But you know where you to play the Pink Floyd album at the same time that the Wizard of Oz plays, and Dark Side of the Moon. Well anyway, forget it, it's going to bring back too many flashbacks for me. We're going to go back to Costa Rica for a second. I wonder, Omar, do you see more or less or can you tell us are there barter transactions or metals transactions when you're zip lining through Costa Rica and the jungle? Do people use metals, the exchange of goods, sex for transactions more than they might in – I mean let's face it, Costa Rica is almost a first world economy these days. So but are you more likely to be able to find it easier to use gold or silver or something else to pay for a service or good?

Omar Ayales: Unfortunately not. You know, Costa Rica itself probably do because of the fact that even though there are several elements that you could make it perceive as a first world economy, it's still a very poor country. And in itself, foreign reserves from a – even from a central bank perspective or financial perspective has never really been a key element or component into Costa Rica's reserves in itself. Basically, the value more has been for jewelry and that kind of thing. Not really from a barter perspective, and nonetheless, I do think that in the recent ten years, basically Costa Ricans have acquired or have now a different understanding of value.

Before, it was only money. It was dollar, dollar is king. Dollar is what people want. They sell their service and goods for dollars. Now they're starting to see other assets. Real estate of course being since real estate boom in the ten years ago, that Costa Rican experience, I think people are starting to see there are other assets, hard assets, that are actually more valuable than money themselves. I think in that mindset and opening their mind, I think eventually, gold, silver, precious metals in general can become important, and I believe they are becoming important.

But at this point in Costa Rica's history or lifeline, it's still too early for that.

Thom Calandra: Okay, pop up the hand if you have a question. Anthem, this is interesting. I wanted to – thank you, Omar. I wanted to throw out the whole tapestry of the world. When you go around the world these days, I know I sense a lot of frustration. Some anger. Could we see a resolution or disturbances, violence, hack attacks based on the transfer of wealth or the shifting of wealth from one entity or one asset to another, one country to another? As we know, you guys, you and James especially, know all about the kind of Rand Paul, Ron Paul using paper to transfer wealth is far easier than using gold or silver or a hard asset. And that's why people and governments use paper, and corporations too.

So I just want to throw the whole tapestry out there. Could we see people rioting in the streets of Vegas and stuff like that because gold goes to a zillion dollars and they can't do anything with their paper?

Anthem Blanchard: Yeah, I think that gold going to a zillion dollars would be a reflection of not being able to do anything productively with their paper. Because ultimately, there are two ways that we can pay right now with liquidity. It's bank payments and cash, and so people get paid through the banking system. So we've seen it time and time again. We said the classic example, 20th century hyper inflation in Nazi Germany. We've given the rise to it. So it's always an economic calamity that results in economic revolution. I think the key is going to be will it be a peaceful revolution or will it be a bloody revolution. And that's where I think right now the war that we're all waging here and we're all together I think in this group and on this panel of trying to educate others about real money and sound money and denationalization of money and that governments should haven't a monopoly on money. And when governments do have a monopoly on money, it results in tremendous amounts of destruction and theft of wealth.

So that's where I think our job here as educated individuals on the subject need to not only educate others, but then start educating them on other alternatives, and that's really where I think Anthem Vault, and I know obviously Gold Money are alternatives there. It's really important. Ultimately, I'm of the opinion – there are 92 metals naturally occurring on earth. You could ultimately use all of them as stores of value. I think that's what we're going to see happen, and we're going to see a few of the metals become used as forms of payment that people can readily know the value of off the top of their head.

Thom Calandra: You see, as a young person at Anthem, I think you're an exception because, how can I put this, I was running this morning along that new trail, the Crescent Trail here in New Orleans, and I ran into Chris Powell and the GATA person. And he said – you know, he's also a newspaper editor, and I'm a journalist, was a journalist, and have been my whole life. He said, "There's no civic engagement anymore by young people," and he means young people being 16 to let's say 46 in this regard actually wanting to understand social issues that could influence them.

I'll tell you the truth, we have a 19-year-old and 16-year-old. The 19-year-old is safely ensconced in a university in Montreal, but I don't think he and his friends realize one second that they risk being called into service at some point because they may have to represent America. And how these issues interact with paper, gold, and other things. Anyway, I just wanted to throw that in there. There is a question here. Yes, please.

Audience: *(inaudible)*

Thom Calandra: I'm going to have to reflect real quickly going back to the Revolutionary War and the fact that President Madison was a big believer in using hard assets in treasuries. And once the Revolutionary War was over, we got –it was the beginning of our hyper inflation years certainly. And also as you know, when Nixon went off the gold standard. And these are all great points. They're constitutional points, and as you know, there are a lot of other issues, constitutional, including I just saw Bridge of Spies, including the fourth amendment, the right to privacy and stuff like that. Thank you.

I don't know if anybody wants to riff on that, but I do want to go on to Dana for a second here because I'm still very, very interested in finding a way for us all to make money here this week and next week.

Dana Samuelson: Well, I do think we've got a hard bottom in the metals. I think we've seen the first start of what is the rallies that will lead us higher because there's so much money – paper money in the world. The US went off the gold standard in the '70s and the result of that was rampant inflation. That was the first wave. We've seen so much debt creation and wealth creation since the late '80s and early '90s, especially since 2000 that the whole world is now involved. A full generation, the whole world is now involved. And the fiscal crisis, financial crisis of 2008 is a manifestation of that. And the other shoe is yet to drop.

There's so much paper currency out there, so many billionaires that didn't exist, so much government debt that I think the next too big to fail is not going to be a company. It's going to be a currency, which could lead to a big flight back into metals. I think that's we've had a correction since the highs.

Thom Calandra: You mean a currency that becomes a vehicle for –

Dana Samuelson: Yeah, Brazil is not doing well at all. A stronger dollar hurts emerging market countries that have abnormally large debt. There's been probably $3 trillion worth of debt created in the last three years. It's in a carry trade of the US dollar because interest rates here are so low, and now they've got to pay back those debts in more expensive dollars because the dollars went up 20 percent, 30 percent in the last year alone against some of these currencies. My numbers might be a little off.

And now oil is down. These are dependent countries on natural resources. Russia is in trouble, too. That's why Putin is in Syria.

Thom Calandra: The beginning of the currency wars for sure.

Dana Samuelson: Yeah, it's a good war for him at home. So I think we're – we had a strong US economy last year relative to the rest of the world, and the tug has been can the US bring everybody else up or will we be dragged back down? I think we're being dragged slowly backwards now. This year, our economy is weaker. We're going into the third quarter GDP is .9 percent on the Atlanta fed now. We're going to get the next jobs report next week, and it's probably not going to be that good.

The first quarter for the last six years has always been horrible. I think we've had the bottom in metals and a high in the dollar, and I do think that metals are a real safe bet. You've got maybe a ten percent down side and a 100 percent upside.

Thom Calandra: I love this theme. Is there a way to fold this? Now I'm going to go onto James here, James Turk. Is there a way to fold this into the real world? For example, if Jeff Bezos were here from Amazon.com, and they just turned a surprise profit for the first time, so the stock is up ten percent, but ten percent means like a huge number of billions of dollars. It's like when you do that with Google, which is now called Alphabet. Same thing, stock is at $60.00.

But could it be that this digital – that the digital revolution is just starting? Digital revolution, social media, that somehow gold will take part in this, but you know what, the economy, you can't really gauge country's economies anymore by traditional methods, that the Amazons of the world have changed things so much that we could ride into the sunset here, and all live nice lives investing in all of the companies that surround my neighborhood where I live in Northern California.

James Turk: Yeah, I think everything is becoming digital, and the last thing to become digital is really payments on the internet. We were chatting about this a little bit beforehand. This is my Bit Gold MasterCard. I actually use gold to pay for my taxi ride in from the airport yesterday evening. Before getting on the plane in London, I loaded some dollars on this because I knew I was coming to the states and needed it, used this to actually for my taxi. It's a question of not only people becoming educated about gold, that's one way to get them to purchase gold, but it's also making gold convenient. Doing things like this where you can actually use gold as a form of commerce.

And one of the things we find very interesting in the Bit Gold side of our business with – I got over 300,000 accounts. More than half of those people have never bought gold before in their lives, and what we're really focusing on are the millennials, the younger generation who are looking for convenience and particularly low cost when they're making transactions, and this is one of the things that digital gold does offer in terms of particularly international commerce.

Thom Calandra: Do you see – when you're sitting there in Toronto with your director's hat on – I know you're not responsible for direct management or the managers of Gold Money/Bit Gold, do they see – do they draw on a chart or on one of those magic marker things, "Here are the good guys, and here are the bad guys," and the bad guys are like GLD and some of the other equity ETFs that represent gold. Is it fair to say those are the bad guys?

James Turk: I wouldn't say they're bad guys, but I would say when you're purchasing something, you have to purchase it for a reason. What is the logic behind purchasing? You can buy something like GLD or a futures contract if you want to trade the price of gold, but if you're looking for a safe haven, something that has no counter party risk and money outside the banking system, the only way to accomplish that is to purchase gold or purchase silver. I agree with what David was saying, I think silver is a very good buy here. I look at silver a little bit differently. I see it as a gold substitute.

In other words, there's about ten times more silver in the earth's crust than there is gold, and then about ten times more silver produced annually than gold is produced. Why is the ratio 73 instead of ten? You know, 73 ounces of silver equals one ounce of gold instead of ten ounces equal one ounce of gold? It's because people aren't looking at the fact that 73 ounces of silver does the same thing for you that one ounce of gold does. And as we see more and more problems developing in the fiat currency world, I think people are going to start to recognize that silver is undervalued relative to gold itself.

So I am a gold bull, but I'm also a silver bull.

Thom Calandra: Thank you, James. David, how relevant or interesting or colorful are some of these gauges we've used for years, including the XAU divided by the gold price or the Dow Jones industrial average divided by the gold price, that kind of thing? Because they've gone to insane levels. Right? I mean they've gone to proportions that we've – five, eight years ago, ten years ago, you're talking about these things. It's like, "Yeah, the Dow Trades at so many times the price of gold." Now it's by a factor of, again, I'll use that word, a zillion. It's gone nuts.

David Morgan: Well there's arguments on both sides. I'll start with what James Turk said a moment ago. There's people that said the gold silver ratio is irrelevant, and anyone with a modicum of logic would say it can't be irrelevant because what it tells you is how much an ounce of gold costs in ounces of silver. It's very relevant at least from that aspect. Whether or not you can make an argument of is it undervalued or overvalued, certainly you can if you look at any beginner lesson in technical analysis and you find what percentage of the time it's at that extreme ratio.

So certainly, they do have a place. As far as where we are with the Dow and silver, the Dow and gold, or the XAU versus bullion, these are extremes, as you said, Tom, and an extreme is a place where you really need to question why – what's the intent? How did it get here, and what does it mean? You can determine that we are at a place that offers opportunity beyond what you've probably experienced in the sector so far, and you have the courage to take action. Then you're sitting in a very unique place in history.

It's my strong belief that as the truth unfolds I think more rapidly over the next two to three years, where the fiat ponzi scheme is so obvious to the most average planetary citizen that they will be seeking something of value. And it goes beyond the value of gold and silver. It goes back to the core values that we established. If this gentleman was bringing forth that the constitutional convention of what makes a good society, what is fair, what is just, and what can we use to trust each other? Because the values of a society are directly proportional to the freedom of the currency.

In other words, as the currency is debased, the moral structure of the society debases as well.

Thom Calandra: I agree. I think we should have the scale, and on one end you have an ounce of silver or an ounce of gold, and the other side of the scale, you have a stack of tickets for the new Star Wars movie coming out December 17. Right? Stuff like that. But Dana, interesting because David mentioned it, this ratio, gold trades now at what, 70 something, 73 times the price of silver roughly?

Dana Samuelson: I'm not sure what the exact ratio is today, but it's high.

Thom Calandra: About that. I'm looking for historical perspective. Has it ever been greater than that?

Dana Samuelson: When the founders created our currency in 1793, the gold to silver ratio was 20 to 1. That's established, and it's been that way for generations and basically centuries. To see the gold and silver ratio at plus 50 to 1 is way out of skew.

Thom Calandra: In the modern age of creating, have you ever seen it go higher than 75 to 1?

Dana Samuelson: No.

Thom Calandra: David?

David Morgan: It's been to 100 to 1 very briefly a couple times in history.

Thom Calandra: Wow.

James Turk: We should also note, Thom, that in April of 2011, when silver got up to $30.00, it was 31 to 1.

Dana Samuelson: I think relative to the other metals, silver is the buy of a century. Under $20.00 an ounce, it's a steal. Under $25.00 an ounce, it still looks good to me. Especially in light of the physical silver shortage we saw this summer, which his the first time that's ever happened on a worldwide basis.

Thom Calandra: And by the way, we don't have any miners, per se, on this panel, although as I said, David especially is aware with what it's like to go and understand a mine. But as these – as we see shifts and relationships between precious metals – among precious metals, palladium, platinum, silver, gold, and so on, we'll see projects that may not have been profitable, or may have been somewhat of a struggle, get into the credit zone. All of a sudden, they've got something that looks like a nice credit because of silver, even though that silver to gold ratio in the mine may be right now meaningless. And this goes with other metals too and some of the industrial metals.

I just wonder where this all takes us. I mean everybody wants to know the when, but nobody has gotten the when right. Yes, please.

Audience: Yeah, so the difference between paper, paper contracts, futures, and actual physical supply and what – how influential is paper price to commodity price, will a shortage in silver actually boost silver prices, silver premiums on actual physical, and paper prices, futures?

David Morgan: Yes, if I could maybe sum it up again, gentleman asked if the premiums that are available in the retail market or show in the retail market as a scarcity, and they are, will that eventually spill over into what's commercial silver, which is the thousand ounce bars that are traded on the COMEX and the other futures exchanges like the LBMA or Singapore and other exchanges, TOCOM. And the answer is yes, I believe that will happen.

When it took place in 2008 at the bottom of the financial crisis, I wrote an article called Arbitrage in Silver or something along those lines. You could probably Google it and find it, and at that time, many people were saying that the retail price was indicating that the commercial bar or Comex price would have to go up, and I said the opposite is true, that the premiums would fall off, and I was going to arbitrage it, which I did. About three 1,000 ounce bars, sent them to a minting friend of mine, and we minted half-ounce rounds. That doesn't mean it'll happen the next time. I do believe at some point that it will take place, but I want to be clear that it may take place in a manner that I'm not able to think of right now, which means at law already, if you sign a futures contract, you're not necessarily guaranteed delivery of a commercial bar.

You are guaranteed settlement in fiat. So what you could see is a two-tiered system, which we're already witnessing, which Dana has already explained quite well that if you want to buy the real stuff, you're going to have to pay a high premium, and if you just want to trade the price, you'd have a different price. I know I said price twice, but I hope that was clear. So I'll just stop there. I think eventually, we're going to see a squeeze in the metals that's going to the financial record books, which adds on to what I said last time I was speaking about the value system throughout the entire financial system. It's so poised for some type of I'd say financial revolution to take place that I feel it's inevitable.

Dana Samuelson: I was going to add that with regard to gold, you're seeing the exact same thing in gold. If you look at the prices for settlement on the Comex futures yesterday, October 27, the October contract, which is the spot contract, was trading $1.00 above the December contract. So you have gold in backwardation, and when you see these huge premiums in silver or in gold, those are effect of saying they're in backwardation. Physical metal is tight.

Dana Samuelson: When I first got into this business in 1980, the futures price was dictated by the physical price, and somewhere in the '80s, early '90s, we kind of started to go off that line and the futures price was driving the physical price all the way through until this summer. And I think what's happened with silver is silver got so cheap on the paper side, the Comex side, the contract side, derivatives side, that the public just said this is stupid, and they overrode that with this buying wave. So I think we're headed back towards a place where the metals will decide the price and not the futures market, and this is just the first salvo in that sea change.

Because there is so much paper money, and there's computers trading this stuff. I can watch the gold price click in $10.00 increments. You can see it'll go, it'll fall off a little bit, get a little bit of a right shoulder, but all of a sudden it'll drop $10.00. Those are computers trading, those are not people trading. And silver has a big move. If you look at every big silver move, like we even had today, first up and then back down, it's in 50 cent increments. Silver moves 50 cents. You could see it'll move a dime, 12 cents, and it's like okay, here we go, we're going another 30, 40 cents, and that's computers trading, not people.

There'll be a point in time when there's lack of trust in paper, and people will go back to metals, and it won't matter what the computers say it should be. It'll be the physical markets will lead this. There's not enough of it to go around relative to -

Thom Calandra: Sure, and by the way, speaking of computers, we're hearing so many hacking scandals into government and stuff. I just rewatched Citizen Four about Edward Snowden. Can we actually see computers or an organized attack or maybe not even an attack, just a pipe under the ocean giving way, wreck the currency trading system for a period of time in world? Currencies, by the way, are the largest market. They trade trillions and trillions of dollars, mostly because of bonds. But can we actually see currencies stop trading because pipes somehow – some electronic pipes get messed up or hacked? Anyone? I don't know.

Dana Samuelson: We've already seen the major stock exchanges suffer half an hour or longer problems because of technical issues. That's an easy problem to see coming. Sooner or later, there will be something like that that occurs that will disrupt things.

Thom Calandra: Yeah, and I was just reading a piece by Mark Cuban, and he's talking about latency arbitrage, which is where all the hedge funds are paying big bucks for computer programmers these days. You don't have to have an MBA or financial degree. What is latency arbitrage? It's to get the trading transaction faster and faster and faster. Like create a new word so it's not even a micro-millisecond. And then you've won, and guaranteed and locked in a profit. And with that kind of trading power and people doing that kind of hocus pocus with computers, I'm sure we could see some kind of macro effect. Yes, sir. Right, nuclear weapons and nuclear weapons tests and rockets, missiles, satellites actually disturbing or ending electricity as we know it for a period of time.

Anthem Blanchard: You would naturally – just to answer that question about borax trades at about five and a half trillion a day. So if you knocked off exchanges or exchanges had problems one by one, what you would naturally see like any market widening at the big ask spread. The widening between the price you could buy and sell a national currency. So what you could imagine in that case scenario, all these other derivatives that are then priced on those 4X, you could easily see a domino type scenario happen, and that's where the credit risk, default risk, counter party risk comes into play, and that's where gold and silver and real assets should really shine.

Thom Calandra: And by the way, Brien always has this kind of panel towards the beginning of this conference because he wants to focus on the physical, Brien Lundin. And if you think about it, we all have to play the stock market. But the stock markets of the world are dying. I just read this figure yesterday again. I think NASDAQ struggles every year to add companies. It's down to 2,700 companies on NASDAQ. Companies aren't doing IPOs anymore and they can't. The waiting time for an IPO is getting so long for a number of factors, including transaction risk, security regulations, the SEC, all the governmental agencies.

So let's just kind of think about it and think yeah, it's great to play the stock market, but how many of us are making as much money in the stock market as we did 10 to 15 years ago? Might be nice to have that piece of gold in your pocket. I mean is there a correlation we can make between paper, stocks, stock trading, how much more difficult it's getting to actually have companies on the exchanges? And then how we're still not seeing the respect that gold and silver should get and platinum and palladium.

Anthem Blanchard: Is that directed to me? But yeah, it's definitely a sign that there is liquidity issues ultimately. You have to remember we're talking about paper currencies, but there's also all of the currency that the banks create. So that's one of the big issues right now that the central banks are struggling with because the system requires the banks to create more loans, and ultimately take future value to the present, but at the same time, then they need to also create more national currency in order to keep the system going. It's almost like pushing a string at some point. I think that, Thom, is what you're referring to and alluding to. I think that's why we've seen a lack of liquidity, even despite all of the rampant speculation that comes with artificially low interest rates. But they're probably not artificially low. I think they're actually too high, but the whole system is artificial. I think ultimately, the problem has been a lack of accountability, and no one has been held accountable, and there's 100 to 1 type leverage sitting out there in the system when you count derivatives in the banking system, and there's no minimum reserve requirements anymore. I think this is the net effect of all of this lack of accountability.

Thom Calandra: We have two minutes, and I'd love to have Omar get a word in. But I also wanted to throw in the fact that most of us don't realize that every day, there's a technological explosion, a technological craziness happening in our lives, only we don't put it in that category. Amazon turns a profit, Volkswagen uses technology to rig a diesel systems in its cars. The hacking that we see by governments. These things are going to go on and on and on, and one day you'd think if this trend continues, we're going to have to wake up to something terrible in the way of people using or abusing technology to ruin the way we live right now. I wanted to let Omar get a word in, and then we'll ask one last question.

Omar Ayales: I think ultimately the challenge also is going to be I think one of the things that Anthem and James have been working over the years, which brings so much value to this particular is how do we as a society come to a point where we eliminate that artificial system? How do we become more directly involved with one another? You see in technology, for example, companies like Uber and Air B&B. These companies that are actually taking away certain intermediaries are actually making people closer to one another interacting.

Thom Calandra: People using Uber's technology to sell drugs, to traffic drugs in a more efficient way. No, illegally, but in a more efficient way. We should all move to Costa Rica and kind of chill out. That's what I think. One last question and then we're going to end it because the podium police are coming. Paper, gold – Okay, good question. I mean you know, it's not often people actually redeem paper futures contracts for delivery. How often does it happen? I heard there was a big one the other day.

David Morgan: It's about one percent of the time that the paper contracts are held for delivery, and then there are limits. There's no limit to the amount you can sell short. Let me rephrase that. There is in the contract you sign to be able to trade, there's a limit. But the CFDC and the other authorities have never enforced that limit, but they do enforce the limit on the long side. You're only allowed to take 1,500 contracts of silver on a delivery month, and that's it. So that 7.5 million ounce, hard limit. You cannot take more than that off of the exchange.

Thom Calandra: I like this. These guys have the stats. Dana, ten seconds.

Dana Samuelson: The futures exchanges have a right to make a choice to either deliver you the medal or the money the medal represents. They don't have to deliver you the medal.

Thom Calandra: I want to thank you all. This has been a great panel. I hope you can come see come of these tours we have over the next few days, including my tour at 9:25, at which I will unveil a company tomorrow morning or later today at the reception that you guarantee we'll make money on tomorrow. Talking to the paper stock market. Thank you guys. You were all terrific.

Gwen Preston

"Opportunities And Expectations - Rationale For The Rally"

Our next speaker is Gwen Preston. She is head of a company called Resource Maven, and her title is "Opportunities and Expectations Rationale for the Rally." After years with the Northern Miner, a very prestigious publication, by the way, and alongside Marin Katusa at Casey Research in 2014, Gwen saw mining hit bottom, and she knew she wanted to participate in the pending rally independently and ahead of the crowd. Thus was launched Resource Maven, a chronicle of Gwen's market insights and portfolio moves. Gwen knows mining people and projects. She understands how to turn big-picture trends into specific investment opportunities, which, of course, is vital. But that's not all buying that Gwen does. She often advises partial sells and performing stocks, managing risk by lowering cost and increasing upside potential. With a technical background of strong network and years of experience, Resource Maven knows how to find and hold value in the cyclical sector. This is Gwen, and I think this is her first time here. Welcome, Gwen, and it's all yours.

Good afternoon everyone. I'm glad you're all here. I hope you've enjoyed the conference so far. Certainly, I send my thanks out to Brien for inviting me to come and be part of this incredible show that he puts on so reliably. I'm going to talk about profiting and positioning. There's going to be lots of people at this conference who talk about macroeconomics, geopolitics, metal price movements; what I want to focus on, really, are specifics of how you should be looking at your portfolio in metals, and what you can do to make money in the short term, and then to make sure you're ready to make the most money as things go forward and we get ready for this rally, so I want to talk specifics.

We're all here because we believe in mining. Hopefully we've all had some good successes in the sector in the past. We're looking forward to when that will happen again. We believe that gold will have another day. The exact timing and shape of that recovery is, of course, the question. What I want to get at for the first half of my talk is that waiting for the rally is boring, and it's profitless, so you can sit here and, certainly, positioning for that rally is a good idea, but there's also things you can do in the interim to put some money in your pocket and to keep you engaged with this sector, to keep you active in the sector and remembering why you like it, so I want to focus on that and then go into how we should be positioning profits for the long term.

I'm going to go through this really quickly, why I think gold will go. I'm sure others will speak to this at much greater length, but I see a U.S. economy that is not as strong as the U.S. bull market that's been going on for six years, should support the financial engineering that has gone into that bull market is questionable. It can't go on forever. Gold has shown ability to gain of late, despite U.S. dollar strength. There's lots of questions about inflation. I could speak for the entire 20 minutes about what I think about gold and why I think it has reason to go, but timing is the question, right? There's also arguments on the other side of that picture. The gold bull story, the basic one, about how concerns about global debt should push investors to the safe haven that is gold. That's got some question marks sitting around it, because if that were completely true, gold would be more valuable today than it was in 2011 because global debt is certainly much higher.

Quantitative easing has created an investment crowd that's accustomed to easy gains in the broad market and in the broad indexes, so speculation and contrarian investing is not in favor; it's going to take some time for that to shift. There's an army of volatility traders that are going to push back against gold when it does move. So I'm saying I believe in gold; I don't necessarily believe in gold tomorrow because there are things that are pushing back against it. I don't only hold optimism for gold in that medium-term timeframe. I also am optimistic about zinc, I'm optimistic about uranium, I'm interested in some other commodities, like platinum and like lithium, whether for fundamental long-term reasons or for short-term trades, but I do think all of these things will go. Now, that is sort of the big-picture thing, right? We all expect that the metals markets will cycle back up like they always do, and that's exciting.

But, as I was saying, it's kind of boring in the short term if you're just waiting for the rally, and waiting and waiting and waiting, which we've been doing for a while now, so I have my portfolio divided into three different sections. I have short-term trades, I have medium-term holds, and then I have long-term buys, and there's different reasons behind each of those, so let's talk about the short-term trades first. Why do I do short-term trades? Because profit is the point. The reason that we're here, the reason that we're interested in this sector is to make some money. I'm really excited about making huge returns when the bull market gets going again, but why not see what we can do right now to add to the portfolio? I think there's three ways to make profits in mining in the short term. They're listed right there. I love how all of the numbers turned to 1. That's good. They were actually supposed to be 1, 2, 3. Anyway, I'll go into each one in some detail here.

The first is seasonality. This is the 5-, 15-, and 30-year gold price trends. Now, when three charts going back over that much time line up that well, I would say we have a pattern. That's not going to be a surprise to most of you who are here, but the pattern is that gold has a nice, strong season at the beginning of the year, and then another one usually August to September. That season this year, the second one, was delayed for us because of uncertainty about the Federal Reserve decision, so instead, we saw it from mid September to mid October. But the point is that it's pretty reliable, and this is just another example of it's not just gold that's reliable, it's using the Toronto Venture Exchange as a proxy for exploration and development stocks in mining. If you go back over the last 14 years, the season from mid December to mid March has outperformed the rest of the year 13 out of those 14 years. I have this color coded. In green, those are the years when the Venture Exchange recorded multiples of its annual gain during those first three months. There were five different times, the ones in yellow, where the Venture Exchange gained during the season, those first few months of the year, compared to a loss over the rest of the year, or over the year as a whole.

Other times, the season provided an outsized portion of the yearly gain. These patterns are very reliable. We just saw it happen. Like I said, gold's second season was a little bit delayed this year because of federal uncertainty, but it happened. From mid September to mid October, we saw gold gain seven percent. Equities provided some leverage to that. We saw the GDX go up almost 30 percent. We saw the junior side of that go up 20 percent. Silver followed exactly the same path: it gained 13 percent. The juniors there gained 34 percent. Now, I'm not saying that we're in this sector to grab 20 percent gains, but when that's what's available, why not take them? Unfortunately right now, there's not a huge number of stocks that are providing near-term upside that's any bigger than that, so take what you can get. How do you profit off timing? You have to identify the pattern, then you have to figure out which stocks provide the right kind of leverage to that pattern, you have to make a buy based on timing, and the most important part is that then you have to get back out again because the season ends, timing moves on. If you don't get out and lock in your 20 percent, your 30 percent, maybe your 35 percent, it's just going to evaporate.

This worked for me and my subscribers really well at the beginning of this year. Late last year, at the start of the season, I recommended a list of gold explorers, developers, and miners. The season happened really quickly. By the 22nd of January, gold had peaked, so it finished sort of two months earlier than you might have expected, but that's okay, because you sell based on achieving certain gains. When we got to January 22nd, it was time to sell on quite a few of our holdings, and we executed either full sells or partial sells to lower-cost basis, and we locked in gains, and that was a great way to start off the year. Kaminak Gold was one good example of that. We got in at .70 cents, I think it was in mid November. By the middle of January, we were up 30 percent. We sold part of the position, our cost base was lowered; I still love the story but I'm even happier to love it from a lower-cost base position.

That's profiting off of timing. There's two other ways that I think you can profit in the short term in the mining sector. They can be related. One of them is profiting off of promotion, so some mining companies, exploration companies tell their stories very consistently. They go out, they come to conferences like this throughout the year, they're constantly in touch with people telling their story. That's a very effective way of marketing. Other companies do it in more of a push, so whether it's because they achieve certain news milestones and then they have something to talk about, or it's because they need to be able to raise money soon, so they want to give their share price a little boost before they go into that financing effort. These companies will go out, and they'll do a promotion push. For a month or two months, they go out there and they actively look for new interest in the story. They tell the story, they sell the story, and it can be incredibly effective in moving a share price. One great example was Excelsior Mining.

Excelsior was the first stock in my Maven portfolio. For months, it traded in the .20 to .26 cents range while the company got through a whole bunch of things that it needed to do. But then, between May and July, they announced some big news. They completed some metallurgical work, they updated the resource, they did some hydrology work, which is important because this is an in-situ copper project, so hydrology is really important. As part of all of that news, they started really actively looking for new investors. The share price almost doubled in that timeframe. Again, we executed a partial sell, we lowered our cost base, I still love the story, but I love it better at a lower cost base.

A similar one is profiting off of news. If you know that a company, that there is downside pressure on a share price because people are waiting for a piece of news to come out, or if you just follow a story more closely than others and you realize that a resource estimate is coming that you think is going to be better than the market realizes, or an economic study, or a permitting milestone is going to be achieved and you think that the market is not aware of that, then it can work very well to get in just for the news bump. Pretium Resources is a fantastic example of that. They're advancing this really high-grade project in British Columbia. They had struggled share price-wise a little bit through the summer. On September 1st, they received all of their permits to start building their mine. Fifteen days later, they secured a $540 million debt financing package to build that mine.

Since September 1st, the shares are up 36 percent. If you go back a little farther to mid July, they're up almost 50 percent, and that is not rocket science, that was just the market was waiting for confirmation on these pieces of news. If you were really engaged with the story and you had convinced yourself that they were going to happen, you can make profit off of that. That's the short-term stuff. It's great to lock in 20 to 40 percent gains on these short-term trades. Like I say, it keeps us engaged with the sector. It keeps us remembering why we like this sector, and it's because of profit, right? That's the whole point. But don't forget the bigger goal, of course, which is to position for things that are a little bit farther down the road, for even brighter lights ahead.

If we are looking ahead to the gold price starting to go, the usual route that you take to gain exposure to that is to buy major miners, the idea being that those major miners provide the first and best leverage to a rising price of gold, but I actually think that that's going to happen different this time. It already is happening differently, actually, because investors, like all of you, remember how badly the majors really bungled it in the last gold run, right? There were risky projects that didn't work. There was incredible debt loads that were taken on. Cost creep took operations down. These lessons still sting for those of us who were in the sector. In looking to avoid those pitfalls, which, like I say, still hurt a lot, investors are gravitating towards mid-tier miners rather than the really big guys. Why mid-tier miners? Well, there's some really specific advantages that mid-tier miners offer compared to majors. They carry less debt relative to their cash flow, their share price, so the debt risk is lower.

They also have much lower risk of cost creep. They're managing fewer operations, so they can keep a closer eye on what's happening. Their general administrative costs are at much less risk of climbing; they don't have to pay legal teams around the world, for example. A smaller miner is able to benefit from certain specific advantages, exchange rates right now being the best example of that. A major miner with operations around the world, in some quarters they're up on currency exchanges, in some quarters they're down. It kind of gets buffered out, whereas right now, a mid-tier miner with one Canadian mine or two Australian mines is getting a 25 percent lift. That's really fantastic. By being smaller, you can get exposure to those sorts of advantages, and then there's also mid-tiers out there who are able to take advantage of this downturn that we've been in. The majors have been divesting assets, and they're good assets quite often, they're just mines that are too small to be worth it for a Barrick or a Newmont, but these mid-tiers have been able to pick them up and run with them, so the difference is already showing.

On the left there, we have Barrick. Not exactly the most enticing 52-week chart. It's got good all in sustaining costs. I mean Barrick says it's producing gold at $860.00 an ounce, which is great, but that's lost amongst their effort to cut $2 million in CapEx and to reduce their debt by $3 billion. Those are the aspects that are holding investors back. We're just not interested in that. Detour Gold, on the other hand, has a fantastic 52-week share price chart. Investors are loving its controlled costs, higher than Barrick's, but within a low-risk operation with Canadian dollar exposure and a very focused management team. There's a lot of such examples I could make, right? On the left, we've got Goldcorp, Kinross, and Yamana; on the right, we have three mid-tiers who have had a great year, so the mid-tier advantage is starting to show. Bifurcation is a word that's thrown around to describe these kinds of shifts, and I think that this will continue. I think mid-tier operators with low-risk assets in weak currency environments are going to outperform major miners in this medium term. As gold just starts to get going again, I think that they are where you want to be for some of your near-term exposure.

Other near-term exposure that I think is interesting: near-development assets. So many assets have been completely stymied by the downturn that there just aren't a huge number of projects that have advanced to that near-development stage in the last little while. If they've answered all or most of those key questions about permitting, engineering, infrastructure, jurisdiction, if they're demonstrating good economics at current metal prices, if they're sensible to build, these projects are going to be the first that get bought out or built as the upturn starts. Not necessarily way down the road, but as things get going. Two of those that I own are Kaminak, which I already mentioned, and Dalradian.

Another area, or another kind of company that might be interesting in the near term is companies where a mid-tier or a major has recently taken a stake, so they've put a foot in the door because they're interested in the company. They might not be quite ready to move in on it completely, but they're interested, so Alamos recently bought out Carlisle Goldfields after taking a stake in the company and in the project. Eldorado recently bought 15 percent of Integra Gold. Who knows if that will lead anywhere, but Eldorado has definitely taken out companies that it's had a stake in before, so that's interesting. Like I say, I'm also perspective on zinc and on uranium. I think there's strong fundamentals on supply-demand side for both of those commodities, and there aren't that many equities that provide exposure to them, so there's interesting opportunities there. I like Nevsun, I like Uranium Energy, and I like NexGen Energy.

Then, in the long term, clearly, when the market really gets going, we all want to have those stocks that we bought at the bottom that just go, that outperform even the rising sector, so you've got to keep your eyes peeled constantly, and that's why you're here at an event like this, for cheap – cheap today – value stocks that you just sock away. You're not worried about what they do tomorrow, you're not even worried about what they do in six, eight, ten months; you're optimistic about what they're going to do in two years. Maybe sooner, depending on if news lines up, if good things happen, but that's the mentality in buying these. So you've got cream-of-the-crop explorers, like Orin Resources, Pilot Gold, Rockhaven Resources. These are ones that are in my portfolio that I think provide that kind of opportunity. You've got well-managed project generators. Project generators, there's a lot of them out there, but they have to be well managed, they have to know how to negotiate their deals, they have to have very strong technical teams − Eurasian Minerals offers that – and then miners with controlled costs, manageable debt, and growing production profiles. My two picks there are B2Gold and Newmarket Gold. Again, the idea here is to buy and forget, unless it goes on a seasonal run, and then you might want to sell some to lower your cost base. But, in general, they're ones to just get and forget.

What I've been talking about so far today is both easy and hard, right? It isn't rocket science. Nothing that I have said is particularly complicated, but the hard part is keeping up with it all, right? Timing is predictable, but also isn't, like this year it happened gold ran in mid September instead of in early August, so it's there but not. More importantly, on the timing side, it's not just getting in, it's getting out. You have to be paying attention. You have to make sure you know when to get out. If you're looking at advances on a news event or on a promotion push, that really requires being pretty connected to a particular story, to the people in the sector, or you won't know that those things are happening. When it comes to the medium-term buys, you have to do deep dives in order to select from amongst the mid-tier operators who are out there. Near-development assets really have to be very de-risked, and there's a lot of questions that need to be answered, so there's just a lot of work that has to be done to do this, it's not complicated, but it just takes time.

Of course, this is where I'm pitching myself. That's what I do, right? That's what I focus on completely, is on looking for those opportunities, tracking these markets, making sure that all three of those areas of the portfolio are being addressed, and that's what I write about in my weekly letter, Resource Maven, and it's the Maven Weekly. I hope I've given you some food for thought there. Again, I really thank Brien for having me come and speak. I'm looking forward to a couple days of chatting with you all and trading ideas. I'm going to have a table tomorrow in the exhibit hall if you want to come by and chat, and I'll generally be around. Thanks very much for your time.

The Real Estate Guys
"Unplug From The Matrix - For Stability, Privacy And Profit"

Moderator: The Real Estate Guys radio show is an investment talk show featuring hosts Robert Helms and Russell Gray. On air since 1997, the podcast version is heard in over 190 countries. Some of their notable guests have been Steve Forbes, Peter Schiff, whom you heard this afternoon, Donald Trump, James Rickards, Mark Skousen, whom you'll hear tomorrow, Robert Kiyosaki and many others. To listen online and subscribe to the free newsletter, visit them at www.RealEstateGuysRadio.com. Their subject is unplug from the matrix for stability, privacy and profit. Please welcome Robert Helms and Russell Gray, the Real Estate Guys Radio Show.

Robert Helms: All right, good stuff. Hey, good evening, you're still here. You never know when you're going to go on late if the folks are already at dinner, but my goodness, here we are. Well, for the next seven and a half hours, we're going to share with you why real estate makes sense. Okay, maybe not. We're here to just briefly whet your appetites about real estate and we've been on the radio for 19 years. Today lots of people find us on the podcast. If you have a cell phone, if you have a computer, you just need to go to iTunes and find us and under the real estate space. Nearly five million downloads later, it's crazy, people in all those countries listening about real estate, and we'd love to have you – add you to that list. Who already listens to the Real Estate Guys show?

Excellent, who are our prospects? All right, good, the rest of you that would be. So who doesn't understand 50/50? No? So we're going to talk today about not exactly real estate, but part of real estate and we think that there's – really everything that the folks are talking about today, whether you're talking about mining or gold or oil, all of that has to do with land. Agriculture, timber, real estate doesn't mean little houses. That's one way to invest, but it's certainly not the only way to invest.

There's lots of different ways, so we're going to be talking about unplugging from the matrix, what does that mean, and more importantly, why the stability, privacy and profit part of that. We'll get through quite a bit of that because we speak quickly in 20 minutes, but we've also got a breakout session tonight upstairs, we'd love to have you come up and learn more about the way we look at real estate. So who saw the movie *The Matrix*, who saw that movie, *The Matrix*?

Yeah, a crazy way to make you think, but there they are, the banks and the Fed and the government. And how many of you believe that perhaps everything is not exactly as it appears to the public eye? There's all kinds of talk about manipulation and insiders and crazy stuff that we're not a part of. Here's our concerns going forward. First of all, the dollar is no longer a stable store of value. We know it's a fee on currency, it's an inaccurate measurement of wealth. Lots of better ways to measure your wealth, how many ounces do you have, how many gallons do you have, how many acres, how many doors in real estate.

We also believe that, and there's certainly evidence, that some of the markets might be manipulated. And I don't know about you, but we don't ever have a chance to play in the manipulation part of that, and that manipulation is not to your benefit or ours. And government of people will become more aggressive to preserve the status quo. That's really a theme from the movie, *The Matrix*. In fact, Morpheus said you have to understand most of these people are not ready to be unplugged and many of them are so injured, so hopelessly dependent on the system that they will fight to protect it.

If you study currency collapse, if you look at what happens when there's rampant inflation or even deflation, people react funny, human beings react funny. And if you study that stuff, it's crazy for a little while and then it all sort of sorts out. But there's always great opportunity when it happens. So the government and those folks, they're going to go after the low-hanging fruit, it's the parader principle, the 80/20 rule.

So if the powers that be can exert 20 percent of their effort to find 80 percent of the folks out there who make themselves easy to find, then that's where they'll spend most of their energy, or at least the initial part of that. It's harder to find the rest of us. So we're going to talk quite a bit tonight about privacy and so much of what we do today, being plugged into the major banking systems and the government, we don't have the kind of privacy we used to have.

But there are ways to obtain that today and we'll spend some more time talking about that. What we like about real estate is it's real, it's tangible. You can touch it, you can feel it, you can walk around on it. It's enduring, and assets that are enduring make sense and have transcendent value. Real estate and other assets talking – we're talking about this conference serve basic human needs. That's what resources are.

They aren't pie in the sky, they aren't some crazy idea that may or may not work, they're tangible, they're real, and when times are tough, people flee to those kinds of things. So you need to hold on and invest in things that are real and essential when times are in doubt, when we don't know where things are going.

People are unsure today and it's not just because we're looking at an election year next year. It's because things have changed. You guys know that, you sense that, you feel it. Most of you are smarter about that than many of the folks who decided not to come this weekend. So you know what we're talking about, but what can you do, what are some of the strategies? Well, to share those with you, I'd like to bring you the co-host of Real Estate Guys Radio Program, our financial strategist, please welcome Mr. Russell Gray.

Russell Gray: Appreciate it. All right, thanks for hanging out, I really appreciate it, I know it's been a long day, been a long day for me, too, but it's exciting to be back, this is our fourth year back with you. It's hard to believe, but we discovered the New Orleans Investment Conference four years ago and have really enjoyed coming out and being a part of it every year. One of our goals is to bring more exposure to the real estate world to this conference.

If you think about it, real estate is the ultimate resource and a lot of the things that you're concerned about, a lot of the things that has you interested in resources and metals and mining are the things that you probably would be interested in real estate. The only difference is it's hard to do real estate if you're not kind of plugged into understanding, because it's not done on public exchanges, and that's one of the things we're going to be addressing in our workshop later tonight.

Robert touched on one thing with the pyramid picture, I want to jump back to, let's see if I can figure out how to do that, which is right there. Transcendent value. Think about that for just a minute. Think about 500 years ago and the serfs that were busy out there tending the land and paying about 25 percent of their income to the landlord. Remember that system?

Well, it's the same system today. People who own houses and apartment buildings and businesses, they get about 25 percent of the people's income. So the concept, the asset, the model has transcended governments, currencies, and if we really are in a situation where we're going to go through a reset, a currency collapse, maybe the dollar loses its reserve status, something dramatic happens, we do think that the safest place to be are in things that are real and essential.

So I wanted to reiterate that point because I think it's a really important one. The other thing you really have to be wary of is counterparty risk. You guys remember the mortgage meltdown, remember that? I was in the mortgage business back then. 1999 I looked at the demographics and said to myself, gee, it looks like there's going to be a lot of money going from the baby boomer generation into the bond market to produce income because that's the phase of the asset allocation model they're in.

So I, being the smart guy that I am, decided that I would go into the mortgage business because there'd be all kinds of money to place and interest rates would be low and equity would be rising and we'd be doing all kinds of financing. And all of that was true and wonderful right up until it wasn’t. And what happened, which I completely did not understand at the time, is there were these things out there percolating in the bond markets called derivatives, remember that?

And the derivatives created this enormous, daisy chain effect of counterparty risk, and one of the most important things I feel in this current environment for every investor, no matter what you're investing in, is to be very aware and on the lookout for counterparty risk. You might buy equities, but your companies your investing in may have exposure to debt. Look at what's going on in the oil industry right now. It's – the oil industry with the debt that they took on, with the low interest rates and all this over production and then the crash of the oil prices put those bonds in jeopardy. And if those things default, the way Wall Street leveraged those things up with derivatives, it can create this chain reaction.

And if you're anywhere in that chain, it will mow you over. I know because it happened to me. The only difference is those dominoes are a lot bigger this time than they were last time, so be very, very cautious about counterparty risk.

Another important concept, and this is one of the hardest paradigms, because I know a lot of you come here and there's many people here who are hoping that gold will go up to $5,000 an ounce. But if you really think about the logic in that, it makes no sense. Because basically what it's telling you is that the Fiat currency is failing. And if the Fiat currency is failing, the last thing you're going to want to do is sell what's real and buy what's fake and failing, does that make sense?

And you don't really want to exist in a world where gold is $5,000 or $10,000 an ounce because gas is probably $80 a gallon and ground beef is $100 a pound and it's just not a pretty picture. And so when we think about how we denominate our wealth, we really don't invest for dollars, but we invest for units of value.

You've got – on the screen you've got a picture of a 1964 quarter and a 1965 quarter, a lot of conferences I speak at, I have to explain the difference. I'm pretty sure at this conference I don't. You know the difference. How many of you wish you had a big roll or a big closet full of 1964 quarters somewhere? And if you could've gone back in time and taken all those quarters you diligently took and dropped into the bank and put in a passbook savings account, how many of you would love to have those '64 quarters back, right?

Measure your wealth in terms of units of real value and don't get deceived into thinking profit is all about collecting dollars. You will be deceived because the money is not sound. So what are you collecting? A lot of people play the game backwards. They jump in and out of houses, they sell products, they buy oil, they buy commodities, they provide services and their whole mission in life is to accumulate paper money.

In reality, you ought to be busy trying to accumulate paper money for the purpose of buying all the things that are real and holding those for the long term. So the goal isn't to move in and out of positions, it's to generate as much income as you can and quickly convert it into things that are real that will produce even more income and cause a positive cycle.

Real estate will allow you to do that. It's very different than buy low, sell high. It's about buy when the numbers make sense and derive the income and it almost doesn't matter what the price is, as long as the cash flow is correct, because over time, the inflation will take care of itself. A $50,000, 3 bedroom, 2 bath house that goes up in value to $250,000 is still only a 3 bedroom, 2 bath house, does that make sense?

You're no richer in terms of utility. You're only richer in terms of a failing Fiat currency, that make sense? And whoever's living in that house is going to pay you about 25 percent of their income to live there. That's what you're after. You're collecting tenants, not dollars. Not equity. Equity is fleeting. We're going to cover that in our session. So really focus on collecting units of real value, collect tenants and trees. Farmland is a great – the guy that came up before us, right on the money.

Farmland's great, it's a commodity that can be sold anywhere in the world, it will generate income, meets a basic human need, it benefits from inflation, but even if there's deflation, guess what? It's still valuable. And if you think about a crop growing out somewhere on a piece of farmland somewhere, it really doesn't care that the Chinese and the Americans are bickering over the South Sea. They don't really care that some fighter jet in Russia, the United States intercepted some fighter jet somewhere if you've been following the news. They really don't care what Janet Yellen has to say.

Those trees just grow. They just grow. They add six percent, eight percent every year to your – to the value. It's a much more stable way to invest. So production of income is what it's really all about, and then when you want to store value for the long term, it's not in dollars, it's not in passbook savings account, it's in things that are real like land and gold. So acres and ounces. So that's long-term stored value, production of income. Stability is the foundation of income-producing assets.

Let's talk about privacy real quick. Obviously we live in a digital world. It becomes harder and harder and harder. Many of you – I don't know if anybody has offshore bank accounts, but you've been through the whole FATCA thing and FBAR and all that mess with all these forms that the IRS is doing, the safe haven that used to be of privacy, the Swiss bank accounts, they rolled them over and they're just rolling over everybody. United States has been using the reserve currency status really to bully the rest of the world into ratting out United States citizens. So it's very, very difficult to be private, even if you're not a criminal, just if you want to be private.

I mean, some people just want to be private. So how do you do that? Well, the key is don't leave a trail of blood in the water. The sharks are always sniffing for blood, and if your financial transactions are going through mainstream systems like banks and going through brokerage accounts and you're buying publicly traded securities and you're involved in all these things that are the low-hanging fruit, you're making yourself a target.

And again, if you think what happens when times get tough, whether governments are revenue starved or people become pressed financially, there's the looting that goes on in the streets, in the rougher parts of town, and we see that happen, but there's white collar looting that goes on. There's frivolous lawsuits that get filed against people, and if you have your assets hanging out where people can see them, you better believe you're going to be a target. And you don't have to be. And that's really the point.

So there's some vehicles for financial privacy, I want to give you a quick list. Obviously it's a very short presentation, this is to whet your appetite and hopefully create a hunger in you to study these topics, to meet with your professional advisors to learn how to get out of the matrix, to change a little bit about the way you think and the way you behave so that you are no longer part of that low-hanging fruit crowd, but you're up at the top of the tree where nobody really wants to mess with you. You're just not worth it.

Private entity structures, LLCs, trusts, corporations, you can use domestic and international. Combinations thereof, nominee directors, when you buy private placements, these are – when you own shares of something, a private company that owns real assets, your ownership is 100 percent between you and the sponsor, the person who put the placement together. You heard Marin Katusa talk about private placements a lot.

Private placements are a great place to be right now, and the world has opened up for people who are interested in private placements. I'm going to give you access to a free report on that in just a moment. Foreign property, you have to report your foreign bank accounts, but you can own property in your own name outside of the country and you don't have to report that to the IRS. Not a CPA, check with your own, but I'm pretty sure that's the way it works.

And so there are things you can do to park wealth outside of the reaches of the normal database searches and tax seizure jurisdictions so that you can begin to diversify and distribute your wealth. Insurance contracts, this is a very, very interesting topic. Don't have time to go into it, but this concept of privatized banking, where you're storing your liquid cash balances in insurance contracts and not in bank accounts. You still have access to it, it's a long, convoluted thing, but it's very private. Short of a subpoena, nobody can know that you have it. It's between you and the insurance company.

Of course cash, if you're doing cash transactions, very private. Cryptocurrency, a lot of grey hair in the room, like I'm right there with you, it took me a long time to get my mind around the concept of cryptocurrency but I'm starting to warm up to the idea of distributed administration. If you really think about what a government is, a government is a way for the individual to be held accountable to the crowd. That's really what it is. And so technology, block-chain technology does that same thing. Instead of having a central database where all the information is deposited, bits of the information is spread out all across the internet with like, all kinds of redundancy. And only the two people involved in the transaction can assemble the two sides of it, and that's kind of the concept.

So if you're not familiar with block-chain technology, I know there's Anthem Vault is out there, they've got a new cryptocurrency, you want to make sure you begin to understand how these things work, because you can do private financial transactions with cryptocurrency. And of course, precious metals all of you're a very familiar with. So those are just some thoughts there.

All right, we have a free report that you may be interested in, if you're interested in really understanding what's going on in the world of private placements. You can send an e-mail to monopoly@RealEstateGuysRadio.com, that's monopoly@RealEstateGuysRadio.com. Our system will send that to you and then you'll be on the list. You can always unsubscribe if you don't like it, but as we do updates, you'll get it. And it just talks a little bit about what private placements are and as accredited investors, you can expect more and more and more private placements to be coming your way, because the law has been changed to open up the people who put these deals together to come find you. It used to be they were prohibited by the SEC from advertising and you had to be an insider. Today you don't, but you do have to be connected. They're not on public exchanges, not yet.

I'm going to talk a little bit about profit, don't have enough time to get into this in detail here, but we're going to do that in the Elmwood Room at 8:00 or 8:10, the next session tonight, so we have a whole presentation, we've got double the time, we don't have to talk 1,000 miles a minute.

But the key in any market in creating profit is to exploit inefficiencies. And obviously if you're working in a highly efficient market like a publicly traded exchange where every player has equal access, where guys are spending billions of dollars to gain a nanosecond advantage to flash trade, to front run, how in the world is a Joe Schmoe investor going to compete in that, right?

But real estate is extremely inefficient just by its nature. And we'll spend more time on that, but the point is, you want to be in markets where you have an opportunity to get access to deals that other people don't. It's about relationships, it's about being in an asset class or a product type that has inherent inefficiencies, so there's pockets of opportunity when you know what you're looking for.

Leverage insider knowledge, you know if you've ever driven down the street and you've seen some guy building an apartment building or putting together a little strip center and you're thinking to yourself, man, somebody made some money there, how come I never find out about these deals? That's the kind of thing we're talking about with private placements in real estate.

It's possible through real estate and a particular financial strategy to hedge against both inflation and deflation. Jim Rickards is going to be talking tomorrow, if you've read his books. We know that inflation is coming and we know that deflation is coming, we just don't know which one's going to come and when, which one's going to come first.

Steve Hochberg told us five years ago that deflation would come before inflation. It seems like he's been right. But we could have hyperinflation tomorrow, we just don't know. So you have to structure things in such a way so you're on both ends of it, and real estate will allow you to do that and we'll show you how to do that in our session.

Megatrends, and when I talk about trends, I'm not talking about technical trading and chasing the hot money. I'm talking about big megatrends that drive big movements and that you can get on the front end of that, and they move glacially slow, so they're easy to miss, but they're easy to get on board with and they will carry you a long way. You don't have to flip in and out of positions.

So the key is to free your mind, which is really the message for the matrix, and begin to look at things a little bit differently. Hopefully we've stirred that up. We're going to leave you with this, what if the right real estate, as the foundation of a strategic real asset portfolio, could free you from the matrix?

What if that was true? Because some of you are like oh, real estate, that's messy. It is. Oh real estate, that's a hassle. I know people that lost money in real estate. Yes, and you probably know a lot of people that have lost money in metals and mining also, right? People lost money in investing.

But what if there was a way to do it where you could hedge and you could mitigate a lot of the risk and you could bring stability, privacy and profits into your portfolio all at the same time? So the goals in this presentation was to talk to you about stability. We did that, just in terms of concepts and what to look for. Privacy, we talked a little bit about that, gave you some practical things that you could begin to research. Profit, we'll talk a little bit more in the next session.

And I want to kind of show you this, we talked about the low-hanging fruit. The low-hanging fruit are the people that are in paper assets, they have bank accounts, brokerage accounts, they own properties in their own name. You are just like a big, fat target, and as people get desperate, they're going to come after you.

A little higher up the trip – the tree are people who are using domestic real estate, real assets, private placements we've talked about, private entity structures and private banking. You can do all of that domestically. But you want to get higher up the tree? Go international. You go international, it is extremely difficult to seize all your assets, if you get an unfair, frivolous judgment and you know juries can be crazy, they can – if you're – if you have any type of business where you provide professional services and you end up on the wrong end of a lawsuit, doctors and so on, you know exactly what I'm talking about.

So the goal is to get as high up that tree as you can. These are the things we're going to talk about in the workshop tonight, protecting equity from the next crash. If you've got equity in a property and you're concerned about it, we'll show you how to protect it. Go long and short the dollar at the same time, that's possible with these particular strategies. Profit from a shrinking middle class, Social Security just put out a report the other day, I don't know if you saw that, like a week ago it showed over 50 percent of the people in America live just above the poverty level for a family of 4, over 50 percent. Well, well all know there's 100 million people on government subsidies, so the middle class is shrinking, but you can profit from that if you know how to do it.

Collect rents from the rich, you think well, the rich don't rent. Well, they might. Find private opportunities, it's very important, I mean, it's all great in theory, but where do I find the deals? We'll talk to you about that. How to invest with long-term megatrends, hedge against both inflation, deflation and how to keep your affairs highly private.

So I think this things flashing at me, I'm going to try to get you one more – oops. There we go, I'll close with this. We're going to be in the Elmwood Room, third floor, at 8:10, love to finish this up with you. Thank you so much for your time and attention, I hope you enjoy the rest of the conference, thank you very much.

Lawrence Reed
"Liberty And Character: The Indispensable Connection"

Our first speaker this morning is Lawrence Reed. Lawrence, or Larry, Reed is a noted economic historian and president of the Atlanta-based Foundation for Economic Education, popularly known as FEE, the world's oldest free market economics organization. Reed has traveled to 81 countries as a journalist reporting on underground movements, hyperinflation, and economic reform. His most recent book is Excuse me, Professor: Challenging the Myths of Progressivism*.*

Now, this short bio does not give Larry due justice. Larry is one of the handful of men and women in the United States who are most influential in bringing free market education and free market principles to the younger generation, taking them as an anecdote, becoming an anecdote against all the socialism taught in the school system, and they have a miraculous array of wonderful publications and pamphlets. I'm encouraging anyone who has any child, grandchild, nieces, nephews, or what have you that are of an age where they can begin to inquire about these things or are being subjected to socialist thought in the schools, to be absolutely sure you stop by Larry's booth, and that booth number is 204, and, at the very least, pick up his latest educational booklet, Rendering Unto Caesar: Was Jesus a Socialist? *by Lawrence Reed.*

If you do nothing else, stop by the booth and pick up this remarkable little book, which refutes the idea made by socialists that Jesus was in fact socialist and, therefore, we should follow that line. At this time, I would like to bring Larry to the podium, and his topic "Liberty and Character: The Indispensible Connection."

Thank you. Thank you, Bob, and thank you, ladies and gentlemen. Happy Halloween. As you can see, I got into my economist costume a little early today. Incidentally, that pamphlet that Bob mentioned, *Rendering Unto Caesar: Was Jesus a Socialist?* if we run out of that, it is also available online on our website at FEE.org. Can you all hear me all right in the back, as well as the front? Okay, great.

I always ask that because you never know. I could be a little soft spoken or you might be a little hard of hearing, like the man who went to see his doctor to inquire about his wife's hearing troubles, and the doctor said, "Well, here's what you need to do. You need to do a test. You need to go back home and stand back of her a ways and say something. If she doesn't hear you, move a little closer and say it again. If she doesn't hear you, move closer. When you get to the point where she finally hears you, well then make note of that and come back and let me know and we'll see what we can work out.

He goes straight home and he sees his wife off in the distance there at the stove. About 20 feet behind her he says, "Honey, what's for supper?" No response, so he moves to about 15 feet behind and says, "Honey, what's for supper?" Still, no answer. Now he's 10 feet behind her and he says, "Honey, what's for supper?" and she doesn't turn around. Finally, 5 feet behind her and he says, "Honey, what's for supper?" She turns around and says, "For the fourth time, it's lasagna!"

[Laughter]

I thought you needed something at this hour of the day to get the juices going. Well, my talk is a little unusual in that this is an investment conference and I will not be talking about traditional investments, but I will be talking about a couple of things that I hope you do or will invest in: liberty and character.

This is an audience, of course, that hardly needs to be told what liberty is, but, nonetheless, I'll spend just a few seconds explaining what I mean by it when I use the term. I'm talking about, when I refer to liberty, an environment in which the initiating of force is kept to a minimum, where people's lives, their property, their contracts, their free associations are protected, where you can go about your business in peace, and choose where you want to live and how to raise your children, and, as long as you do no harm to other people, you're left alone yourself. The institutions that are important to that kind of arrangement are such things as the rule of law as opposed to the whims, or the arbitrary whims of men. The rule of law, private property and its protection, civil society. In other words, all the interactions that we engage in peacefully, voluntarily, by choice that don't involve government, that involve private interactions that are free, voluntary, and that help to build a civil society.

Of course, there is an arrangement that we call liberty, a role for government, but it is a limited one, and the things that are anathema to liberty are total government or breakdown of constitutional law, arbitrary whims and decrees from those in power. That's what I mean by liberty, and when we argue for it, most of you probably know that one of the strongest arguments, most frequent arguments over the years is, we tell this to people all the time that we're trying to convince, "You should be for liberty because it produces the most stuff. It creates abundance," and that is a powerful argument, and it really ought to be beyond dispute. All you have to do is look around the world and you see that countries that enjoy the greatest degree of individual liberty, the smallest governments, are the countries that are most prosperous, the ones that enjoy the highest standards of living.

We're fond of pointing out such stark differences as North Korea, South Korea. You probably have seen the satellite photo of the Korean peninsula at night, where South Korea is lit up entirely, it's all white, and then you cross the border into North Korea and there's about one little pinprick of light, and that's where the dear leader lives. Otherwise, it's a very, very dark place. Well, that tells you a lot right there: the lights are out, if they even exist at all in an un-free place, but they're on everywhere in a free place, and there are endless examples like that, that free societies create the greatest abundance. They solve the problems of poverty to a far greater degree than un-free places. But if you argue for liberty and use that argument alone, you're only going to go so far. You may convince people who will say, "Yeah, the evidence is pretty strong. I guess I buy that," but then they're vulnerable to the first guy who comes along and later says, "Well, but it's not fair. If you just put me in charge or people who think like I do, and give them lots of power, they can divvy up the wealth of society in a much fairer way," and then off we go down the path to the welfare state and to concentrated power in the hands of those who love power, and they're precisely the ones you don't want to give it to, so we need a stronger argument for liberty than simply, "It creates abundance."

While there are several others, I want to advance to you this morning the one that I think is underappreciated, underutilized, but extraordinarily powerful. It's one we ought to be using far more often if we want to win people, young people in particular, to ideas of liberty, and that is the indispensible connection between liberty and character, so I need to define what I mean by character. Character, in my mind, and of course we use that term in a lot of different ways, but in my mind character is a cluster of traits, personality traits, a cluster, and I'll identify some of them, that most people would say, "Yeah, I realize I fall short of many of those, but I do agree that if more people practiced those things it would be a better place to live." Most people are in agreement that the following traits are pretty good ones, they make for a strong and free society if more people practiced them, even if, individually, we often fall short.

One of those traits is honesty. Honesty: telling the truth, keeping to your word, not breaking your contracts, not cutting corners, not prevaricating simply because for the moment it might advantage you against somebody else. I can't imagine a free society in the absence of honesty, can you? If we lived in a society where people did not put a premium upon telling the truth, where you were frequently lied to, where you just couldn't count on people because at the drop of a hat, if they thought it would advantage them, they would break their word and lie to you. That would create a chaotic environment, and, in chaos, you inevitably get the strong man who rides in on the white horse, promises to knock heads together and bring order out of the chaos, and there go your liberties, so honesty is utterly necessary. That's not so true of any other ism, any other system of political, social, and economic organization.

I like to tell our student audiences at FEE that all the other isms, isms of the left, in particular, they really don't ask all that much of you, other than, "Cough up your taxes," which may take half or more of your income, "Keep quiet, don't question the state, go off and give your life at the drop of a hat for some foreign adventure, but otherwise, you can be a dirt bag and fit in just fine if you do those things, if you keep quiet, cough up your taxes, and do whatever the dictator tells you." It's only liberty that requires that we live to high standards of speech and of conduct and performance, only liberty. You can't have it, in other words, unless you live to high standards of character, speech, conduct, and performance. It's the only one. No society in history, and if you write anything down in the course of this 20 minutes I hope this will be it, no society in history that has lost its character ever kept its liberties. That's how important these two things are.

Liberty and character are really two sides of the same coin. No society that has lost its character, or loses its character, will keep its liberties. None. I know of no exceptions to that. I know of no free societies that didn't arise because people mustered a strong quantity of character and it showed in the free society they created. But, when they abandon character, liberty will soon be lost. It's one of the most powerful lessons I think of all of history, so honesty is one of the character traits that you can't have that society must have, or it's one of the character traits that you must have in order for society to be free, but there are others. Another one is, I like to call it intellectual humility. I mean in terms of what you know and what you think you know. A free people will be intellectually humble. In other words, they will recognize that as smart as they may be, there's still a universe of knowledge out there that they don't know. That's intellectual humility.

That's just the opposite of, say, arrogance where, "Oh, I know everything. I know all I'll ever need to know. I know enough to plan the economy of 320 million people." Think of Washington, D.C. Is that a humble place? Is that full of people who are humble enough to realize their limitations? Absolutely not. It's full of people who think they know how to plan the lives of others, even if their own personal lives may be a complete mess. They need a few lessons in intellectual humility. I don't see how a free society can emerge or be sustained or thrive when people are arrogant, condescending, know-it-alls. They descend into the kind of central planning mentality that says, "Hey, I know what's best for you. I just need to employ the force of government to impose stuff on you, and we'll all be better off." That's arrogance. That's not intellectual humility.

Other character traits that are indispensible to a free society are responsibility. Can you imagine freedom or liberty arising or being sustained among an irresponsible people? What do they look like? How do they behave? Irresponsible people are the kind who blame other people for their own poor judgments. They're always looking for a bailout. They think they're entitled to a portion of what other people have earned. They won't take responsibility for their own poor judgments. Instead, they're always trying to foist the consequences of their bad judgments on other people. I don't see how freedom can arise in that kind of environment. We would all end up standing in a big circle with each of us having his hands in the next guy's pocket. That's not responsibility, and it cannot give rise to freedom.

Another character trait of liberty is courage. Courage. If all you do in your analysis of history is come to the conclusion that this is an indispensible trait, I think you will have learned a great deal. You look throughout history, you find that the periods of liberty, where people could say, "Yes, I live in an environment in which liberty is valued and practiced," that's pretty rare. The number of people who have ever lived on this planet, the 7 billion today and whatever number, if you could somehow add them all up, whatever that is, it's a single-digit percentage of people who have ever lived who could say they lived in a significant degree of liberty. Almost everybody, except maybe 10 percent or less of all the people who have ever lived, have lived under dictators, monarchs, all-powerful people at the top who issue mandates and decrees and orders. Most people have been either slaves or surfs, or in some way living in fear because of those who wield great power.

It's really a rare thing, and that ought to tell us that it's also a precious thing. It isn't something that's automatic or guaranteed. It doesn't just happen by accident. People have to work for it, they have to stand up on its behalf, speak on its behalf, defend it, sometimes give their lives for it. The world is full of people who will be happy to take your liberties from you if you give them the chance, and they're not just overseas, they are also in our very midst. Liberty requires courage. It also requires optimism. Optimism. What does a pessimist think, or how does a pessimist behave? I don't think a pessimist really is helpful to liberty. A pessimist is one who sort of gives up, who thinks he knows the future, and that it's so bleak that it's hardly worth working hard to change. Well, if you're pessimistic, you're not going to work very hard for what you know to be right, and you're probably not going to do a very good job at persuading others of your cause, because who wants to sign up for something you tell them is going to lose.

In America for generations, we possessed this optimism, this sense that, "Wow, things can get better. They will get better. We can live a better life. We can pass on to the next generation a better life than we were bequeathed. One person can make a difference. It pays to be a person of character and to persevere, and to work hard and to treat others appropriately, because in the long run, that's what makes you a better person, makes for a better life, and improves society at large. That's where we're going." Every generation, until recently, seemed to think that about the future. But, when you lose your sense of optimism, your whole cause tends to lose considerable steam, considerable impact and ability to shape the rest of society.

I want to share with you some remaining remarks here to kind of sum this up and lead it to a conclusion, but I want to point out that if you're wondering, "Well, why hasn't he said anything about the big economic problems that we're grappling with today, like the $19 trillion national debt, runaway spending in Washington, concentration of power, inability to solve problems in the highest places of power in America?" Well, I have said something about them, indirectly, because all of those problems have as their origin an erosion of character in the country. When people lose their character, what do they do? They vote for politicians who promise to concentrate power, who promise to give them something at other people's expense. When they lose their character, they put a premium on voting for a living instead of working for one, and we've seen the disastrous financial economic impact of that in the recent years, and it's not been pretty.

All of that should be thought of as manifestation of the bigger problem: an erosion of character. If we don't fix the character problems, none of those other economic problems are going to get fixed. That's how important this is. A person's character is nothing more and nothing less than the sum of his choices. You can't choose your height, or your race, or many other physical traits, but you fine-tune your character every time you decide right from wrong, and what you're personally going to do about it. Your character is further defined by how you choose to interact with others in the standards of speech and conduct that you practice. When a person spurns his conscious and fails to do what he knows is right, he subtracts from his character. When he evades his responsibilities, succumbs to temptation, foists his problems and burdens on others or fails to exert self-discipline, he subtracts from his character. When he attempts to reform the world without reforming himself first, he subtracts from his character. When he votes to loot his fellow citizens, he subtracts from his character.

Ravaged by conflict and corruption and tyranny, the world today is starving for character. Indeed, as much as anything, it's on this matter that the fate of individual liberty has always depended. A free society flourishes when people seek to be models of honor and honesty and propriety at whatever the cost: immaterial wealth or social status or popularity. It descends into barbarism when they abandon what's right in favor of self-gratification at the expense of others, or when lying, cheating, or stealing are winked at instead of shunned. If you want to be free, if you want to live in a free society, you must assign top priority to raising the caliber of your character and learning from those who already have it in spades. I want to call your attention to a series on our website, FEE.org, that we're running every Friday called "Real Heroes." Every Friday, the focus is a different hero – man or woman, present or the past – who exemplified character, one or more of these traits I've talked about, and it's gotten tremendous reaction. I'll hope you'll give it a look. We also offer a free book on our site called *Are We Good Enough for Liberty?* which explores this connection between liberty and character in greater depth.

Finally, I want to close with something that I wish I knew who wrote the original portion of this, I've doubled it in size, but I originally saw it from a so-called anonymous author but I think it sums up my message here pretty well. "The world needs more men and women who do not have a price at which they can be bought, who do not borrow from integrity to pay for expediency, who have their priorities straight and in proper order, whose handshake is an ironclad contract, who are not afraid of taking risks to advance what is right, and who are honest in small matters as they are in large ones. The world needs more men and women whose ambitions are big enough to include others, who know how to win with grace and lose with dignity, who do not believe that shrewdness and cunning and ruthlessness are the three keys to success, who still have friends they made 20 years ago, who put principle and consistency above politics or personal advancement, and who are not afraid to go against the grain of popular opinion. The world needs more men and women who do not forsake what is right just to get consensus because it makes them look good. The world, in other words, needs more men and women of character." Thank you, ladies and gentlemen.

Peter Ricchiuti

"Market Signals: What The Financial Markets Are Telling Us Now?"

Moderator: One of the things that Brien Lundin has always been very successful at is identifying new intellectual talent that fits beautifully into the program and gives people exposure to truly fresh ideas and to individuals who are extremely prominent that may not always be in the eye of the retail investor. And our next speaker is an example of that kind of exceptional talent in areas that apply to our concerns, but yet we are not necessarily aware of him as individual investors. That individual is Peter Ricchiuti, and he is going to address the topic of market signals, what the financial markets are telling us now. And here are just a few snippets of Peter's resume, which is very distinct from most speakers we've had here. Peter is the business professor you wish you had when you were back in college. His humor and insight have twice made him the top professor at Tulane University's Freeman School of Business. In a recent competition, Peter's teaching delivery skills placed atop a field of 500 universities representing 43 countries. That is an unbelievably remarkable and laudeous accomplishment. He had addressed over 1,000 groups, excuse me, in 47 states. These include groups of nuns, tin can manufacturers, money managers, water park owners, insurance professionals and National Football League players. He has even done a couple of the very, very prestigious TED talks. In looking at Peter's resume, I can't help but believe if I had been blessed with him as a teacher, I would've finally been able to make it out of seventh grade. Peter?

Peter Ricchiuti: I'm right here, sneaking up on the other side. Thank you so much, I would give him a diploma, any time. The – welcome to New Orleans, this is a home game for me. I teach at Tulane, I've been teaching there for 29 years. In fact, I've been there so long that an odd thing is happening now which is undergraduates are coming up to me and saying, my mother had you, and I'm thinking like what are we talking about here anyway? It's kind of a double entendre here, let's see.

I'm going to give you probably a little different perspective on the markets here. Let's see, I've got my little – don't take any of this too seriously. Wanted to give you a little confidence in me. This was a stock picking contest where I won against arguably one of the top financial minds in this country, Mike Ditka, and – the coach, I wasn't able to beat the coach, so that worked out. I used to be an investment instructor for the Saints players and these NFL players, they're just like you and me. They're nothing like you and me really, they're young and large and really wealthy.

Couple of things here. Let's see, the next slide is – what am I – go back one, I'm sorry. If I could go back. The – I want to tell you, one of the reasons I wanted to talk to you about it this morning is the idea that I think the economy is a lot better than you're hearing in the media. I'm watching

Wolf Blitzer on *The Situation Room* on CNN and he's talking about the economy and now even I'm getting scared and I think to myself, damn, if my name was Wolf, I would not grow a beard, that'd be the first thing I wouldn't do.

So the – oh man, and so it's the great thing is Brien is so powerful, he gave me this clicker which changes my slides and picks up TV stations, so I thought we'd just take a look at what's being said this morning. Let's see if I can do this. Okay, let's see what they're saying on Fox. They're coming for your guns and next they'll be wanting your women. Okay, that's Fox. They – let's see. Now over to Steve with weather. It's raining, thanks Obama. So that's Fox.

Let's see what they're saying on CNBC, our financial station, though I do love Doug, he's coming up next. The Chinese are buying our debt, it's going to be wicked bad, dogs and cats living together, that's what we're hearing on the media. That's not what I'm hearing when I visit companies. Also, I have a radio show on NPR, that's not what I'm hearing. And the stock market at almost all-time highs, that's not what the scenario is. But Americans are pretty easy to fool.

This is what I thought was interesting, a recent survey, they asked people what the Federal Reserve was, half thought it as a brand of whiskey. Quarter of them thought it was a wildlife refuge, they others thought of an Indian reservation, this is not good. I was giving a talk in Denver once, some guy came up to me after the speech and he goes, Professor, I really enjoyed that talk and I loved the jokes, but your talk didn't pertain to me personally because see, all your conversation was about stocks and bonds and you see, all my money is in mutual funds. It was like – it's that – like god, I didn't have the heart to tell him, he seemed so happy.

The – let's see. You can see I'm trying to liven this up, I know a lot of you came out just because you saw I was an economist and you had run out of Ambien, but we're going to see how we do here. This is – the world is a ghastly news, I'm not saying that isn't true. It really is. Putin is in the Ukraine and now in Syria and then the Mideast is just a disaster, I heard somebody – you always hear people say ISIS, we ought to bomb them back to the Stone Age, and I think to myself damn, what would that set them back, a couple of weeks?

This – that might not be the right policy there. And China's slowing down, it's not going backwards, but it is slowing down, and that's very important, because China has over a billion people. You know what a billion people is? Billion people means that if even somebody tells you you're one in a million, there's 1,000 other guys just like you. So there's a – that's a good little math problem there. The – whoops, let's see, can I go back one again?

So okay, the – why is the stock market doing so well? Well, the real reason is that it's all about corporate profits, it is. And if you look since World War II, corporate profits are up 100 fold and stock prices have risen 90 fold. Couple things, those are gigantic numbers, and secondly, they're telling you that corporate profits really is the driver here, it's the R squared, it's the most important variable. So that's what you have to keep your eye on the ball on is corporate profits.

The rest of it is noise, the rest of it is meaningless, the rest of it is like the buffet at a strip club. It's just not that important. And so it's – welcome to New Orleans. The – and by the way, New Orleans is – first of all, we had the ten-year Katrina anniversary this year, it was also the fifth year anniversary of the BP oil spill. For a while down here, it felt like we were living in the Old Testament. It's like next stop, locusts. So but since Katrina, some amazing things have happened here.

We're now the number one city in the country for young entrepreneurs and it's been terrific, so much so that I created a radio show called Out to Lunch and we got to Commander's Palace, arguably one of the best restaurants in the world, and I bring in a couple of entrepreneurs every week and they talk about the ideas they have, and it's been terrific. I had a guy on, I'm still laughing about it, a guy on a couple of years ago and he invented a – this isn't the product, but a case for your iPhone that weaponizes your iPhone. It turns it into a stun gun, which is – and the best part about it, and I just still giggle about this every day is that when you stun somebody it recharges the phone, which is just so great. Leading so such uncomfortable situations as sorry Stan, I was low on juice, let me help you out there.

So and then about five weeks ago I had a guest, two guests on, a husband and wife that had started five different businesses, kind of serial entrepreneurs and they were wonderful. And the job of the host is just to loosen up the guests, I mean, that's really what it is. So I thought I would just throw a softball question out to begin with and I said to the wife, I said, Anne, when did you know Tom was the one? And she said, when the stick turned blue.

So we've had our problems. Let's see. All right, let's see, the next slide, see if I get this, I always get two at a time here when I do it. I guess I should be aiming at something. Here it is. Why is the stock market doing so well? It's because corporate earnings in this country are not good, they're not great, they are flat-out phenomenal. Now, you'll never hear this because you never hear corporate executives before the Senate saying, Senator, we're just earning too much money, if there is something you could do. No, you're not going to see that.

So it doesn't get much attention, but Wall Street understands it, and that's why the stock market has tripled since '09, and that's really the big deal. I mean, you look at these are corporate earnings from the S&P 500 and '11 was a brand new record, 94, then it got to $99, 106, 113, this year we'll come in around 115 and that's why we're trading the way we are. That 115, by the way, is kind of a mushy number this year because you've got these crosscurrents in the economy. You have oil, now oil stocks make up about 9 percent of the S&P and their profits are down about 60 percent. Then you've got the dollar so strong that you've got US multinationals that are doing pretty good abroad, but when those dollars convert back into – when those foreign currencies convert back into dollars, they get a haircut. And those are the two negatives on earnings, the positive on earnings is the fact that gas prices have dropped so much that people are spending more, and that's really a big deal.

You know what they say, what it is I read in that *Economist* magazine, what is it they say, if you put less cash in the tank, you put more junk in the trunk. I think that – actually, I think that came from a rap song, again, I don't know, maybe that wasn't – that's okay. There's – and the other thing is we're always so excitable on the news here. That's the other thing. Like I was in London giving a speech last year and I turned on their financial station and they're just so much calmer. It was a female anchor on the news station. She said, now this stock has fallen over 60 percent today, and that's not good, is it?

I thought, yes, that's the way we ought to do our news, financial news. I'm not worried about the Tea Party, what I'm worried about mainly is – sorry, is the Donner Party. Anybody seen those guys? I've been very concerned, I know they left without a lot of food. So the – some oil thoughts. Louisiana is the second largest producer of oil and gas in the country, and so we know quite a bit about this. I think what you've got going on right now is the Saudis have one asset, one business, that's oil. It's not as if they could say well, if that doesn't work out, I guess we'll rely on our strong furniture-making industry. That's all they've got.

And they see a change in the long-term makeup of fuel and they want to be able to sell every drop they own and also diversify their economy. So they're lowering oil prices and increasing volatility and their goal, of course, is to crush the United States energy industry. One of the – they also are very fearful of alternative fuels. Things are picking up a lot faster than you perceive them. And the Saudis always have a sentence they always use internally, which is remember, the Stone Age didn't end because we ran out of stones. And they're very, very concerned about what's coming next.

Let's see. Whoop, sorry. Economic impact. Lower price is the equivalent to about a $200 billion tax cut for consumers, it mainly helps the middle class, which has a more powerful effect than a cut on the wealthy. Good news for retailers, US manufacturers and other businesses such as the airlines, the airlines have not made a profit since Kitty Hawk, but now they're doing well and I'm actually pretty pleased about that because I fly all the time and I was getting a little weird flying all bankrupt airlines. I think that was a – I thought it was making me a little uncomfortable. And the other thing that's happened out of this lower gas prices is that US foes have been defanged.

The countries that really hate us like Venezuela, Iran, Russia, are broke, I mean, they couldn't throw a blender at us right now. So it's – that's been kind of an extra little n thing that's occurred from that. I think we're at the point where we're going to start to see interest rates rise. I don't care if it's December or March and all the parlor games you're playing, interest rates are going to go up because inflation is starting to hit the levels that it needs to raise interest rates.

Now, look at – don't look at commodities and all that, that's, I think, giving a weird picture. Look at plant utilization in the United States. Well, capacity there, when it gets to 80 percent or above, you start to get inflationary pressures, because you're using up all that available. We're currently at 78.2 percent and rising, very, very close to hitting that. When unemployment hits five percent or below, you start to get wage price inflation. And we're at 5.1 percent and falling, and so that's the important part, that we're very, very close to the trip wires that'll bring on some inflation and some higher interest rates.

The millennials, I teach the millennials. Our generation, the baby boomers, think that these guys, all they're doing is living in their parents' basement and saving up for a new tattoo, and that's not true. These are the best people I've ever worked with in the last 10, 15 years. They're smarter than we ever were, they're very interested in social entrepreneurship, they want to give back to their communities, these are great kids. Do not sell the next generation short.

Now, of course, sometimes common sense issues, like I was talking to a student a couple of weeks ago and he knew I was a big baseball fan, he asked who my favorite all-time player was. And I said I guess it would be Lou Gehrig, he played for the Yankees in the '30s, he played first base and he died of Lou Gehrig's disease. And my student goes whoa, what are the odds of that? So it's like, there are issues. But they're much better – they're much smarter than we were.

Now, women in this group are much better educated than men. If you went to a college campus, you would find like Tulane is 60/40 women, every other university I've talked to it's the same situation or even more differentiated like that that basically high school girls are better students than high school boys. I – it's wonderful for women, I don't know what the hell happened to us guys, I really don't know. But in a third of marriages, they earn more money, which you need to know in terms of not only demographics but investing.

As this large group ages it'll begin hitting their big earning years and focus more on retirement investing, which I think is good for the markets. I've personally been investing in stocks of money managers, insurance companies, mutual funds, even the banks. Although the banks worry me because they seem smart, but these are the same people that gave us the braille keypads on the drive-up ATM machines, so there's things to worry about here.

This is true if you live in the south, Mason-Dixon line, renamed IHOP-Waffle House line, so that's kind of our new demilitarized zone for our country. They – it's funny teaching college students because you realize how old you're getting. Like I realized how old I was getting, the other day I was – there were – TBS had the movie marathon, the 100 greatest movies of all time. And the movie *The Graduate* was on and I hadn't seen that in years and years and years. And for the first time, Mrs. Robinson looked hot. I thought, that is a sign of some sort.

Let's see. People ask me are we going to go into a double-dip recession. I don't think we are. I mean, there's three things I need to see to flash red that would indicate we're going to go into a double dip. The first is I need to see housing starts high but falling, and they're not. They're low and rising. We just came out of the housing bottom. I need to see average weekly hours worked high but falling, and they're not. They're high and rising. It may still be tough to get a new job in the United States, but if you're working, they're asking you to work more and more and more hours, and I'm – in the inverted yield curve, I need to see short-term rates higher than long-term rates. And that's not what we're seeing, we're seeing a very, very different picture.

In fact, if you look at the next slide you can see that the 10-year treasury is now at about 2.27 percent. The 3-month treasury bill is not worth calculating, 0.02, but 2.27 minus 0.02 is a positive 225 basis points. That is a very fat positive yield curve and it's indicating that the economy in '15 will be stronger than the economy in '14, and the economy in '16 will be better than the economy in 2015. So we are actually in pretty good shape.

You can see the two points at which we had an inversion where that – the graph goes below the line, in 2000, and that signaled the '01-'02 recession, and '07, where it signaled the '08-'09 recession. We're in very, very good territory right here, just and the yield curve has been right since the earth cooled. But people don't use it, instead we send a reporter out to a Wal-Mart somewhere and ask people coming out like, you scared you're losing your job, you think the commies bad? It's like, that's right, I'm scared, real scared. It's like, back to you, Bob, people are scared.

That's ludicrous. That is crazy. The – and of course it's always the same guy. It's that old guy with – the greeter guy with the blue vest who I – I think it's a 50/50 chance I have that job at some point, but it's – but he always comes up to you and says how you doing? I always want to say, hmm, isn't it obvious? I'm at Wal-Mart. Things are good I'd be at Macy's or Nordstrom. So let's see. The other thing that's happened is we've done a terrific job of paying down the deficit.

We've – the way to look at this is the deficit divided by GDP, because what you're trying to measure is leverage. How leverages is the US economy. And you can see that in 2009, we're in terrible shape, the deficit represented 10.5 percent of GDP. And now it's gone down and down and down and down to the point where it's about two and a half percent of GDP. And that's another thing the market really likes. Now, you notice at the far right, I have a star and an arrow going up, and that is because it's going to go a little lower for '15, maybe even a little lower for '16, and then it's going to go right back up again if we don't do something. So that's the situation.

Now if this was your business and I showed this to you, everybody in this room would say wait a minute, so we've got a little window, things aren't too bad, this is the time we ought to fix it before it erupts. But the US politicians don't work that way, they work under the other theory, which is nothing promotes clear thinking like a hanging in the morning.

So nothing's being done, and this is really – they view the problem as having gone away, and it hasn't. It's – now's the time where you need some sort of grand bargain between the Congress and the White House and increase revenues and cut more and get this problem solved. But I just have no faith that that's going to happen.

I saw this in the school newspaper, I thought I'd share a new word with you, sexiled. It's what's happening when you're looking for a place to sleep because your roommate has a visitor. Isn't that kind of cute? Anyway. So let's see, the next one – next slide.

This is the situation, the US economy is 70 percent consumer driven, and that's the way it's always been, that's the way it'll always be. And if you look at that, the most important consumer in determining how fast the economy grows or shrinks is the middle class consumer. That's really the fulcrum in this thing. And the middle class consumer is not – is really not gone all out in this recovery, and it's one reason the recovery's been as slow as it has. So the next slide is that one of the reasons is that since 1979, when I started in this business, 36 years, ago, the US economy has more than doubled in size. It's gone from 8 trillion to 18 trillion.

But then the top one percent of the population earned ten percent of the nation's income. Today, the top 1 percent earns 20 percent of the nation's income and the – and that group controls 48 percent of the country's wealth. So you get the middle class that feels pinched and they're not spending. And that's why we're growing at about two, two and a half percent instead of the four percent that we would be used to.

I just thought that was funny. Psychiatrists deeply concerned for the five percent of Americans who approve of Congress. Just a thought. I don't know, I'm watching the presidential debates, are you like me? I'm watching the debates and I feel like I'm viewing an old episode of Scooby Doo where the real candidates have been kidnapped and they're being held in a warehouse just outside of town. So it's – let's see.

The next slide is the other reason the economy isn't growing as fast as it has – that you think is that what US corporations are doing, since the spring of '96, when we started – spring of '09 when we started to come out of this, about six years ago, US corporations have made about $2 trillion, but they have put almost every cent of those profits into share buybacks. Which has been great for shares and they've risen and it's – and they've fallen in love with this, but it hasn't done much for the general economy. At this point, you would think you would be more corporate expansion, capital expenditures, things like that, and you're just not seeing it.

I saw this is good, Greece offers to repay bailout with giant horse. There's – I feel good about this, I don't know why, I just think it's worked before and I'm ready to go. Now I realize I'm a little bit different than some of the other speakers, I'm a little more optimistic, I gave a speech one day out on Monterey a couple of years ago and a guy came up to me at the end, he goes wow, he goes, you're like the pork chop at a synagogue.

So it's – now, why don't people do better with their money? I'm going to give you three reasons that people – things that people hold as gospel that aren't correct. The first is you hear people say, I don't want to be involved in the stock market, not with unemployment so high. Well, that makes sense unless you think about it, that's the problem there. Is the – because when unemployment's high, the government's number one job is getting people back to work. So they lower interest rates, they hold them down and they stimulate spending. Exactly what corporate America wants, exactly what Wall Street wants.

So the truth is, on the next slide, is that since 1948, stock market returns have been better than three times as high when unemployment rates have topped 6.6 percent. So we're at 5.1 now, so we've lost that little window. The other thing is – there's Thurston Howell from – I'm putting in these fictitious millionaires. That's Thurston Howell from *Gilligan's Island*, he's a – he was a great millionaire.

For the guys out there, were you more a Ginger guy or a Mary Ann guy? That's what I – I think that's always what separates men. Is the – most Americans right now think the country's on the wrong track, and as it turns out, that is fabulous news, because most Americans are wrong, so this is going to be great. In fact, the next slide you can see that in the early 1990s, 2/3 of Americans felt the country was on the wrong track, and the '90s was a great time to invest. Y'all remember this.

In 2000, 80 percent of Americans believed the country was on the right track, and we went into the lost decade, made nothing. In 2010, nearly everyone thought the country was on the wrong track and we've basically gone straight up since then. So one of the problems of making money in the markets is you've really got to be swimming against the tide of common thought. One of the great contrarians of the world, Doug Cass, is going to be up here in a few minutes.

Let's see, the next slide is – and then you hear, don't invest in stocks when there's a Democrat in the White House. My daddy told me that and my pappy's daddy and my daddy's pappy daddy told me that. And if you look, that hasn't really helped you out at all, either. If you look at the next slide, you can see that Clinton's first term, the markets, the S&P was up 99 percent, his second 4 years was up 83 percent. Bush's first term was down six percent. Bush's second term was down 26 percent. Obama's first term was up 101 percent and so far we're up 46 percent in the second term. I look at that 101 percent and I think geez, if Obama's really a socialist, he's not a very good one. Because these are pretty amazing numbers.

So let's see, what's the next one? This is good news for all of us. This was done by the Brookings Institute. It's talking about happiness in age. This is so great. And as it turns out, when in life are you happiest? Well, you're pretty happy at 18, because you've got a driver's license and a boyfriend and everything, and then you go to work and you're the low man on the totem pole, and then you've got teenagers in the house, which is a real joy. And then you're taking care of aging parents, but then it gets really good. So don't kill yourselves. It's going to be terrific. It really is. So that's where – better _____.

Now, people say if you're that optimistic, what bothers you? I'm worried if the economy gets too strong, too fast, because then the Fed, instead of raising rates slowly and methodically, may have to jump rate increases. I think that would really spook investors. I worry about restrictions on free trade because export is really the key to the US economy. We've developed these middle class economies all over the world with an insatiable appetite for US goods.

Gold and bonds I'm not a fan of at this particular juncture. I think bonds really worry me, they're basically people – it's – bond market – rates have been dropping for so long that people have forgotten that when interest rates go up, bond prices go down. I think a lot of people are going to be calling their brokers in a year and going, excuse me, what are these parentheses in my account?

It's – and immigration restrictions, obviously I have a different angle because I teach at a university, but every year we have about 100,000 foreign students that earn a master's or PhD in the United States and we don't let them stay here, and these are the smartest kids in the class, there's just not question about it, and they're hungry and if you look at the next slide, you'll get the results. 40 percent of the Fortune 500 were started by immigrants. We may have all arrived on different ships, but we're all in the same boat. And let's see, the next one.

This is what we've been hearing for the last six years on the news, and I don't mean to harp on the news here, but seems everybody's doing that these days. For six years, these are the lead stories you've heard. Fiscal cliff, kiss your mamas goodbye, try to scare you out of stocks. Sequestration, restring all your guitars. Obamacare, pack up all your stuff. Nothing, nothing, nothing. Greece. I think in a couple of years we're going to go Greece, oh yeah, the musical with John Travolta.

There's – they – Cyprus. We were worried about Cyprus for four months, we don't know where the hell Cyprus is. They – rate increases. We are going to get rate increases and it's not going to derail the economy and it's not going to derail the markets. The next one is this is really what we are getting for news, we're bringing in about 200,000 new jobs each month, very low household debt obligations. Consumer confidence is at an 11-year high, bank loans are steadily rising. Now, this is only in the last 18 months that's happened. Energy independence, which is priceless. The unemployment rate is at an eight-year low, and record corporate profits and lots of cash.

That's why the stock market has tripled. That's why we're at all-time highs. When people tell me the world's going to end and the economy in the US is going to go – just go to zero, this is what I always tell them, it's a quote from Tim Duy. As long as people have babies, capital depreciates, technology evolves, and tastes and preferences change, there's a powerful underlying impetus for growth that is almost certain to reveal itself in any reasonably well managed economy.

You've got the wind at your back for growth in the United States. In fact, anybody that's shorted the United States since 1976 has lost. And then finally I just have a couple minutes left, but I put these on your tables and it looks like they all got here. I sent them by mail, so I always get nervous. But I'm not one of those people that trashes the post office. I hate those people, people always go, I can't believe it's 49 cents to mail a letter. I always want to look them right in the eye and say, hey pal, if you take from the day they pick it up to the day they deliver it, what is that, it's like a penny a day, that's nothing. So stand up for your post office, so.

So right now I know what you're thinking is where did they find this guy and for heaven's sake, why did they let him work with children, and they – this is a little article about our – this is the book I wrote called *Stocks Under Rocks*, because that's what we do at Tulane, I run a program where I have 200 students, divide them up into teams of 5, and each team is assigned to one of 40 small cap, publicly traded companies from Texas over to Florida, and they're under followed. And we call them stocks under rocks. And these are some great stories about what – the investment lessons we have learned investing in small cap stocks and such.

And a couple things we're really proud of is we've sent 700 students from this program on to jobs in the investment business. We're the only university that does it. Secondly, on page three, you can see one of the local banks, Hancock Bank, asked if they could use the students' research on these under followed companies to create a mutual fund and they did, and now Hancock

Whitney actually runs that mutual fund. It's been open 14 years, it has $800 million in it, and it's outperformed 94 percent of the nation's mutual funds, which I think is a little embarrassing, because they have the lowest payroll on Wall Street, 0. But – or as one student said to me, he goes, actually, it's negative, because we pay to take the course.

And that was a nice article about our award, and then if you open it up to the middle here, and I know a lot of you haven't opened up a magazine like this in some time, but – and maybe never again, right? I just thought about that. I would've liked to have been at that meeting. Just take out the nude pictures. More articles. So they – but these are the little companies we follow and we have such a great time with them and I'll just tell you about one of them because I'm out of time, but the fourth one down is a company, very reflective of the kind of companies we follow.

They not very sexy, but they have good balance sheets, they have smart management, and own a lot of the shares and that's what we're looking for. Cal-Maine Foods is in Jackson, Mississippi, they're the largest distributor of eggs in the United States and I – it was the first company we ever wrote about and it was 22 years ago, and I remember the CEO called me after we finished it and he goes – he was from Mississippi. Peter, thank you so much for doing that, your students did a terrific job, best report that's ever been written on the company, I just want to thank you.

I said, well, Mr. Adams, that makes me feel very proud, I thank you and I'll – I will relate that to the students. And he goes, now, he goes, one mistake you did make, and I'm thinking, oh god, you know, I said, I'm sorry sir, we'll fix it in the second printing. He goes, yeah, you just – you referred to us as egg producers. We're egg distributors. The hens are egg producers. So thank you so much for having me. I appreciate it, thank you. Thanks so much. Thank you so much. Appreciate you.

James Rickards
"The Coming Collapse Of The International Monetary System"

Our next speaker is James Rickards, who is chief global strategist at West Shore Funds. He's author of bestsellers The Death of Money *and* Currency Wars*, and he's editor of* Strategic Intelligence, *a monthly newsletter. He's a frequent television and radio guest and advisor on capital markets to the U.S. intelligence community and the Secretary of Defense. He will be speaking on "The Coming Collapse of the International Monetary System." Please welcome James Rickards.*

Good morning, and thank you for the introduction. It's great to be here, and I thank the sponsors for inviting me. I give a lot of presentations and I love doing it. It's fun to be able to present something, but it's also great to meet the people at the different events. I go all over the world on five continents, and it's a great experience for me, so I'm looking forward to saying hi to a lot of you throughout the course of the day, but I learn a lot from the interactions. I speak in a lot of different formats.

Sometimes the sponsor says, "Okay, you've got two hours," sometimes they say, "You've got 15 minutes." I also show up with the same presentation. I mean I update it for events, but about the same amount of material, usually about five hours' worth of material. The only people who get to hear that are students because that's a captive audience. If they leave early, it affects their grade. But today, we have about a half an hour, I'm very cognizant of that, so I'm going to go through a lot of stuff. This is like when I was a kid they used to have double features. For the same admission price, you could see *The Wolf Man* and *Dracula* in a double feature, so I have kind of a double feature today.

I have a panel this afternoon, and I just wanted to drop a footnote about that, because a lot of people make claims, and that's fine, we're analysts or we're advisors, and we have a view on stocks or a view on precious metals, a view on the monetary system, as the case may be. I don't like to make any claims without giving the analysis behind it, because it's sort of pointless to debate the claim. It's sort of like saying, "Who was a better guitar player, Jimi Hendrix or Eric Clapton ?" I mean they're both pretty good, but that's a pointless debate. You can go on and on.

I think the same thing is true when you have a claim. Debating the claims is a little sterile unless you know the analysis behind it: "What are you using to support the claim?" I always include that in my presentation because I don't like saying anything without having something behind it. But today, we've actually got a separate workshop this afternoon, if I can put in a little plug for that, which is on method, so I'm not going to say anything about my analytic method today because I want to get through the analysis of where things are going in the markets. But this afternoon, we're going to do a deep dive, if anyone is interested, and we'll go through some of the equations and some of the math. It will be a little more kind of industrial strength, but if you're wondering what's behind the things I'm going to say now, we're going to talk about that this afternoon. With that said, and recognizing the limits of time, let's jump in.

I want to start with a section on war games. In 2009, I was invited by the Secretary of Defense to help to organize, and then later participated in, the first-ever financial war game ever conducted by the Pentagon. The Pentagon didn't need any help from me in doing war games, they've been doing that for decades, but this was different. The only weapons, if you will, were financial instruments, so stocks, bonds, commodities, currencies, derivatives, et cetera, foreign exchange, all the instruments you're familiar with. We couldn't have anything that would shoot or explode, no tanks or submarines, or drones or aircraft, or anything like that. It was the first time it was ever done where we were just going to fight with financial weapons, so we had to write the rules. I called it playing Risk for adults, if you remember the old board game, Risk. It was something like that, and we had to ask ourselves a lot of questions: "What would the teams be?" Well, you have some obvious teams. We had a Russia team and a China team, the United States and so forth, but we also devised a team of banks and hedge funds. They were a team because, obviously, in any financial war, they'll be very involved in that. "How many days would it last? Who would be invited?" et cetera.

On the invite list, we had what you would expect, so we had uniformed military, we had people from the CIA, the treasury, the Federal Reserve, Department of Homeland Security, FBI, different branches of government, and then they had what I call the usual suspects. We did this at a top-secret weapons laboratory called the Applied Physics Laboratory. It's about halfway between Washington and Baltimore, so pretty easy to get to from the Pentagon and Washington. But then we had what I call the usual suspects, and these are really brilliant people, scholars and others, but they work at universities and think tanks, and they're kind of on the list, so whenever anyone is doing seminars like this, these are the regular people that they invite. That's fine, these are smart people, but I said to the sponsors, I said, "Look, guys, we're going to do a war. Wars are all about lying, deception, and manipulation, so why don't I invite some of my friends from Wall Street? It would make it more realistic?" They agreed with that, and so I was able to invite the head of interest rate strategy for UBS, and another friend of mine who had run a private equity fund in Russia, so we got them involved.

Before the game actually commenced, I had dinner with my one friend, who is a Russian expert, and we cooked up a plot. He was on the Russia team, I was on the China team, and I said, "Let's do the following," because you get a couple moves, a little bit like a chess game. You announce them and there's a reaction function, and all that. I said, "Let's do a plan where China and Russia take their gold reserves and put them in a vault in Switzerland, then they legally create a bank in London, and the bank issues a new currency backed by the gold. The kicker is that, henceforth, if you want Russian natural resource exports or Chinese manufactured goods, you can only pay for it in this currency. We're not accepting dollars anymore." Obviously, it was a plot to run the dollar off the road, and we had to use Switzerland and London because we knew nobody would trust the Russians, you weren't going to put your gold in Russia, they would steal it, so we had some good rule of law jurisdictions, and kind of all thought out. The idea was just to sort of throw that out there and then see how it would play out.

We got immediate pushback from some of our colleagues. One professor from Harvard − and I'm sure that we have some Harvard graduates in the room, a fine school − he just laughed in my face. He said, "Why are you doing this? This is ridiculous. Don't you know that gold is not part of the international monetary system? It never will be again. This is a complete waste of time. Why are you doing it?" After a little back-and-forth we said, "Well, let's just play it out and see how it plays out," and it played out in very interesting ways, all which I talk about in my book. I got home. I said to my wife, "I have good news and bad news." I said, "The good news is my team won. The bad news is I played for China." But on a serious note, we did this in 2009, and, when you do a war game, the whole point is to lean forward. You don't talk about the headlines of what's going on today. You try to take it out 5, 10, 15 years, if you can. It takes 15 years to build a new weapon system, so kind of look over as many ridge lines as you can, and give the Pentagon their money's worth in terms of thinking forward.

We did this in 2009, so it's six years ago. Since we did this, Russia has more than doubled its gold reserves. China has tripled or quadrupled its gold reserves. Nobody knows the exact amount because they're not transparent about it. They lie about what they have. I know they up their gold reserve figure, but they've got two gold stashes, and this is the one they tell you about. This is the one the State Administration of Foreign Exchange, it's the Sovereign Wealth Fund. It's run by an ex-PIMCO guy, by the way, they don't tell you about. Every now and then, SAFE flips a little gold over to the People's Bank of China and they say, "Voila, we have ten more tons." That's fine. That's just to comply with the transparency rules for IMF, but the actual gold is over here. We have good data because we know what the mining output is in China, 450 tons a year, you do that for five years, there's over 2,000 tons right there.

Hong Kong imports about 700 tons. Again, do that for five years. It's 3,500 tons added up. You get to 6,000 tons of gold that are showing up in China. They don't export any. We know all this information. This is not guesswork. The only thing we're not sure of is how much is private, how much is government. I do 50-50. It's a guess, but it's the next best thing to actually knowing the numbers. You can actually figure out those numbers. So Russia has doubled their gold reserves, China has more than tripled its gold reserves. China and Russia are acting exactly the way we warned the Pentagon six years ago that they might act. Now, that doesn't mean that the dollar collapses tomorrow, I'm not saying that. What I'm just saying is we're in a world in which these things are taking place and people seem very unaware of it, so I think we can take credit for, as I say, giving the Pentagon their money's worth.

I want to come to today and make the point, "Okay, we did a war game six years ago, that's interesting," there are financial wars going on today, and there have been for the last four years, so this is not just a gaming exercise. It's not just theoretical. There's real financial warfare going on. In 2012, the United States was in an all-out financial war with Iran. I'm sure a lot of you are familiar. The first thing we did, we kicked them out of the dollar payment system. We said to the banks, "Any bank in the world that transfers dollars for Iran, you're going to be penalized, your operations in the U.S. are going to be shut down." By the way, the big European banks, the ones you know – Credit Suisse, UBS, Deutsche Bank − their operations in the U.S. are bigger than their operations in Europe. If we shut them down, that's devastating to them. That's how we get the Europeans to do whatever we want because we just threaten their U.S. assets. We say, "Anybody who transfers dollars for Iran, you can expect a call from the FBI, you can expect to pay billions of dollars in fines," which they have, so they kicked Iran out of the dollar payment system.

Iran kind of shrugged and said, "Big deal. There's another system called SWIFT in Belgium where you can transfer euros and yens." They said, "We'll just sell the oil and get paid in euros. Who cares? That's good currency. We can buy stuff with that." But then it got serious. We've got our European allies to agree to kick Iran out of SWIFT. That's actually in certain financial warfare policy circles in Washington, which I'm involved in, we call this de-SWIFTing, so we de-SWIFTed Iran. Now it was serious because they couldn't get paid in any currency you would actually want to use. They could ship oil to India and get paid in a local Indian bank account in rupees, but what are you going to do with the rupees? I'm not sure how much curry the Iranians need, but there was a limit to what they could do there. They started doing workarounds, gold-for-oil swaps, smuggling gold in from Turkey, but this was very devastating to Iran. The Iranians, they like their printers and their iPads and their iPhones just as much as we do. The stuff is smuggled in from Dubai. You can walk around Bonsai Road in Dubai and see all the smuggling boats lined up and good to go. They get paid in dollars. The dollars are being smuggled in from Iraq. There are a lot of dollars available in Iraq.

So people were taking the money out of the Iranian banks, buying dollars on the black market, paying the smugglers from Dubai, giving the people the merchandise they want, all this under pain of death, by the way – several people were executed for doing this. This caused a run on the banks, so the black market rate, which of course is the real rate, showed that the currency had lost 50 percent of its value. There was a run on the bank. The Iranian Central Bank raised interest rates to 20 percent to try to keep the money in the bank. That's what you do in a bank run, you raise interest rates so that people kind of have a motive to leave their money in. So you had currency collapse, hyperinflation, run on the banks, sky high interest rates, the Iranian economy was collapsing, and we were well down the road to regime change in Iran without firing a shot. That's how powerful these financial weapons are. In December 2013, the president declared a timeout, basically day taunt with Iran. He alleviated the sanctions and released some of the money in exchange for Iran agreeing to engage in talks on the nuclear enrichment dossier, which has been going on ever since. I'm not getting involved in the politics of that, we'll see how that plays out, I'm only here as a financial warfare analyst to say that that war kind of reached an armistice or a truce, if you will, in December of 2013.

Today, right now, we're in a financial war with Russia. Obviously, this relates to Ukraine and Crimea. Nobody wanted to drop the 82nd Airborne into _____, nobody thought that was a good idea, so the president responds with financial weapons, so we put financial sanctions on Russia. There's a big difference between putting sanctions on Russia and sanctions on Iran. The difference is Russia's capability to shoot back is much greater. There's a lot they can do. They have a 6,000-person cyber brigade outside of Moscow working day and night. Remember, the national sport of Russia is chess. These people are pretty smart. The best hackers in the world include the Ukrainians, a lot of them are on the Russian side of the divide, so they can shut down the New York Stock Exchange whenever they want. They can do a lot to disrupt our systems. Recently, Russian submarines have been spotted tracking in surface ships with underwater capability, have been spotted tracking the fiber optic cable network, some of which is secret, some of which if you're diligent enough you can find out where they are. They can disrupt communications traffic, so you have to be careful. You have to put this in a game theoretic context. You slap sanctions on Russia, that's fine, but then they shoot back, you escalate, they escalate, where does that end and what's the potential for an accident happening in the middle of that?

This is a replay of the Cold War. In the Cold War, it was Soviet Union but I'll just say Russia, the same thing, the U.S. had enough missiles to destroy Russia. Russia had enough missiles to destroy the United States. That's actually a very unstable situation, because the temptation is shoot first, wipe out the other guy, you win. What people did is they said, "Well, I'll build more missiles, and then if they shoot at me and wipe out a lot of my missiles, I'll have some left, and I'll shoot back and wipe them out so they won't shoot in the first place. We call this two scorpions in a bottle. One scorpion stings the other, the victim is going to die but has enough strength left to sting back, and both die. That arms race was actually more stable than not having it because, again, it deterred the other side from shooting in the first place because the other guy could shoot back. Then, eventually, we sort of boxed that in with some arms control treaties in the '70s. We call this MAD, mutual assured destruction. That was the war fighting doctrine. Today, we are in a world of mutual assured financial destruction, where if we use these weapons and the other side escalates, where does that end?

My concern, and I see this when I go to Washington, is the White House does not put it in the game theoretic context. They're just slapping sanctions on, not really thinking two, three moves, four moves ahead, which is what a really good chess player does. Putin is a black belt in judo. He an extremely capable chess player, speaks four languages. When he and Merkel meet, they don't speak English, it's German or Russian. She's a fluent Russian speaker. We're up against a very wary opponent, so I simply make the point that we are in an age of financial warfare today. You all have enough to worry about as investors. You've got to worry about inflation, deflation, will the Fed raise rates, will they not raise rates, bull markets, bear markets. There's enough to be concerned about. I'm just saying that there's one more overlay on all that, which is not economic competition, it's actual financial warfare, with the potential to shut down exchanges.

One of the reasons I recommend gold in every portfolio is that gold is non-digital. I mean I'm talking about physical gold, I'm not talking about COMEX gold futures. It's non-digital. You can't hack it, you can't erase it, and so my view, it has a place in every portfolio because if there's an accident or if a financial war escalates to the point where you wake up and your bank account is gone, your brokerage account is gone like, "Oh, where's my money?" and, "Oh, it's been hacked. It's been erased. We'll get back to you," which is going to happen, it's just a matter of time, things like gold, real estate, fine art, these are the things that you can't hack and erase, so I do think there's a place for those types of assets. This is real, by the way. I just want to make it clear. There's an article in Bloomberg magazine, July 2014 − you can look it up − where the FBI found a Russian attack virus in the NASDAQ operating system. This was not some criminal gang trying to steal your credit card numbers. This was put there by Russian intelligence and military. They found it, they disabled it, nice job. How many did they not find? How many are waiting out there? I've done a lot of development work for NASDAQ, by the way. Nice guys, but this is the ultimate legacy system. They just piled garbage software on top of garbage software for 30 years. It's one of the most vulnerable, easily hacked systems of its kind I've ever seen. Again, the threat is real, it's going on, the wars are going on and not making the headlines, but this is something that all investors have to bear in mind when you're doing all your other analysis that this is going on.

This is what I call a stylized typology. Don't rack your brains trying to follow all the lines. What we have here, these are large nodes and they're surrounded by these simpler nodes. There are 128 of them. I've got the United States and emerging markets, et cetera, just to illustrate the density function or the interconnectedness of financial markets. Now, just to kind of go back to the example I was giving earlier, the United States wanted to put sanctions on Russia, but a lot of Russia's financial business is actually conducted in Europe, so what we said to our European allies is, "Hey, we want you guys to join us in sanctions. The Russian companies that need to refinance in euros or dollars, but particularly euros, are banned from your capital markets," and that was done. So Gazprom, Rosneft, the large Russian corporations that have hundreds of billions of dollars of euro- and U.S. dollar-denominated debt, are today in the position where they cannot roll over that debt.

The Europeans agreed to that, so the U.S. gets Europe to put the sanctions on Russia, these guys can't refinance. Guess who owns the bonds? Guess who owns the Gazprom bonds? You do. Look in your 401(k)s. How many people bought a BRIC fund from Goldman Sachs or an Emerging Markets Fund from Morgan Stanley? Call your broker. Look at what's inside. You might be surprised to learn that there are Russian companies in there. I only make the point that when you start throwing financial weapons around and start throwing sanctions around, look out for collateral damage and make sure it's not coming back on you. In this case, if you have an Emerging Markets or BRIC fund, there's a good change that you've got some large Russian companies in there that are not going to be able to finance their debts thanks to financial warfare with the United States.

Let's break away from financial war and talk about currency wars. Currency wars are different. These are economic contests. The financial war is when you're out to destroy your enemies, currency wars are when you actually have to get an economic advantage, and we've seen them before. The simplest definition of a currency war, they happen when there's too much debt and not enough growth, because if you have growth, you can grow your way out of debt, you know, make some money and pay your debts. That's pretty straightforward. But what happens when there's an enormous overhang of debt, the growth is not fast enough? How do you get out from under it? By the way, this was the exact situation at the end of World War I when we had reparations on Germany. It's the situation today. It's not always the case but, when it is the case, countries are tempted to steal growth. There's not enough growth to go around, so they steal growth from their trading partners by cheapening their currency, and that does two things. It helps to promote exports, so you're Indonesia, you want to buy a jet aircraft, there are only two manufacturers in the world – there's Airbus in Europe and Boeing in the United States. Well, if you cheapen the dollar, maybe that Boeing aircraft looks a little cheaper, it looks like it's on sale, so you buy Boeing. If you have a cheap euro, the opposite is true: you might buy the one from Airbus. That's how you fight these currency wars.

We've seen them before, currency wars, but I'm not going to spend a lot of time on the history of this. I think you're all familiar with it, but this started and lasted 15 years. It started with the Weimar hyperinflation in 1921 and 1922, through the French devaluation in 1925, U.K. devaluation in 1931, the U.S. devalued the dollar in 1933, France and Britain, again, in 1936. This was the famous era of beggar-thy-neighbor devaluations, which ended in the collapse of the international monetary system in the beginning of World War II in 1939, and then didn't get really put back together again until Britain was in 1944. Currency War II, starting with the U.K. devaluation in 1967. The highlight reel includes President Nixon closing the gold window in 1971. A lot of people think we went off the gold standard in August 15, 1971. It's not exactly what happened. What happened was President Nixon shut the gold window. He said to our trading partners, "If you make dollars …" – prior to 1971, if you made dollars trading with the United States, you could take those dollars and trade them in and get gold, and they did. In 1950, the United States had 20,000 tons of gold. In 1970, we had 9,000 tons of gold. Where did the 11,000 tons go? It went to our trading partners: 3,000 to Germany, 2,000 to France, 2,000 to Italy, 600 to Belgium, and so on.

But, by 1971, there was a run on the bank. The gold coming out of Fort Knox being reallocated to our European allies turned into a flood. It was very clear that Fort Knox was going to be drained, just a matter of time, so the President shut the gold window. I spoke to Paul Volcker about this, and he advocated for it, but he said, "When we did this, we thought it was temporary." If you look at Nixon's speech, he used the word temporary. "We though it was temporary, and we thought we would just sit down, have another Bretton Woods type conference, come up with a different valuation for gold," which they did. They went from $35.00 an ounce to $42.00 an ounce, which is a 20 percent devaluation of the dollar, and then restart the system on the gold standard. It never happened, of course, and we sort of muddled through it until about 1975, and, finally, in 1975, the IMF said, "We're demonetizing gold, floating exchange rates, knock yourself out," so the gold standard did go away in 1975 but it was a muddled process between '71 and '75. But, again, you talk to people who were there, they say that they did think we were going to get back to a gold standard, but of course we never did. But it was replaced by something. It was replaced by the dollar standard.

From 1980 to 2010, the world was on a de facto dollar standard, and this was through Republican and Democratic administrations. James Baker, during the Reagan and Bush administrations, Bob Rubin during the Clinton administration, and Greenspan and Volcker and others said, "We're going to make the dollar a stable _____ value. You, our trading partners, can anchor to the dollar. No more gold standard, but we'll have a dollar standard," and that's what the world had with excellent growth and moderate inflation for about 30 years, from 1980 to 2010. In 2010, we tore up the deal. We began Currency War III. I only make the point that the world is not always in a currency war but, when we are, they can last a very long time. Go back and look at the history of Currency War I, Currency War II. These lasted 15, 20 years. This new currency war began in 2010. This is 2015. We're only five years into it. It's not going away soon. I expect it to go on for at least another ten years, unless the system collapses, which is possible. There are only two ways out of a currency war. One is systemic reform, where the countries get together in kind of a new Bretton Woods type deal. The other one is systemic collapse, where the system actually breaks down, and then you're forced to reform the system. It's just an uglier version of a systemic reform because you have the collapse first. One or the other, but, until then, this currency war is going to continue.

Here's a quick recap of where we've been. In 2009, you all remember the cheap yuan. Remember Secretary ***Geithner*** complaining ad nauseam, "Oh, the Chinese. They're currency manipulators. They're cheapening their currency. They're stealing our exports," et cetera. But, by 2011, it was the U.S. that had the cheap dollar. In 2011, the dollar hit an all-time low. The Fed has a broad trade-weighted index, and, on that index, the dollar hit an all-time low in August 2011. By the way, I'm sure a lot of you remember the date. That was when gold hit an all-time high, but that's no surprise. Gold is just another form of money, so think about it. When the dollar is at an all-time low, the dollar price of gold is going to be an all-time high. That's just two sides of the same coin. It's just a cross-rate, like the euro dollar or the yen dollar, this was the gold dollar exchange rate, so no surprise that those two things happened at the same time. That worked. We did get a little temporary growth. By the way, you can get temporary growth by cheapening your currency, you just don't get permanent growth, and you don't do anything for the world. It doesn't help world growth. It can help an individual trading area, but not the world as a whole.

By 2013, Japan was suffering, so the U.S. said, "Okay, it's your turn. You can have the cheap yen," and this was December 2012. They announced ***Abenomics***, the three arrows: fiscal reform – sorry, structural reform, fiscal stimulus, and cheap currency. They only did one, which was the cheap currency. They haven't done the structural reform or the fiscal reform. But Japan got the cheap yen and they got a lift, so who is suffering the whole time? China, weak yuan, weak dollar, weak yen, who's suffering the whole time? Europe. This was the age of the strong euro. When you back to 2012, our friends – Paul Krugman, ***Nouriel Roubini***, Joe Stiglitz – they're running around with their hair on fire saying, " Grexit, Greece is going to get kicked out, Spain has to quit the euro and go back to the peseta, cheapen your currency, lower your unit labor costs, Europe is falling apart, Northern Tier and Southern Tier." I said, "No." I said, "None of that is happening. Nobody is getting kicked out, nobody is quitting, they'll be adding members. The euro is strong and getting stronger," and that's exactly the way it played out.

When I said that the eurozone had 16 members, today it has 19 members, they're getting ready to admit their 20th. This is the Fourth Reich. Margaret Thatcher in 1992 was bitterly opposed to German reunification, and her analysis was simple. She said, "Every time the Germans get together, they take over Europe," which is true. That goes all the way back to Charlemagne. Well, they're doing it again, but they're not doing it with military weapons, they're doing it with financial weapons. They're doing it with the euro. This is the German takeover of Europe. It's kind of why the U.K. is thinking of Brexit. I said there wouldn't be a Grexit, and I was right, but there might be a Brexit. Keep an eye on that because they're like, "We're getting out of this German thing." But that strong euro gave Europe two recessions in five years. Finally, we said to Europe, "Okay, you can have the cheap euro," and the euro went from $1.30 to $1.05 over the course of 2014, and hit an interim low in January 2015 of $1.05. They did that with negative interest rates in July 2014 and European quantitative easing in January 2015.

Now, the way I analogize this, the way to think about it, let's say you've got five soldiers and they're fighting. They're fighting all day and it's 100 degrees and everyone is dying of thirst, and you have one canteen. What do you do? You pass the canteen. Everybody would like to drink the whole canteen, but you're in it together, so you take a sip, you hand it to the next guy, he takes a sip, and so on. Everybody takes a sip. That's the way to understand the currency wars. We're passing the canteen from China to the United States to Japan to Europe hoping everybody can get a sip and their economies will grow a little bit, but there's a big problem. The Fed committed a world historic blunder. I think we'll look back in the future to what happened in 2012-2013 and that will be compared to the Fed blunders in 1927-1928 that led to the stock market crash and the Great Depression, which is the following.

The assumption was that the United States was strong enough to bear a strong dollar. They were like, "Okay, we're good. We had our cheap dollar. We're growing. You guys can have the cheap euro and the cheap yen, because the U.S. economy is robust enough to deal with a stronger dollar." That was based on the Fed forecast. The Fed has the worst forecasting record of anyone. Don't ever thing the Fed knows what they're doing. They don't. I've spoken to members of the board of governors, regional reserve bank presidents, the head of Monetary Economics, past and present. Privately, they will tell you, they've said to me, "We don't know what we're doing." It's an experiment. "We try something. Seriously, if it works, we'll do a little more. If it doesn't work, we'll do something else." They've had 15 policies in 6 years. I mean take QE1, QE2, QE3, which had two parts, nominal GDP targeting, currency wars, forward guidance, which came in nine different flavors. Remember Operation Twist? I mean go back and look at the list. Fifteen policies in six years should tell you that they don't know what they're doing, which they don't. They also don't know how to model the economy.

Every year, the Fed has a one-year forward forecast. They go, "Okay, here's what we think is going to happen." In 2009, they forecast 2010. In 2010, they forecast 2011. Go back and take a look. They were wrong six years in a row by orders of magnitude. Not like, "We said 3.1 percent growth and it came in 3.0." I would say, "Nice job, guys. That's pretty good." No, they said like 3.5 percent growth and it was 1.9, and then they said 2.9 and it was 1.7. I mean we've had 2.2 percent growth over the last six years, averaging the six years, and we saw yesterday GDP for the third quarter came in. It came in at 1.5 percent, way below the Fed's 2.5 percent forecast down from their earlier forecast of 3.5. They don't know that they're doing, they can't forecast, so they said, "The economy is getting stronger. You guys can have the weak euro because we can bear a strong dollar." Nuh-uh. Now the U.S. is going into recession, the world is going into recession. That's what I expect in 2016. The U.S. is getting closer to the point where we're going to have to take the canteen back. We're going to have to go back to the cheap dollar, so look for a stronger dollar, a weaker euro next year, or sorry, a weaker dollar, stronger euro. I apologize. Look for a weaker dollar next year.

The other thing going on I think a lot of you are familiar with is that China, the IMF is getting ready to include the Chinese yuan in a special drawing right. When I say special drawing right, people are like, "What the heck is that?" SDR for short. It's kind of out there. The easiest way to understand it, and it's really easy, like don't get bogged down in all the detail, the special drawing right is world money. It's world money printed by the Central Bank of the world, which is the International Monetary Fund. Why don't they just call it world money? Well, why don't they call the Federal Reserve the Central Bank of the United States? The reason for that is Americans hate Central Banks, so they say, "If we're going to have one, call it something else so Americans won't know what it is." That's worked pretty well. The special drawing right, if you called it world money, it sounds a little scary, so let's call it something that sounds like it came out of a Ph.D. thesis, which they did. People don't understand it. It's world money, it's printed by the IMF, it's handed out to the members. You can't use it at the bar tonight. We don't have it as walking-around money, but it is handed out to the members.

It's not backed by anything. People will tell you, "Oh, it's backed by a basket of four currencies." Nuh-uh. Those four currencies are there to calculate the value. It's an eighth grade math problem so you can figure out, "Well, it's an SDR. Is it worth $1.40 or $1.50?" Today it's worth about $1.40. That's why they have those four currencies, so you can do the math, but it's not actually backed by anything. This is _____ money printed by the Central Bank of the world, handed out to the members. The next time there's a financial collapse, the Central Banks are tapped out. The Fed took their balance sheet from $800 billion to $4 trillion. You all know that. The People's Bank of China actually printed more money than the Fed, the Bank of Japan, the Bank of England, European Central Bank. They're all in the same boat. One is as bad as the other, and so the problem is that the next time there's a crisis, a liquidity crisis, and everybody wants their money back, which is a good definition of a liquidity crisis, the Central Banks aren't going to be able to print it. The IMF is going to print it, flood the zone with trillions of SDRs, that will be highly inflationary, and that's kind of one way out of the global catastrophe, but they want to include China in that bucket. It's a big deal for the Chinese. It's going to happen. They'll announce it next March. It's going to be effective September 30th, so this is the endgame. This is the way out of all the problems with money-printing, too much deflation, et cetera.

I'm about out of time. I have two hours of material left, which I can't do, but we'll do some of it this afternoon in the workshop. I just want to jump ahead and spend a minute on this slide. This is Yellen policy − by the way, I said in November 2014, a year ago, categorically, that the Fed would not raise interest rates in 2015, and we've got the videotapes there, we've got the interviews and all that to back that up. They have eight meetings a year, seven meetings are done and they haven't raised rates, so I feel like I'm first and goal on the two-yard line, so that forecast is holding up pretty well, but here's the problem. Yellen wants inflation. That's not a secret. The Fed says it ad nauseam, "We want two percent inflation." Okay, "We want two percent inflation." They want to raise rates. Not a secret. How many times have they said that? You're sick of hearing it. But, if you raise rates, the dollar gets stronger and that's deflationary, so how does that work?

You want inflation, you want to raise interest rates, but raising interest rates is deflationary. How does that work? The answer is it doesn't work. You can't raise rates. That's the problem, because they'll sink the U.S. economy, they'll sink the emerging markets. I'm saying they can't raise rates as far as the eye can see. Talk to me a year from now; I'll change my forecast if we get some new data. Based on everything I see now, they absolutely cannot do it. If I'm wrong and they do, look out, because there will be no bottom to the emerging markets collapse, there will be global contagion, going back to that network slide I showed earlier. What goes on in China does not stay in China these days. It comes back to the United States, so my forecast is they won't raise rates. I actually think the Fed's next move will be towards easing. I look for them to ease through reintroduction of forward guidance in March 2016.

I've got to jump ahead. I'm just going to finish with the collapse of the international monetary system. By the way, it sounds scary but it happens. It happened three times in the past 100 years; it will happen again. It's not the end of the world. We don't all go live in caves and eat baked beans and count our ammunition. We'll all go to work the next day. But what it does mean is that the major financial and trading powers will sit down around the table and they will re-cut the deal, they will re-form the international monetary system, as they did in Genoa in 1922, Bretton Woods in 1944, and Washington, D.C. in 1971. They'll do it again, so what investors need to know is, "Okay, what does the new system look like?" You've got SDRs, we already talked about that, highly inflationary. It's easy. Get some gold, real estate, silver, land, fine art, real assets.

The other one is the new gold standard. Gold standard is some relationship between gold and paper money. There are a lot of ways to do it. This is who has the gold. One of the reasons I've been bullish on the – sorry. Where's my pointer? Okay. Oh, sorry, here it is. Notice that the people with the most gold in the world are Europeans. The U.S. has 8,000 tons but Europe has 10,000 tons. If you combine the 19 members of the European monetary zone, they have 10,000 tons more than the United States. The IMF hates gold. Why are they sitting on 3,000 tons? But they do. Here's our French, China, Swiss, Russia, et cetera. This is everybody else. There are no big holders in here. But, basically, China actually is up here, I'm not showing it, but they're about 4,000 tons, so China, the IMF, Europe, and the United States, in the endgame, these are the only powers that really matter.

If you go back to a gold standard, I'm not saying the world will have a gold standard, I'm not saying that, because they want to do the SDR thing, but the problem with SDRs is it's just another form of fiat money. If it works, it will only be because nobody understands it. But, if you actually look through it, you say, "Hey, you guys printed all this money. You ruined the system, and now you're printing more money. How does that work?" It might not. There's no Central Bank in the world that wants a gold standard, not one, but they may have to go to a gold standard to restore confidence if things get bad enough. If you do that, you have to ask yourself a question: "What is the non-deflationary price of gold?" because you all know the rap is, "There's not enough gold in the world to have a gold standard because there's not enough to finance world trade and finance and all that." Well, there's not enough at $1,200.00 an ounce, but there's plenty of gold at $10,000.00 an ounce. In other words, it's not about the quantity, it's about the price. You can support any amount of credit, finance, and world trade if you get the price right, and the math is not that difficult.

But GM1 down there, global money supply, and when I say global I mean USCCB and China, global money supply with 40 percent backing. That's not 100 percent backing. It's 40 percent backing. That comes to about $7,000.00 an ounce. This one here, this is Global M2 with 100 percent backing. It's $44,000.00 an ounce. Now, I'm not predicting $44,000.00 gold, don't say, "Jim Rickards says gold is going to $44,000.00." I'm just showing you this is eighth grade math. This is not secret stuff. If you want 100 percent backing, which the Austrians do, you've got to put gold at $44,000.00 an ounce. If you're happy with 40 percent backing with M1, $7,000.00 an ounce is fine. Not made-up numbers. It's very simple math. The point is if you don't hit these numbers, it's deflationary, because if you want to pay at a lower price, you have to reduce the money supply, which is deflationary, so if you want the implied non-deflationary price of gold in a gold standard, these are the numbers you get to. It's one of the reasons I like gold.

I'm going to skip over this. I do expect the system to collapse, and I think this will be an impetus for ***neo-fascism***, so watch that space. A shameless plug for my books, if you're interested – everything I've said here, by the way, including the things I didn't say because I ran out of time is in my books, *Currency Wars* and *The Death of Money*. I have a new book coming out in April. It's available pre-sale on Amazon right now. It's called *The New Case for Gold*, emphasizing the word new. This is a gold-oriented audience. You know the arguments for and against gold, you've heard them ad nauseam, but there's a new 21st century case for gold. There are new reasons to have gold over and above the ones we've been talking about for the last 50 years, including digital threats and financial warfare. That's not something we talked about 20 years ago or 40 years ago, because it didn't exist. But, in a world where your assets can be wiped out with a few keystrokes, I think that's the 21st century reason to have gold over and above all the other reasons. I do have a few newsletters which are introduced or mentioned, and *Strategic Intelligence* is our monthly newsletter, and I thank you very much.

Rick Rule
"Where Do We Go From Here: Investment And Speculation In A Bear Market"

Moderator: Now let us promptly move on to our first speaker, Rick Rule. And Rick is back at the podium as he is many times throughout the conference, and this time he's coming before you to discuss the topic where do we go from here, investment and speculation in a bear market. Now, everyone knows Rick Rule and I realized, though, that everyone knows him so well that his official biography never really gets read into the record, so to speak. So this morning I thought I'd do just that. Rick Rule has devoted over 35 years to natural resource investing. His involvement in the sector is as broad as it is long. His background includes mineral exploration, oil and gas exploration and production, water, agriculture and hydroelectric and geothermal energy. Mr. Rule is a sought-after speaker at industry conferences and a frequent contributor to numerous media outlets, including CNBC, Fox Business News, BNN and so forth. He founded Global Resource Investments in 1993 and is now a director of Sprott Incorporated, a Toronto-based global resource investments firm. He is now a director of Sprott Incorporated. It has seven billion in assets under management, and he is the CEO and president of Sprott Holdings Incorporated, where he leads a team of skilled earth science and finance professionals who enjoy a worldwide reputation for resource investing. So let's bring Rick to the podium, perhaps the single most familiar face at these investments conferences for many years. Rick.

Rick Rule: Thanks for that kind introduction, Bob. I'd like to begin as I always do here in the New Orleans conference by remembering the late, great Jim Blanchard, the founder of this conference and a great personal mentor of mine. Many of you knew him and I think it's important the – to honor his legacy. I'd also like to make special mention and honor the late Irwin Schiff, a great American patriot, who died as a guest of the state recently. My condolences to his family and Peter Schiff, Irwin was a great man, I met him here in the New Orleans conference and any proud American will honor the memory of Irwin Schiff who died fighting the state. Finally, I'd like to thank Brien Lundin and his staff for continuing the legacy of Jim Blanchard with this fine conference. Putting on a big, big conference like this is analogous to herding cats, but a special breed of wild cat, that is you all. And I'd like you to join a round of applause for Brien Lundin and the staff of this conference.

Finally, of course, I'd like to thank and welcome 80-some-odd of you who we know about are Sprott Global clients and are down here at the New Orleans conference. We've been proud to sponsor this conference for almost 30 years. We're delighted to have you here, and a special welcome, also, to our guests from the Weiss natural resources course, who are also attending here.

I've got a lot of material to cover and not too much time to cover it, and I have to cover it in a way that's palatable to you at 8:30 in the morning after some of you had some fun last night. So we all have some challenges in front of us, some crosses to bear. Let's get to it.

I'm going to start with an economic overview. If you know something about the way somebody believes, then you'll understand what they're trying to tell you in context. And we see five principal facets surrounding a natural resources bear market and a natural resource equity bear market. They are as follows. A lack of global demand for anything. The strongest economy that we see in the world is the United States and we see the United States as being weak, which will tell you about other places. In terms of that weakness, we think it is a consequence of quantitative easing. We think that quantitative easing and easing money has weakened the world economy, not strengthened the world economy. And we think it's weakened the world economy because we think that quantitative easing has forward shifted demand.

The round of quantitative easing that covered – that accompanied the emerging markets contagion in 1998 stole demand from 2000 and 2001. The quantitative easing in 2000 that accompanied the tech wreck stole demand. Forward shifted demand from 2003, 2004 and so on and so on and so on. The big thinkers in the world, the central bankers of the world, the Fed are noticing themselves that it takes increasing amounts of quantitative easing to generate reducing amounts of near-term economic stimulus.

This is simply a case of the fact that we have forward shifted demand and forward shifted demand and forward shifted demand to the point in time I believe where we need a reckoning or a reset. I'm not talking about an Armageddon-style reset, I'm talking about what we're going through right now.

A situation where, in effect, we have a hangover following a strong binge. So we see a lack of global demand and we see the lack of global demand continuing until it has been resolved, and unfortunately with the manipulation we see, and by manipulation, I don't mean some shadowy forces, I mean the morons who run these countries, we think the resolution could take a year and a half, two years, three years.

Manipulated interest rates we also see as problematic. We see it problematic because it props up certain sectors of the economy while it hurts other sectors of the economy. We also believe that a situation that deliberately punishes savers by lowering interest rates and rewards spenders is absolutely, completely back-asswards. The idea that the most productive members of society should have their produced redistributed to the least productive members of society seems very odd, a strange way to run an economy.

There is an artificially low cost of capital, which is good, if you will, if you're a consumer of capital, until that changes. But the very low interest rates have done a wonderful job simultaneously propping up growth for companies that can afford or have the capacity to borrow, and at the same time pumped up the prices of equities, which pay a distribution, because people are tired of very low interest rates.

There is also, despite the low debt service cost, we believe excessive debt, particularly in the public sector. When we look at debt levels in aggregations like the S&P 500, what we see is very well managed balance sheets. In other words, the private sector seems to have, with some exceptions, learned the lessons of 2008 very well.

I remember speaking at this conference in 2006 and talking about how the S&P 500 had layers of debt hidden in foreign subsidiaries that you didn't see. That's all gone. Now there's cash hidden in forward – in foreign subsidiaries. So the balance sheets of the S&P 500, the private sector balance sheets we see as extremely strong.

But the government balance sheets, federal, state and local, irrespective of the country worldwide, have levels of debt that are, I believe, concerning, and particularly concerning if we were to have an interest rate increase. And finally, we see the dollar as the global hegemon. It's odd that a currency that represents a country that has the structural difficulties that the United States has would be the strongest currency in the world. But that not withstanding, it is the strongest currency in the world.

As my friend Doug Casey famously says, talking about the currencies, the dollar represents an I owe you nothing. The euro represents a who owes you nothing *[laughter]* and the situation with regards to the dollar from our own point of view represents something analogous to the prettiest mare at the slaughterhouse. But we do continue to believe in US dollar strength.

Sidebar, those of you who follow the economy in the context of gold will probably have noted that gold has been in a bull market for 17 months in every currency in the world with the exception of the US dollar and currencies that are tied to the US dollar. To the extent that the US dollar loses hegemonistic strength, I think the gold price will do very well, but I'll cover that more later in this talk.

I think the phrase I just gave you is self evident, and by the way, we believe that's occurring. Those of you who will remember the year 2002, the kickoff of the last gold bull market, will remember that for the 18 months before the kickoff in the gold price, that gold had done well in every currency in the world except for the US dollar, too. And when the US dollar leveled off, the gold price began to do very well, which is, in one sense, something that we've been seeing for the last two and a half months, since Ms. Yellen and her cohorts failed to raise the interest rate.

Now, you will understand, I think, that the bear market that I'm referring to in my speech title is a natural resources bear market. I'm not qualified to, nor will I pretend to, describe the entire length and breadth of the world economy. I focus on the natural resource businesses. So the comments that I've made and intend to make are really associated with the resource bull market.

How many people in the crowd are resource investors, gold investors, oil investors? Okay, I got it. *[Laughter]* It's where I like to be, I'm not expanding the congregation, I'm passing the collection plate through the choir. Those of you who have been in the natural resources market for 20 years or those of you who have suffered through my New Orleans speeches for 20 years will know that the nature of resource businesses is that is extraordinarily cyclical.

And many of you will have heard my phrase in the past that bull markets are the authors of bear markets and bear markets are the authors of bull markets. I don't need to tell you that we are in the grips of a bear market that is of fairly historic proportion, which is the natural result of the bull market that we enjoyed through the last decade, which was also a bull market of historic proportions.

I point this out because it has been my experience that in some way, shape or form the bear markets and the bull markets resemble each other, and if that past experience is true, by the way I'm too old and wise to guarantee that it's true, if that past experience is true, the bull market recovery from this bear market contraction should be of equally historic proportion, and we'll talk something about that.

There are two ways, and this is important for you to note, there are two ways that you resolve a bear market, a commodities bear market and a commodities equities bear market. One is demand creation and the other is supply destruction, and we're going to talk about both of them. Classical economists will tell you that a precipitous decline in price of an item does two things, it reduces supply and it increases demand, and one way that you resolve a natural resources bear market is simply because the prices of the commodity become so low that the utility of the commodity to fabricators and consumers becomes very high, and you generate demand for the commodity organically, really as a consequence of its utility to society.

The other way that you can have demand creation is a broad-spread economic recovery. I'm not an economist, it's important to note that, I'm a credit analyst at best, a speculator probably, and I'm not here to tell you that the fact that I don't see any demand appearing anywhere in the world is particularly relevant.

Maybe some of you who have global businesses are seeing a recovery of demand in certain markets. But I don't see it. What I do see is the beginnings of a situation where there is some demand creation as a simple function of price, and I would point to the US and Canadian natural gas markets, where very low natural gas prices, and of course political favoritism, is beginning to increase demand for North American natural gas, for chemical fabrication and for power generation in particular. So in that sense, the markets are working in terms of demand creation.

The other way that you resolve a bear market is through supply destruction, and supply destruction is much more pernicious and much more painful. And I think supply destruction personally is what's going to resolve this bear market. Supply destruction happens when the price of a commodity is, for a substantial period of time, below the cost to produce it. And we have a situation right now in many, many materials where the price of the material is below the cost to produce it.

Now, the immediate response from industry to this situation is, in fact, to continue producing. We call this the last-man-standing contest. The economic rationale is that you have productive capacity in place when demand recovers and you can profit yourself at the expense of your peers. In truth, I think many of the reasons that companies participate in last-man-standing contest, which are really producing commodities below cost, is an effort to produce – to, pardon me, conserve on – or not conserve, to keep paying the salaries of the officers and directors of the companies.

But that notwithstanding, what you have now across the length and breadth of the commodities market is really a situation where these companies are in cannibalization or liquidation. And this can go on for a surprisingly long time, because these companies were so overcapitalized during the last bear market. But let's look across the supply spectrum in commodities. Certainly in the coal business, worldwide, about 80 percent of current production is uneconomic at current prices and costs.

It's been able to continue because the coal business was substantially overcapitalized and because interest rates are artificially low. In the oil business at Sprott, we believe that the median cost to produce a barrel of oil, fully loaded including cost of capital, is $65. So the industry is spending $65 to produce something that sells for $45, losing $20 a barrel in real terms and of course trying to make up the difference by volume, a very difficult task indeed.

Canadian natural gas, three dollars a thousand to sell this stuff. About four dollars a thousand fully loaded recycle. Losing a dollar a thousand and trying to make it up on volume. In the copper business, we believe, and copper is a really special case because there's so much sunk capital in place, but we believe the copper price necessary to maintain current supplies over the next decade is somewhere around $3.50 a pound and the industry is selling it for $2.25 a pound.

Understand when I talk about costs, I'm not talking about mine cash costs. I'm talking about total cost of production, including the cost of capital. Many of you are being confused by statements from brokerage firms talking about all-in sustaining costs, particularly with regards to gold. And while that's a better number than cash costs, it is, in fact, a false number, too. And here's why.

All-in sustaining cost doesn't include the cost of prior investments that have been written off. And the mining industry has written off something like $100 billion in acquisition and exploration costs in the last 10 years, and the amortization of the costs that were written off, which is a different way of saying the amortization of management mistakes, is not figured in all-in sustaining capital costs, nor is the cost of capital.

So the truth is that we are headed into a period that – a bear market period or we're in a bear market period that will resolve itself, but it will resolve itself very, very messily. Those of you who were active in natural resource in the period 1997 to 2002 will remember what supply destruction looks like. You will remember that it's extraordinarily messy and extraordinarily painful. And you will also remember that a recovery from supply destruction is very, very dramatic.

The reason is that when the market for commodities picks up, you can't just flip a switch. The process by which you add supply to a market is capital intensive and takes a long, long, long time. The consequence of that is, of course, a natural resources bull market. Remember the uranium market, it fell from $38 to $8 and from $8 it ran to $130. Remember the oil market, from $35 to $10 to $125. Remember the copper market, $1.50 to 62 cents to $4.50. When will this blessed event occur? I don't know. Will it occur? Of course. Past is always prologue in a situation like natural resources, a capital intensive, volatile business.

Now, as to this recovery, what kind of recovery, and most importantly, when. And sadly, to that most important question, the answer, at least from the podium, is I don't know. But I have some ideas. I believe that precious metals, in particular gold, will recover first, recover simply because I believe that the level of hegemony enjoyed by the US dollar will decline. I'm not one of these who believes that the US dollar will sort of burn up and go to zero.

What I believe is that the US dollar will be less rather than more dominant. I don't think that gold will win the war against the US dollar, I think that gold will lose the war less badly, just as it did in 2002. In fact, I believe that what we've seen in the last sort of two months, two and a half months is a precursor of that sort of event. I'm not saying, by the way, that this rally that we have enjoyed is the beginning of a gold bull market. I would be perfectly comfortable if somebody told me that this was a bear market trap, and I would be perfectly comfortable to see the gold price decline $150 in the near term.

But my own belief is that in terms of the war between gold and the US dollar, that gold will do less poorly and as a consequence perform in US dollar terms. What that means is that in terms of positioning yourself for a recovery in natural resources, you start with the precious metals, where, from my point of view, the outlook is much better than it is in the near term for the industrial materials, the energies, the base metals and things like that.

So with that rather lengthy prologue, I'm going to delve into portfolio construction. Those of you who have attended the New Orleans conference for years know I almost never talk about specific investments from the podium. The reason that I don't do that is in markets where you all are more aggressive, that is in bull markets, where your expectation is success, mentioning individual investments from the podium can be very dangerous.

There's something called conference syndrome, where 400 or 500 fairly wealthy people take the advice from the podium and they implement it on the spot and drive stocks to stupid levels. As you can see looking around the crowd, I don't have to worry about 400 or 500 people anymore, and my suspicion after a 4-year bear market is that when you hear me say something, you nod and say, oh, that's interesting, and then you have a – go have a cup of coffee rather than implementing it.

So in a bear market, I have the luxury of being able to talk about specific strategies from the podium without any fear of conference syndrome. I will worry – pardon me, warn you about conference syndrome. Please understand that all of you competing against each other in the near term can have an artificial impact on share prices, and in fact, the right thing to do after a conference like this, where so many good speakers are talking about so many intriguing investments, the right thing to do for a little while is nothing, while you consider the advice in your own context, and of course, check to make sure it's true.

So let's begin to talk about the construction of a portfolio for recovery in resource markets. Begin with cash. I've been stressing this to clients and friends of mine for many, many, many years. Cash is an important tool and it's not a default. It is actually a tool in a portfolio. I understand that getting 25 basis points on money means, in fact, that every year that you have cash, your purchasing power goes down. That notwithstanding, cash gives you the means and cash gives you the courage to take advantage of volatility in markets and take advantage of psychological breaks, aberrant psychological breaks like 2008 that will occur.

I came through 2008 in remarkably good order, because for the first time in my life, I had very, very large cash balances coming into something like that. And having at once the tool, which the cash is, but also the courage, which the cash gives, is an important part of a strategy. And by all means, own precious metals. You all know the reasons why you should own precious metals, but the truth is if you believe the gold price is going to go up, the first thing you do is own some gold.

It's important to do it both in the context of a recovery in base metals, but also it's important to do in the construct of putting together a portfolio. To the extent that I'm wrong about the US dollar and the US dollar does experience a real decline or other Fiat currencies experience a real decline, the reasons why one would own gold become much more manifest. You all know them, I don't need to repeat them to you. It's just that the narrative around gold is absolutely as true at $1,100 as it was at $1,900. At $1,900, we all wanted to own it. At $1,100, we're all disgusted by it, which is an odd paradox.

If the reasons to own it are just as true at 1,100 as 1,900, it's certainly cheaper insurance at 11 than it was at 19, so own gold. Either own it physically or own it in certificated fashion. Small commercial announcement, the best certificated fashion that I personally know is the Sprott physical gold trust, the silver trust and the platinum and palladium trust. For many of you, particularly if you're US taxpayers, superior in many senses to physical gold. Superior first in that the transaction costs are commission costs on the New York Stock Exchange, frequently 25 to 50 basis points. Well, as you know, the transaction costs for physical gold are much higher.

Superior in another fashion, too, because through an odd quirk in US tax law, to the extent that you own certificated products and they go up in price, you're taxed at the capital gains rate. While if you own physical gold, which assumes that you're a filer with regards to your physical gold, I'll leave that one aside, with regards to the physical gold, you get taxed at the collectibles or income tax rate, while on the certificated product, you get taxed at the capital gains rate.

Paying them less is always a good thing, morally and in terms of your own portfolio performance. With regards to the gold equities, which I think comes next in context of the recovery, there's a couple ways to play it, but I'd like to say invest before you speculate. The best companies in the industry are cheap enough that you don't need to take all of the risk associated with the juniors unless you want to. I, of course, want to, and we'll talk about that later.

But buy the best and forget the rest for the time being. Two ways that you can do this, you can buy the ETF if you don't want to do the work, in terms of analyzing individual equities. Again, I would suggest the Sprott product, which I had a lot to do with the architecture of. That's the Sprott gold miners' trust, or SGDM. Different from the XAU, in that it's not market cap based. We don't just buy the biggest. But it's, in fact, factors based, we look for things like revenue growth, we look for enterprise value rather than EBITDA. In other words, we try and buy gold mining companies that are companies that perform well rather than companies that have merely grown.

If you want to buy the individual equities, you will note that in a factors-based ETF, the largest positions are Franklin, Nevada, Royal Gold, Silver Wheaton, Rand Gold and Gold Corp. And an argument can be made that if you bought a basket of those stocks, in any proportion that attracted you and held that basket for a while, that you would get almost all of the beta that you would with a packaged product without paying any of the fees associated with it.

Moving on, in terms of resource recovery, core materials. Let me tell you that I think you're early. Let me tell you that my own belief is that the industry materials bear market will only resolve itself over 18 to 24 months. That being said, the equities, the large equities in the core materials sector are cheap enough that if you're prepared to own them for a decade, as I am, this is probably a reasonable entry point.

You will probably come back to the New Orleans conference if you buy the core materials equities at this point in time and despise me for the next speech, but ten years from now, you'll be happy. If you decide to go in early, the easiest way to do it is a closed-end fund on the New York Stock Exchange. The Adams Natural Resources Fund, formerly Petroleum and Resources. The symbol is PEO.

It's not a particularly well run fund, which is an odd way to endorse it to you. But it sells at a 15 percent discount to net asset value, and buying the largest natural resources producers in the world, a portfolio of the largest natural resources producers in the world at a 15 percent discount to net asset value tells you something about how stupidly oversold the natural resource business is worldwide.

And also in my declining years, as I age, there's a lot to be said for ease. And rather than constructing a portfolio of 9 to 10 stocks yourself, buying PEO at a 15 percent discount to net asset value, enjoying the dividend yield and relaxing for 10 years is an interesting portfolio construction technique.

Last year I said consider pipeline and infrastructure stocks. What I said is that they had attributes that really attracted them to me, free cash flow generation among others, but that there were too expensive. In fact, I suggested last year that they were about 15 percent to expensive. Well, guess what? The market took care of that. They're not 15 percent too expensive anymore. They're not cheap, either, but they're attractively priced.

Look at the whole pipeline and infrastructure section right now. Look at it because, A, the current yields it delivers are very good, but, B, because for once in a decade, we're in a position where the major oil and gas companies and the smaller oil and gas companies need capital, and they often get the capital by selling off their pipeline processing and midstream assets to the companies in this business. Which means for once in a decade, these companies can actually grow in addition to adding yield to you.

There are two ways to do this, the Alerian pipeline and infrastructure ETF on the New York Stock Exchange. I'm afraid I couldn't remember the symbol for that. Or you can attend my speaker table session today at 10:05 at table 1, where I'll be talking about individual pipeline and income stocks. That's speaker table session today at 10:05. I'm at table one.

And finally, speculation. Those of you who have been coming to the New Orleans Investment Conference for 30 years know that my favorite sector of the natural resource business is in fact the small cap, the exploration stocks, the penny dreadfuls, the speculations. And these have had a truly spectacular bear market. Their markets in this sector seem to occur once a decade, where there's a 50 percent downdraft.

Well, we've had an 87 percent downdraft in nominal terms and a 90 percent downdraft in real terms. And that's interesting because you'll remember the narrative in 2010 when these stocks were at its peak. The narrative is the same today as the narrative was then. True both times, by the way. Now that they're out of favor, however, you can buy them literally for ten percent of the price that you could at the peak. And the truth is if this market doubles, which I think it will, it will still have a long, long way to go.

Now, again, two ways to do this. Sprott has constructed a factors-based ETF for the juniors. Trades on the New York Stock Exchange. The closed-in symbol is SGDJ. If you want to play the whole sector without exposing yourself to the work or the terror of individual stock selection, buying the SGDJ, hanging onto it the way a rodeo rider hangs onto a bull and enjoying, if you will, the process for five years is the no-effort way to go.

For those of you, however, who want to play the game more aggressively, which is, I suspect, every single one of you, since you've taken the time to come down to New Orleans, come to my workshop Thursday, 4:30 at Bellchase. The title of that workshop is In Search of Ten Baggers, and I think everybody understands the reference, in search of ten baggers.

We're heading into a period, we may be early, or it may already have started, where the allocation of capital for speculative purposes is as attractive a proposition as it has ever been. The companies are in need of cash, the companies have been amazingly resilient in terms of not accepting cash on reasonable terms, but the truth is with these companies so grossly undercapitalized now, we can go longer without writing checks that they can go without cashing checks, and the truth is that we will come into a period where companies will do private placements with warrants on terms that we haven't seen since 2000 or 2001.

I know there are some of you in the audience who participated with these markets in the 1990 to 2002 timeframe, and it was certainly the most pleasant financial experience of my own life, and I'm also certain it will repeat.

Ladies and gentlemen, I'm flattered that you came to see me at 8:30 in the morning, given all the competing attractions last night, which could've kept you in bed this morning. I hope that what I've had to say is of some use to you. I look forward to seeing you at other presentations here, including the round table and, of course, the ten baggers workshop. Once again, special welcome to the Weiss course attendees and also the global clients. Thank you very much, bye.

Peter Schiff

"The Age Of Permanent Stimulus - How The Fed's Monetary Crutch Crippled The Economy"

Moderator: Our first speaker is going to be Peter Schiff, and it's quite an exciting time in global markets. The Fed is coming up to the seventh anniversary of its zero interest rate policy, instituted December 16, 2008, and their next FOMC meeting is going to be on the seventh anniversary. Can you imagine, zero interest for seven years in a row, unprecedented. Europe offering negative interest rates, currently minus three percent in Germany. So if you deposit €100 you're going to get 99.7 guaranteed a year later. This is an unprecedented time. And among analysts, Peter Schiff has been the leader in predicting this kind of madness.

His title is the age of permanent stimulus, and it certainly has seemed that way. Peter Schiff, you're probably familiar with him, even if you haven't come to a previous investment seminar in New Orleans because he is on CNBC and other media outlets constantly. You see him debating some of those who favor the current Fed policy or favor the age of permanent stimulus. He's the CEO and chief global strategist of Euro Pacific Capital, an SEC-registered investment advisor and a full-service broker-dealer. He's one of the few widely known economists and investment professionals to have spoken about the financial crisis before it began. You remember the 2008 crisis, the one that Bernanke and the establishment all said nobody saw coming. Well, he is one of the few people who did see it coming. And as a result of his frequent media appearances and written commentaries on the economy, the stock market, real estate, commodities, gold, currencies and politics, he's become one of the most recognizable figures in the financial world.

He's a widely followed opponent of debt-fuelled growth policies and known for his advocacy of emerging market and commodity-focused investments in countries with positive fiscal characteristics. Mr. Schiff has been quoted hundreds of times in leading news outlets around the world, including *The Wall Street Journal, Barron's, Die Zeit, Tokyo Shimbun, South China Morning Post, Investor's Business Daily* and I could name a dozen more. He regularly appears on CNBC, CNN, Fox News, Fox Business. His bestselling book, *Crash Proof, How To Profit From The Coming Economic Collapse*, was published by Wiley and Sons in 2007, before the crisis. His most recent book, *The Real Crash, America's Coming Bankruptcy,* was published by Saint Martin's Press in 2014. He's also owner of Schiff Gold, a company specializing in the sale of gold and silver bullion. He unsuccessfully sought the Republican nomination for Senate in 2010 in his home state of Connecticut.

He currently resides there with his wife and two sons. And I do want to make a personal addition, last night Brien Lundin mentioned the two passing giants that have been speakers here over the year, Gene Arensberg and Joe Gandolfo. But I also want to mention that a previous speaker here in the mid-'80s was Irwin Schiff, tax protest pioneer and Peter's father. And I'm sure he'll say a kind word and bring you up to date about his father's legacy when he speaks here today. So speaking on the age of permanent stimulus, how the Fed's monetary crutch crippled the economy, please welcome Peter Schiff.

Peter Schiff: Thanks Gary. Maybe we should probably update my bio, because you mentioned that I'm a frequent guest on CNBC and CNN, I mean, I'm rarely on these days. They stopped inviting me. On CNBC, though, I do do CNBC Asia, I do CNBC Europe, but I haven't been on in American CNBC in months, I can't even remember the last time I was on. And I used to be on all the time. And I think it's part of the media's effort to really cover up the truth, because they keep bringing on guests that have gotten one thing wrong after another, and you would've thought, I was on all the time, predicting the 2008 financial crisis. I think they only had me on because they could just make fun of me. Because after all, the things that I was saying were so ridiculous and of course, they already came true. But I think they're a little bit worried about having me on now because they want to keep everybody on board with this false narrative, which really brings me to the topic today, and that's interest rates and the Federal Reserve.

And the Federal Reserve yesterday concluded its meeting, it has a two-day meeting every six weeks or so, and they get together theoretically to decide whether or not they're going to raise interest rates. Interest rates are now at zero and they've been there for about seven years. And the last time the Fed actually raised interest rates was ten years ago. It's been a decade since the Fed raised interest rates.

And when we all met at this conference last year, I gave a talk and at that time, everybody believed the Fed was about to raise rates earlier this year. Probably most people thought, at least most experts and most of the people that you would see on CNBC, were saying the Fed was going to raise rates in March. That was the odds on favorite. And the people who didn't think they would raise rates in March thought they would raise them in June.

What was I saying back then? I was saying that no, they're not going to raise rates in March, they're not going to raise rates in June. They can't raise rates. But the last thing that they're going to do is admit that. The Fed has to pretend that they're about to raise rates, but not do it. And why do they have to do that? Because they can't admit that the recovery is, in fact, a bubble.

Everybody wants to believe that the Fed's medicine worked, that the patient has been healed. And the proof that it worked is that they can raise rates, because they lowered rates to zero as a temporary measure to fix the economy. And now that the economy is fixed, we can take away that emergency measure. We can take off the training wheels, the bike can move on its own.

But they can't actually do that, because what we have is a bubble, and if the Fed raises interest rates, even a tiny bit, they'll prick that bubble. In fact, I think the air is already coming out of it simply because they stopped doing QE. Because this bubble is so big, zero percent interest rates are not low enough. They need QE on top of zero percent interest rates. That's why all year the economy has been slowing down.

All of the numbers that have been coming out recently are consistent with recession. Numbers came out today, GDP number for the third quarter, 1.5 percent, slowing down. Next quarter will be even weaker than that. In fact, I think 2015 is going to be the lowest GDP growth of the entire so-called recovery. Most of the manufacturing numbers, the industrial productions numbers, all the Fed regional surveys are flashing recession. Look at the inventory-to-sales ratios. They've never been this high unless we were in a recession.

Yet the Fed wants to continue to pretend that the economy is strong enough to withstand a rate hike, yet not actually raise rates to prove that it's not. Because the Fed wants to pretend that what they did was a success. They've been claiming victory. Look, Ben Bernanke is out selling his book. You might – he's been on television a lot recently because he's trying to promote this book. It's called *The Courage to Act*.

A more appropriate title for that book would've been A Coward's Way Out. And if you happen to see any copies of that book in the book store, they're in the airport, too, in the airport book store, if you see them, move them over to the fiction section *[laughter]*. Because that's where those books belong. But Ben Bernanke has to pretend that everything works, and Janet Yellen, of course, wants to pretend.

So they have to act like they're going to raise rates, because if they admit that rates have to stay at zero, well then they have to admit that their policy was a failure. Because the only reason we've had a rally in the dollar, the only reason we've had this selloff in gold is because everybody is convinced that zero percent interest rates are temporary. Everybody is convinced that the Fed is going to raise rates. It's the anticipation of higher rates, of tighter monetary policy, that has driven the dollar rally.

That's what suppressed the price of gold. But if everybody realized that interest rates were never going to go up but they were going to stay at zero forever, that the Fed was not finished with quantitative easing, they were just getting warmed up, QE3 is not the end of it. Remember, when they first did quantitative easing one I predicted that they'd do two. Everybody thought it was a one-time deal when they did it the first time.

I said no, they're going to do it again, and when they did QE2, I said look, they're going to have more QEs than Rocky movies *[laughter]*. And Rocky – they had six of those. And we're only on QE3. So why would there not be QE4? And in fact, the statement that came out just yesterday, everybody after this statement came out is now convinced that the Fed is about to raise rates in December.

Why? They didn't say they were going to raise rates. What does the Fed say in its statements? It simply says if the labor market improves, well then maybe we'll raise rates. Maybe it will be appropriate to raise rates if the labor market improves. But they don’t put any hard numbers on it. In fact, they made that mistake one time.

Initially they said we're going to raise interest rates if unemployment goes below six and a half percent. They actually said that. Now when they said that, what did I say? I said they're lying. I said, I don’t care how low unemployment goes, they're not going to raise rates. Well, where are we now? 5.1? Did they ever raise rates? No.

The minute we got through 6.5, they moved the goalpost and then they destroyed the goalpost completely. They don’t even care what the official unemployment number is. And in the statement, Janet Yellen said we need to see improvement in the labor market. Improvement from what? I mean, how much lower can the unemployment rate go than I mean, it's about as low as it's ever been. Look at the weekly unemployment claims. These are the lowest they've been in 30, 40 years, yet it's still not good enough?

But the truth of the matter is the labor market is actually weakening. Look at the labor force participation rate. It's – the most recent jobs numbers that came out in September, this is the lowest labor force participation rate since the mid 1970s. So if you want to measure the health of the labor market by how many people are participating, it's never been this sick. And in fact, if you look at the number of people who are working part time, who'd prefer to work full time, that keeps growing. And if you look at real wages, real wages keep falling. So all sorts of measures of the labor market would indicate that the labor market is weakening.

Yet why doesn't the Fed acknowledge that? If you look at what's happened to the US economy since the September meeting, we had a horrible non-farm payroll number where they – it was not only much worse than they expected, but they went back to the prior month, which everybody thought was going to be revised up, and they revised that one down, too.

Meanwhile, again, we've had all this negative news that has come out since the last time the Fed met, yet in their statement that just came out, they didn’t acknowledge any of it. They didn't suggest that they were worried about a slowdown in the economy. And so the markets take this to mean well, everything must be great, so the Fed is on track to raise interest rates.

But look, if you remember the 2008 financial crisis, what was the Federal Reserve forecasting on the eve of that crisis? They weren't worried about anything. Everything was fine. Even when the subprime market was collapsing, what did they say? Don’t worry, it's contained. Nothing to worry about. Remember that famous thing on CNBC with Jim Kramer when he was like, they know nothing, they don’t understand how bad it does.

They still – even then, the stock market is imploding. They – they're like – they're still thinking everything is okay. They never warn in advance about anything, yet why are people looking at the Fed and thinking that they're somehow geniuses about how the economy is going to perform? In fact, even if the Federal Reserve knew that the economy was headed to recession. The last thing they would do is admit that. Because the Fed wants to influence behavior.

If Janet Yellen came out and said, we're really worried about the economy, we think we're headed to recession, what would happen if she said that? All right, all of a sudden, the dollar would tank, businesses would be oh my god, a recession is coming. I'd better get ready for this recession, I better prepare. Maybe I should lay some people off, maybe I shouldn't invest in that new equipment because a recession is coming. Maybe people will postpone purchases. Oh, there's a recession, I'd better buy that house. Maybe I'm going to lose my job. I'm going to worry. People might start preparing for the recession.

That's not what the Fed wants. The Fed wants everybody out there buying and spending as if everything were great. The Fed wants to instill a false sense of confidence, but the problem with that is that when everybody is surprised by a recession, it's worse. If businesses had a chance to prepare for it, maybe it wouldn't be as bad. But if the Fed just encourages people to act recklessly, because they believe that everything is going to be great and then it turns out that that's not the case, it's actually worse.

But the Fed doesn't care about making a problem worse, its goal is to extend the problem into the future. In this case, the Fed wants to make sure that it extends this crisis beyond the next election. Because what happened last time? See, last time, the bubble burst while George Bush was still in office. That's why Barack Obama became president. Because everything collapsed while Bush was still there.

See that bubble, that housing bubble was created by the Fed. And the Fed created that bubble to try to artificially stimulate the economy after its previous bubble in the dot com market burst. But George Bush wasn’t able to get out of town in time. Now, he was still there when that collapsed. So Janet Yellen doesn't want the same thing to happen to Barack Obama. Barack Obama claims credit, hey, I came into office, everything was terrible, and he wants to pretend that everything is great now.

Well, the fact of the matter is the US economy is in worse shape today than it was when he was sworn in. Just because we were in the middle of a crisis when he got sworn in, we are on the verge of a worse one. Because everything the Federal Reserve did simply exacerbated all of the problems that led to the '08 financial crisis.

The US economy is more deeply in debt today than it was eight years ago, we have a bigger problem. That's one of the reasons the Fed can't raise rates because look at all the debt we have today that we didn’t have eight years ago. The reason that interest rates are at zero is because that’s the highest rate that we can afford.

So if the government has made everything so much worse, the last thing that the Fed wants is a repeat of what happened. Because Janet Yellen, I mean, she's a Democrat, she wants to get reappointed, and she knows that if she can help elect Hillary Clinton, she can get reappointed as Fed chairman. If, on the other hand, this whole bubble collapses while Obama is still in office, that will substantially reduce the probability of Hillary being elected. So she needs to make sure that we get through this election cycle.

So what is she going to do? She's not going to raise interest rates. Going to raise interest rates and I mean, we're already on the verge of a recession, maybe who knows, we might already be in one, we don’t know. You don't know until after the fact. In fact, the great recession of 2008 started in the 4th quarter of 2007. 4th quarter of 2007, but we didn't know that until they came back and revised down all the numbers. But I remember being on television in mid-2008 predicting a recession and everybody else said oh, you're crazy, there's not going to be a recession. Nothing bad – we were already in one.

The Fed didn't even have one in its forecast and we had been in one for six months. So we could be in one right now, we're not going to know until they go back and adjust the numbers. And remember, the third quarter GDP was only plus 1.5, I mean, what if it's not? And remember, to get 1.5 percent, they assumed that the inflation rate was 1.2. I don't believe that. I think prices are rising faster than that, I don't believe those numbers.

But when the government reports inflation lower than it really is, that means growth is higher than it really is. You create the illusion of growth by pretending there's no inflation because these numbers are supposed to be – they're supposed to be adjusted for the rate of inflation. And if you're adjusting it by a number that's too low, the growth is too high. So I don't think that the Fed wants to take a chance on pricking this bubble.

I mean, that's why all they do is talk about raising rates. Like if they actually were going to raise rates, they would've done it. I mean, the economy was much stronger the way that government measures it a year ago than it is today, so why didn't they raise rates a year ago? I mean, what's the point? And people are saying, well, if the jobs numbers are better in November, they'll raise rates.

Why? I mean, why not raise them now? I mean, what is one number going to make, one month's numbers. I mean, it's been seven years since the Fed has raised rates. It all boils down to this next job report, I mean, that's what it all hangs on? You would figure they would know. See, I think their whole plan is to keep pretending that they're going to do something that they have no intention or ability to actually do. And the question is when are the markets going to figure this out?

And I think when they have to come clean and launch QE4, which expect that they're going to do. Now, they probably won't call it QE4, I don't know what they're going to call it. But they're going to have to do it. Because if the economy keeps slowing down, and again, it's not really the economy slowing down, it's the air coming out of the bubble, all the Fed wants to do is blow it back up.

But everything that the Federal Reserve has done is actually preventing, inhibiting a real recovery from actually taking place. But in order to have a real recovery, we have to let this phony recovery implode. We actually have to resume the financial crisis that the Federal Reserve interrupted in 2009. Why did they interrupt it? Because it was going to be too painful to allow the market to rebalance the economy and fix all of the problems that were created by the Fed.

But the Fed doesn't want to do that. The Fed wants to keep on injecting us with more of this monetary heroin so that we don't realize how screwed up the economy is. And that's why when they keep talking about oh yeah, we're going to end quantitative easing, look, anybody can talk about doing it. You can – somebody could be a drug addict and they can talk about how they're going to give it up. But that doesn't mean they're actually going to do it.

And of course in order to give up drugs, it's not easy. I mean, if it was easy, everybody would be able to do it. And you also have to admit, see, for you to give up a drug habit, you have to admit that the habit is bad. Otherwise why give it up? I mean, why stop doing something that you enjoy unless you acknowledge that it's wrong?

The Fed is not even close to acknowledging that quantitative easing is wrong. It still claims credit. The Fed still says that hey, we saved the economy. And in fact, so many people around the world believe the Fed that they're doing it, too. Why do you think Europe is doing it? Because apparently it worked here. But it didn't work here. The proof that it didn't work is they haven't stopped it.

And how can they raise interest rates back up now when they have this debt? In fact, they just – the Congress just passed this, I guess the Senate hasn't done it yet, but they just – not – they didn't raise the debt ceiling, they suspended it. Which is actually worse than raising it because that means the sky's the limit over a period of time, but the debt limit, I mean, it's almost 19 trillion already. All right, it's probably going to get to 20 trillion by the time Barack Obama leaves office, which means it's going to practically double.

The debt is going to double during his term in office, which means Barack Obama's adding more debt to the economy than every president from George Washington up to George W. Bush. But of course, all that debt has to be serviced. How can we afford to pay the interest? Well, it's because the Fed's got interest rates at zero. I mean, the actual interest expense that the government is paying on this enormous debt is lower than it was when Ronald Reagan was president.

Think about how much bigger the debt is than when Reagan was president, yet we're actually spending less in interest payments. And of course, anybody who knows anything about the bond market, interest should reflect risk. And obviously we are a bigger credit risk today because we have a lot more debt than we were when Ronald Reagan was president. So if we're a bigger credit risk, why can we borrow at an even lower rate of interest? It's because our creditors are clueless as to the real extent of the risk.

Because right now, people just look at risk and they think of default. Is the US government going to default on its debt? Well no, we're not going to default on the debt, we're just going to keep on paying. But what is the money going to be worth? That's what people have to start to question. Where is the government going to get the money? We can't get it through taxation. That's impossible. So we're going to have to get it through money printing, through inflation, through quantitative easing. And that's why the government is laying a foundation for more inflation.

In fact, when Janet Yellen talks about when the Fed is going to raise rates, it's not just talking about the unemployment – the employment market improving. She says that inflation has to improve, as well. And by improve, she means go up. So according to the Federal Reserve, two percent inflation is better than one percent inflation. One percent inflation is not enough. Two percent somehow is ideal. Now, the Fed is still pretending that two and a half percent is too much, but two percent is perfect. But just like the Federal Reserve crossed that line in the sand on unemployment, it doesn't matter what Janet Yellen says.

Inflation can go to three percent, four percent, five percent, she's not going to raise rates. Why? Because she can't afford to. And of course, if Janet Yellen allows the CPI, that measure of inflation, to rise to three percent and if interest rates are still at zero and inflation's at three percent, how does she does something about that? Can she raise rates from 0 to .25, or from .25 to .5? No, that's not going to make a difference.

If the inflation rate is three and Janet Yellen wants to bring it down, she's got to raise rates above three, she's got to get in front of that inflation curve in order to reduce the rate. But how can she do that? She can't all of a sudden take rates from zero to three or four percent. What would that do? Again, it would create a worse financial crisis than the one that everybody is crediting the Federal Reserve for solving. Because that problem never got solved, because the government intervened, the Federal Reserve intervened and inflated this larger bubble.

But everybody wants to give the Fed credit for solving – fixing the economy, but look at all the problems. People can look at the labor market has been eviscerated, all these people that used to have jobs don't have jobs anymore. Real wages are falling, people are working part time, why is that? Nobody connects the dots to the Fed's monetary policy and the failure of our economy to create productive jobs, to produce goods, we're living off of imports, we've got – we've pushed up the stock market again, we've pushed up the bond market again, all we've done is reflate these bubbles.

An interesting thing, and I know in the introduction Gary mentioned the passing of my father, and I recently – somebody had already put this on the internet, but it was like five parts, and I pieced it together. And it's on my YouTube channel, I wrote – it's Irwin Schiff was right is the name of the talk. And my father gave this talk two weeks after the financial crisis, and the two weeks after the 9/11 tragedy, and spoke at the time in a very critical manner about what Alan Greenspan was proposing to do in the wake of that crisis, and how that policy of lowering interest rates, printing money, creating inflation was going to lead to a disaster, how it was going to lead to a big decline in our standard of living, and obviously over the last 14, 15 years, that is exactly what's happened.

Despite the fact that they've managed to resurrect the stock market and pump up the real estate market and get the GDP to go up, the average American has a lower standard of living than they had 14 or 15 years ago. He earns less, he's – he has less saved, and you've got all these problems now with student loans. My father talked about those back then in 2001. You've got this bubble in student loans, you've got what, 1.3, 1.4 trillion in debt. If you also – while you're on my YouTube channel, there's a video that I made while I was in New Orleans at this conference I think two or three years ago where I want enthusiasm around Bourbon Street and I interviewed the people working there, people that were working as bouncers in the strip clubs, bartenders, petty cab drivers, people just holding signs, come in here.

And I asked all these people if they went to college, and if they did, what was their major, when they graduated, and almost everybody did and they almost all of them had student loans. Yet they were doing jobs you didn't even need a high school diploma to do, yet they've got all this debt and now the government has got an auto bubble, too, people have automobile loans on top of their mortgages. And meanwhile, too, the home ownership rate, look at the home ownership rate. It's the lowest it's been in almost 50 years.

The government tried to get more people to own homes and what was the result? The lowest home ownership rate in 50 years. And what are all these people doing? They're renting. Who are they renting from? Hedge funds, private equity funds that use the cheap money from the Fed to buy these overpriced homes. If the government would've just stepped out and allowed real estate prices to fall, people would've been able to afford to buy them. But because they kept prices artificially high, they have to rent. And those rents are rising, and somehow they don't show up in the CPI, but the cost of living is going up and all the government is worried about is that there's not enough inflation.

I mean, can you imagine that's what the Federal Reserve sits around and worries about, that the cost of living is rising too slowly? That they have to make sure that the cost of living goes up and somehow that's the key to a successful economy? I mean, if things are bad, how is an increase in your cost of living going to help you? I mean, this is complete nonsense. The whole goal of an economy is to lower the cost of living.

Reducing prices is the goal of an efficient economy. If you can't afford to buy something, if the price comes down, then you can afford it. But the government is turning economics on its head because they're trying to lay the foundation for inflation, because that's what they want. My talk is about how permanent stimulus, that's the situation we're at, but ultimately, like with drugs, there is an overdose.

The government can only get away with this game so long as people don’t figure it out. And so far, as far as the Fed is concerned, so good. Because they came out with their statement yesterday and everybody now believes that there's going to be a rate hike in December. And when December comes around and they don’t raise rates, maybe they'll all be convinced that they're going to raise rates in March.

And I – to me, it's like Linus and Charlie Brown. No matter how many times she tees up that football, he still thinks she's going to let him kick it and he runs up there and ends up on his back, because she yanks it away. Well, this is what's going on with these rate hikes. But everybody wants to believe that the Fed's going to raise rates. Because if they accept the truth that they're not going to raise rates, then they've got to accept that the con is not as strong as they thought, that we don’t actually have a recovery.

And that's when the overdose starts, because now all of a sudden when people realize that this is a permanent situation, that's when the dollar really starts to fall. That's when consumer prices start to rise. The Fed won't be able to pretend there's no inflation because it'll be too high to cover up. And of course, the official numbers won't be as bad as it really is, but it'll be bad. And when the Fed does nothing, when the Fed is – refuses to raise rates, even though inflation is above its two percent target, that's going to put more downward pressure on the dollar, that's going to put more upward pressure on interest rates, which the Fed cannot allow. Because if people want out of the dollar, and it's already starting, I mean, they're dismissing this, but the Chinese have become large sellers of US treasuries, so have all the emerging market economies and so far, there's some speculators that are willing to take the other side of that trade.

But this is a huge trade. This is the tip of the iceberg. And as more and more international holders and even domestic holders of bonds don’t want to hold them because they realize that the rate of interest is not high enough to offset the loss of purchasing power, then what happens? Well, then the government's got to buy even more bonds. And it's not just treasuries that they're going to buy. They're going to have to buy municipal bonds if they want to stop those interest rates from rising. They might have to start buying corporate bonds.

I mean, US corporations are leveraged to the hilt, they can't survive. I mean, that's the problem and no one wants to even ask this question. Interest rates have been at zero for seven years. Imagine the damage that that did. I mean, we don’t have to imagine the damage that Alan Greenspan did by lowering interest rates to one percent and keeping them there for a year and a half and then slowly raising them back to five percent over the course of another year and a half. We inflated a housing bubble and look at how bad that was when it burst, and we don’t even know how bad it would've been had the government not made the mistake of doing the bailouts and slashing interest rates.

So if Greenspan could create such a mess with one percent interest rates for a year and a half, imagine what Bernanke and Yellen have created with interest rates at zero for seven years. Imagine all the foolish decisions and investments that have been made over the last seven years. You don't know the extent of the damage until they take away the stimulus, till they take away the punch bowl.

Which, again, is why Janet Yellen can never do it because it's so bad. They can't let this party end, but it will end with an overdose. Because once the perception changes, that there is no exit strategy, that there is no way out, that's why I called it a monetary roach motel, from day one. I knew that the Fed couldn't exit, that when you build an economy on QE that you live by QE, you die by QE. But you've got to understand as an investor what this means.

And that's what I'm going to be talking about at my – I got my workshop, I've got a piece of paper here somewhere, when I – what is it, 4:30 today. I put it in one of my pockets here. What'd I do with it? Here it is. But what I'm going to be talking about later today is what do you do about this? How do you protect yourself and how do you take advantage of the fact. It's yeah, the Ellwood Room on the 3rd floor at 4:20.

Because you've got so many people that are so wrong, and I've never seen this many people this wrong about the market since the subprime. People – and we were shorting those bonds and people were buying these bonds from us and they were paying par for them, a little bit over par, I knew the bonds were worthless. But the buyers didn't know it. But they figured it out quickly and the hard way, because by the time they figured it out, they couldn't give that paper away.

The market imploded in weeks, they went from par to zero, because perception changed. And right now, there is a huge disconnect between perception and reality, and that creates a lot of opportunities. Because currencies are mispriced, commodities are mispriced, emerging market economies are being suppressed by the false belief that the Fed is going to raise rates, that the dollar's going to go up. But that's opportunity.

When everybody believes something that's wrong and you can figure out why they're wrong, there's your opportunity, because you get a disconnect between what the prices should be on assets and what they are. And so what you do is you position yourself the right way so that when the herd finally wakes up and they realize what's going on and they're rushing to reallocate their portfolios, they want to sell what they own and buy what you own, well, you got there first.

You got to take advantage of the fact that the assets that we know are going to go up and the currencies and the commodities that we know are going to rise are on sale right now because the speculators who don't understand what's going on are selling. And these are the same speculators who didn't know what was going on right before the financial crisis, they were the same guys that were buying the dot com stocks in 2000. These are the same people that are taking the other side of these trades, and history shows that betting against the crowd when they're blinded by the Fed is the right thing to do.

So I'll be talking about that later on, thanks.

Mark Skousen

"Is The Golden Age Of Investing Over? Not For This Market-Beating Strategy!"

Moderator: Our next speaker, Mark Skousen, was recently named one of the top 20 economists – living economists in the world and I've seen the list, you can Google it and find it, he's right in the Ss, alphabetical, with Tom Sowell and Joseph Stiglitz, so it's got all – left and right if we choose to look at the world that way. Mark Skousen, in 2014, was appointed Presidential Fellow at Chapman University. In 2004 and '05, he taught economics finance at Columbia Business School. He was past president of the Foundation of Economic Education. All of this just goes to show you that Mark Skousen just cannot get and hold a good job. He keeps moving from one thing to another, and he's going to zing me, too, I bet. He has pioneered through his book, *Structure of Production,* the new economic statistical gross output, or GO, it's now part of the GDP release every quarter. And I remember working with Mark at Philips Publishing when that book came out and I was one of his assistant editors on *Forecast and Strategies,* a newsletter he has edited for 35 years. Yes, he can keep and start and maintain a newsletter for 35 years in this highly competitive newsletter market. He's written many other books, *Investing in One Lesson, The Maxims of Wall Street, A Viennese Waltz Down Wall Street* and several books about economics. And Mark Skousen is actually an industry of book writing, he and his beautiful wife, Joanne, churning out books, and they also have a festival in July called Freedom Fest and Joanne runs the film festival there and Mark the content of the wide-ranging festival. So Mark is a renaissance man, a wonderful friend of mine, as well. He's going to speak on the golden age of investing, is it over? Not for this market-making strategy. Be kind to me, Mark Skousen, and give us your talk.

Mark Skousen: Thank you, Barry. Well, I may not be able to keep a job, but I can keep a wife and I have been married for 42 years, how's about that? *[Laughter]* Well, I'm delighted to have you all show up this morning. I have some fun things to talk about. It's just great to be back in New Orleans. I've spoken here probably since the late 1970s. Anybody here in the crowd who were there to hear my first speech back in 1978, I know John, you're here, one of the few. So anyway, it's always a delight to be here in New Orleans, I like to create a little controversy. We'll start with my first picture, this is me behind the scenes. How many were at the conference last year when Alan Greenspan spoke?

So I did not have the opportunity to confront him on some issues about – that I thought were somewhat controversial and so I was able to talk to him afterwards at the luncheon. Here I am showing Alan Greenspan an American Eagle silver dollar. He had never seen one of these things before. I mean, the chief money man. I talked to Larry Summers, former secretary of the treasury, who recognized it as a silver dollar but didn't realize that last year, the United States Mint minted 40 million of these coins. Just by a show of hands, how many of you have ever seen an American Eagle silver dollar? You see, you know more than Alan Greenspan, how about that.

Anyway, he was quite intrigued by the fact that his own government, the United States government, minted 40 million of the these coins. And you know the great tragedy about these coins? Have you ever looked at the beauty of these coins and the symbols, In God We Trust, Lady Liberty, the rising sun, the eagle, all of these wonderful symbols and where are they? Hidden away in the dark in safety deposit boxes. What a great tragedy. For all of those who are believers in – I mean, this is a gold bud convention. For all of those who believe in the gold standard and the silver standard, we already have it. We have the gold and silver standard with us. The US Mint mints these, but they're not circulating. They're not being used. And so I encourage people to use these as symbols of sound money and liberty and to circulate them and use them in business and use them as tips and use them as anniversary gifts and keep them on you, don't hide them away in a safety deposit box. Circulate them. We can have our own gold and silver standard. We don't have to wait for the monetary system to collapse and all of this nonsense that we hear at a lot of these shows by the doomsdayers.

Well, I want to talk about the golden age of stocks and bonds. We've had a wonderful run. It's been fantastic. Even with the occasional bear markets, if you stuck with the investments, you have made a lot of money through dollar cost averaging. So I – here I am with the Nobel-Prize-winning economist, Robert Shiller, famous for his real estate index fund, and he says the golden age of stocks and bonds is over. Of course he said this also 15 years ago, folks. So even if he is a Nobel Prize winner, it doesn't necessarily mean that he's right.

So here's another guy who's quite popular these days, the number one motivational speaker in America, Tony Robbins has now gotten into the money business. But it is interesting that he's recommending half of your portfolio being in annuities. John, you may be interested in this, in annuities. Just so happens that his son sells annuities *[laughter]*. So I have more faith in this fellow right here.

I don't know how many of you recognize this, this is the Wizard of Wharton, this is Jeremy Siegel. And he's written a book called *Stocks for the Long Run*. This is a classic book, it's now in its fifth edition. This is the book that I will be using when I teach financial economics at Chapman University. I'm a presidential fellow there in California, and this is a fantastic book. Now, he shows this is something that is very disturbing is investing a loser's game. And I don't know if we can – if you can see here. See the little red dot, the red line right there? That's the average return of the average investor over this 20-year period. Look at – if you had stayed with index – just index funds how you would've outperformed. In fact, if you had just stayed in T bills, you would've outperformed the market.

Now, there's a couple reasons why this is two of the most alluring but high-risk strategies by individual investors. Tell me if you commit either one of these two errors. One is cherry picking, buying your favorite stocks in hopes of beating the market. And number two, trading, buying and selling to avoid the ever-fearful bear market. How many of you have been scared to death and gotten out of the stock market because you heard a doomsdayer get up and say that the market is ready to collapse at any time.

So I have written a book called *Investing in One Lesson*. Wall Street exaggerates everything. The business of investing is not the same as investing in a business. And this chart is really a wonderful chart that demonstrates the problem that you face. This is, ultimately, the most important chart you will ever see at any investment conference. What it shows is the red represents Main Street. That's real GDP growth. The blue is the S&P 500. Does that not demonstrate Wall Street exaggerates everything. So it exaggerates the economy.

And the real question is if you look at, starting in 1990 and ending in 2014, you'll notice that they start the same and they end the same. But look what happens in between. So dollar cost averaging, long-term investing, buy and hold, does that work? You better believe it does work. As long as you have a free market economy and the government is working overtime to keep it from happening, but the American people are resisting. We are innovators. American ingenuity is so important and it's still very much alive. But the question is, can you handle the rollercoaster ride there, how many of you are willing to go through the ups and downs in the market? You're all willing to hold during the upside but not the downside.

Steve Forbes said it best, he says everyone is a disciplined, long-term investor until the market goes down. So techniques that don't beat the market, this is according to Jeremy Siegel's *Stocks for the Long Run*. Look at this list, growth and high-tech stocks. You might be surprised by this list of stocks that don't beat the market. Why do growth and high-tech stocks underperform? I'm going to give an example of that shortly. IPOs. Highly liquid stocks, those are the big cap stocks. Most actively managed mutual funds. Bond investors. And yes, number six, gold bugs and doomsdayers.

How many of you have noticed that every year, the – we have a certain number of speakers who give a terrible scenario, a collapse in the market, and they were right for 2008, 2009, but they have been wrong every since then, I remember one speaker in particular, right before the 2012 election, at this conference, had a great prediction. Said that Obama was going to win reelection. Why? Because the stock market was rising and every year the stock market rises during the election year, that means the incumbent is likely to win.

And so he had a really good call. But then he said it was a pirate victory because for the next four years we were going to see a collapse in the economy and a collapse in the stock market. I mean, how wrong could you be? So you have to be very careful about number six. That's a danger sign. So here's the chart, shows stocks for the long run, this is the classic chart from Jeremy Siegel, you see that stocks have outperformed bonds, outperformed T bills, outperformed gold and outperformed the dollar. So the stock market is the best place to be invested.

Techniques that do beat the market, check this out. Number one, value over growth, value stocks, low PEs, near book value. Number two, the original S&P index stocks. The S&P index constantly changes. They have like a half dozen changes every year. If they just stayed with their original, they would do better. There's a lot of reasons for that I don't have time to go into. I am going to do a workshop this afternoon, I hope you'll attend, I'll go into more detail here. We have more time. I just have a few minutes here this morning.

Stocks with low liquidity, that means relatively low-priced stocks, not penny stocks, but stocks with low liquidity often do really well. Fundamentally weighted indexes. Most of the indexes are market cap indexes. You want fundamentally weighted indexes. And some forms of technical analysis do work, especially momentum investing, that does tend to work well. But the 200-day moving average, that does not work too well.

In fact, it does keep you out of the crashes that occur from time to time, barely, it falls below the 200-day moving average, but during a bull market, in the last 5 years, you were switched in and out of the market 20 times during this bear market. So the 200-day moving average is not a very successful technique if you're concerned about using that particular method.

So my favorite way to beat the market is, and the top is the golden age of investing, is it over, not for this market-beating strategy, and that's dividend-paying stocks. *Dividends Don't Lie,* a classic book by Geraldine Weiss, it's been updated called *Dividends Still Don't Lie*, but earnings do. You can play all kinds of games with earnings, but cash paid out to investors, that's pretty hard to deny. You've got to have cash to be able to pay it.

So let me quickly talk about this classic example that Jeremy Siegel uses, big blue versus big oil. This is a classic example of growth versus value. So you have these two companies, one of the companies outperformed the other in terms of the fundamentals, earnings, revenue growth, cash flow, payment of dividends, all of these criteria that are used by analysts to decide, one of the stocks way outperformed the other *[laughter]*.

Which do you think it was, was it IBM or Exxon, which one outperformed in terms of earnings and revenue? How many say IBM? How many say Exxon? I'm really glad you came here, because folks, you've completely missed it. IBM way outperformed Exxon in terms of revenue. Growth, dividends, cash flow, by three percentage points per year. It was the traditional growth stock of the '50s, '60s and '70s and '80s and '90s, all right.

Well, Exxon was the stodgy old big oil company that underperformed year after year. So let's suppose – let's look at what happened between these two stocks from 1950 on. All right, if you invested $1,000 in IBM stock and $1,000 in Exxon stock, today you would have, for IBM, $800,000. A good investment? How many of you would say wow, that would be a good investment. All your hands would go up. But Exxon's $1,000 is worth $1.6 million. Even though on the fundamental basis, it underperformed the growth stock, big blue.

Why is that? Well, some of you may say dividends. IBM paid more out in dividends than Exxon, so that's not the answer. Anybody else want to guess? Valuation. Investors constantly overpaid for the growth stock. And so when you reinvested those dividends, you didn't get as good a deal as you did with Exxon. So by reinvestment of dividends at these low prices, year after year for the next 65 years, made the difference so that Exxon, big oil, had double the performance after 65 years.

That's an incredible story. So this is why I focus on dividends, the critical factor giving the edge to most winning stocks, but not just dividends, but in low PE stocks is the best way to go. Why invest in dividend-paying stocks? Better indicator than earnings of company's financial condition. Over the long run, dividend-paying stocks beat the market with less risk. That's still the case. It's not necessarily the case if this strategy becomes too popular. If it comes to the point where I get up here and you've heard the story a million times and all the other speakers, including the gold bugs, finally throw in the towel and say, Skousen is right, we need to buy dividend-paying stocks, rising dividend stocks and how many gold stocks, mining stocks do that? I mean, it's just less than a handful.

There are a few out there and the dividend yield is not high, it's pretty low. So if they all throw in the towel, then I'm willing to move on to some other strategy, but right now, that seems to be working. And also they offer bargain opportunities. I have a trading service called the Skousen High Income Alert, and surprisingly does a really good job of picking stocks on a short-term basis, as well.

So this is a very complicated chart but the – basically the line is over the last 20 years, the red line are dividend cutters, the blue line are dividend risers or growers. So the strategy is to buy stocks that pay rising dividends, that's the strategy. My strategy is what I call peace-of-mind investing. You want to buy high quality companies, it's important to buy companies that are – have high profit margins. They have a high – relatively high yield and they have a growth of yield, will give you high total return.

So what do I do in my newsletter? That's what I focus on. Now, a lot of you may think this newsletter is yellow, but it's actually gold. It's a golden newsletter. So anyway, talking about it today, I brought some copies with me that I can pass along. I don't have time now to give you all these positions, but let me – I'm just going to give you one. Main Street Capital, which has been my favorite recommendation for the last several years, you can see how it has performed. Now, it's kind of – now, understand looking at this chart, you can say, looks like it's a topping out pattern. It's just taking a rest before it takes off again. This stock is already up ten percent this year.

And one thing you need to see about this stock, private equity capital stock here, it's a business development company, best of the breed, that chart does not include the dividends. And the dividends are seven to eight percent a year, has a rising dividend policy. It pays monthly dividends and it pays two special dividends every year. How many of you can name a stock that's publicly traded that pays a monthly dividend and pays 2 special dividends a year and has a 74 percent profit margin. There are no other publicly traded stocks, of the 3,000 or 4,000 that are traded that have this, but this has been in my portfolio, this is the rock-bottom recommendation that I've been recommending.

I had dinner last night, Commander's Palace, with some of my subscribers and both of them own this stock and were willing to pay dinner last night at Commander's because of my recommendation. But I paid half and John, you paid the other half, that was very kind of you.

All right, so any – I'm going to talk more about Main Street and my other 4 other picks in my workshop today at 4:00. I've already quote Steve Forbes here, I'm running out of time here, so I want to move forward. I love this John D. Rockefeller, did you know the only thing that gives me pleasure, not my wife, not my kids, not my grandkids, not my friends, it's just to see my dividends coming in. And I know there's a lot if you in this crowd who probably feel that way *[laughter]*. Just kidding, just kidding.

All right, so here's my I'm really – I'm kind of bummed out that there's no book store here at the conference here today, and I did bring a box of my books, fourth edition of this book, *The Maxims of Wall Street*, which includes many of the quotes that you had there. This has been my favorite book, it's gone through four editions, new editions, and I have a new fourth edition here with me. I brought a box if you're interested, so you can get them here for $20 or free if you subscribe to my newsletter. It's just a great way to learn about what's going on. I had someone at the New Orleans – I went on the New England cruise with Newt Gingrich and one of the attendees on there was reading the book on there and he said, you know, I learned more in this book than I did four years of going to college. So I thought that was a pretty good line.

So anyway, I thought I'd give you a big kick out of my picture with the Donald here. He's making so many – how many have pictures with Donald Trump? Probably half of you, right? *[Laughter]* I mean, he's – seems to be making the rounds and stuff. So anyway, my time is out, but I do hope that you will buy these silver dollars, that you will get into dividend-paying stocks. This is really the great approach. Tomorrow, I'm looking forward to taking on the bears in my economic panel and we'll see you later today. Thank you all for coming, I'm looking forward to seeing you. Take care, bye-bye.

Mark Steyn
"A Disgrace To The Profession?"

Moderator: I followed Mark Steyn's career long before he was invited here to speak in New Orleans because he and I share two great passions. One being *The Great American Songbook*, which is evident in his albums and his earlier writing on the Broadway scene and the popular music scene, and his interest and passion for cultural wars in North America and Europe, and particularly the freedom to speak out the truth about some very painful but controversial subjects going around us in the world today.

We've got to come to the point where we can talk about these subjects before we can cure them. He's author of several books in that aspect, and one of them is *After America*, which was a top five bestseller in the United States, and a number one bestseller in Canada. Also, *America Alone: The End of the World as We Know It*, which was a *New York Times* bestseller in the US, and a number one bestseller in Canada. And this tells me something about the good people of Canada. They made both of his books number one even though they're about America.

That's pretty good work, if you can be number one writing about another country and Canadians make the book number one. His most recent book is *The Undocumented Mark Steyn*. He's co-author of a new book which I've only read so far a Kindle sample, but I've got it on order, and that's *Climate Change: The Facts*. It's a number one bestselling book on Amazon's climatology and environmental charts.

And, by the way, that's another area in which we badly need some free speech, and quit talking about the science is settled, open up your minds to different and opposing ideas. It's always healthy.

His music is a secondary career, as I said. His *Marshmallow World* is a Christmas single with Jessica Martin, reached number seven on Amazon's easy listening bestsellers, and number 41 on their main pop chart, which makes him a top 41 recording artist. You got to bend that one number up there. Their subsequent full length Christmas album, *Making Spirits Right*, reached number four on the jazz charts. His latest CD is *Goldfinger*, which we'll sample in a minute.

His human rights campaign to restore free speech to Canada led to the repeal by Parliament of that notorious Section 13 law, and it was an exhaustive court proceeding, if you can follow it, in his book, *Lights Out: Islam, Free Speech, and the Twilight of the West*. He's also a popular guest host of America's number one radio show, *The Rush Limbaugh Program*, as well as the top rated Fox News TV show, *Hannity*. In addition, he appears each week on *The Hugh Hewitt Radio Show*, and in Canada, he can be heard with *Toronto's Number One Morning Man AM 640 John Oakley Show*.

His subject is *A Disgrace to the Profession*, but since we're almost all in the room now, I want to cue the soundtrack of number six on the album *Goldfinger*, the first 45 seconds, to welcome our speaker, Mark Steyn. Okay, hit it.

[Music Plays]

Thank you very much. And now, the man who sang the words, Mark Steyn.

Mark Steyn: Thank you, Gary. I was having such a good time listening to that I almost didn't come out. There was – that was very nice to hear. Takes a man very secure in his sexuality to cover a Shirley Bassey song. So I hope you appreciate that. I wanted to talk today about – because the fun thing when you're living in the news cycle, you're living in the present tense. And what matters is did you hear what Bobby Jindal said about Lindsey Graham in the debate on – and it's stuff that isn't going to seem important five minutes later.

And I wanted to talk today instead about a few things I think are the long term – of long term significance for the world we live in. the one thing that isn't going to be significant for the world we live in, I believe, is climate change, which happens to be the subject of the book that Gary mentioned. We're a few weeks away from the Paris Climate Conference, at which there will be, again, as there was with the Copenhagen conference a few years ago, a sustained attempt by the Western world to drive the entire global economy off the cliff.

And if you recall, the entire Western world was enthusiastic about jumping off the cliff in 2009, and it took the Chinese, the Indians, and the Brazilians to grab them just as they hurled themselves off the cliff, hold onto them by their shirttails, and prevent them actually taking the entire global economy off the cliff. So Western leaders want to worry about climate change. President Obama went to Alaska a few weeks back to quote pivot to climate change as he described it.

He renamed Mount McKinley, which I thought was a bit tough on William McKinley, who, after all, took a bullet for his country, but Obama went up there to actually be there for the ceremonial removal of poor old William McKinley's name from the mountain just to rub it in even further as he pivoted to climate change. We're all meant to pivot to climate change now. The Department of Energy, today, I saw, when I woke up, has recommended that for Halloween tonight that children should dress up as a wind turbine.

I don't know how many of you will be taking your children trick or treating dressed up as wind turbines. They are scary. Particularly if you get the costume with the real rotor blades at the front that decapitates anything that goes into its path. They are terrific Halloween costumes like that. But activists again continue to pursue climate change, whether it's elderly rock stars like Neil Young, or awareness raising actress like Rachel McAdams, which I'm sure I don't need to tell you starred with Lindsay Lohan in *Mean Girls*.

They're two of the signatories to the Leap Manifesto, which, again, is calling on global capitalism to take a massive leap off the cliff. It's a fascinating phenomenon of our time. When Mahmoud Ahmadinejad was mayor of Tehran, he had the streets of the city widened in anticipation of the return to earth of the twelfth imam, because it would be insulting to the twelfth imam to expect him to ride in procession through such cramped and narrow streets. So he had the streets of Tehran widened.

And we all think, ha, what a looney, imagine doing that. But when Al Gore announces we have only ten years left to save the planet, everyone nods in agreement and says, oh, thank god, he's raising awareness, let's give him all our money. He said this in January 2006, by the way. So we now have only what is it three months left to save – two months left to save the planet. But anyone can say they only have ten years left to save the planet. It's an easy round number. It's totally unscientific.

In 2009, the Prince of Wales announced in a speech that we only have 96 months left to save the planet, not 95, not 97, but 96 months, which is July 2017. So he gives us an extra 18 months on Al Gore's apocalyptic prediction. A couple of months before that, the Prince of Wales said the – before he said the jig would be up for us in 96 months he predicted that the red squirrel would be extinct within 10 years, which would be April 2019.

You should be writing down all these predictions, because you can take the to the bank *[laughter]*. Global civilization will collapse in July 2017, and then the red squirrel will get to gambol and frolic in the ruins and rubble for another two years before he's kaput. It's like planet of the squirrels. It's going to be terrifying. Here's how the British newspaper, *The Independent,* reported the prince's speech. Quote, capitalism and consumerism have brought the world to the brink of economic and environmental collapse, the Prince of Wales has warned, and, in a searing indictment on capitalist society, Charles said we can no longer afford consumerism, and the age of convenience was over, unquote.

He then got back in his limo and was driven to his other palace. The new Islamic caliphate that appeals to so many excitable young men, and the first church of settled science that appeals to so many other young people, seem almost parodic responses to the hollowness of the modern multicultural west. And the search for alternative globalized identities. But I think I know on balance, which is wacky – what's the difference between Mahmoud Ahmadinejad and the Prince of Wales? One's a millenarian apocalyptic loon, and the other is a sober, respected Iranian politician *[laughter]*.

On balance, widening the streets of Tehran for the imminent return of the twelfth imam seems marginally less deranged than insisting the planet is doomed in a year and three quarters, unless humanity abandons the evil of capitalism and the age of convenience. This, by the way, from a man who has never drawn his own curtains *[laughter]*. So a few weeks before my own book that Gary mentioned came out, *Esquire* magazine, about two months ago, ran a piece with a fabulously fay headline "Ballad of the Sad Climatologists".

And the sub headline emphasized the awesome burden. "When the end of human civilization is your day job, when the end of human civilization is your day job, it can be hard to sleep at night." And the piece reported that climate psychologists, quote, climate psychologists – that's a profession. If you're thinking about my kids went to college, taking on six figure sum in debt to send to their – what I wanted to do – something useful – get a return for the investment – climate psychologist. It's one of the big professions now.

The climate psychologists have identified a disturbing new phenomenon pre-traumatic stress disorder *[laughter]*. Now, sure thing, hang on, isn't that a typing error, isn't it post-traumatic stress disorder? No, come on, please, give me a break. You should be so lucky. Post-traumatic stress disorder is some nothing little thing you get from being blown up by an IED in Fallujah, or a suicide bomber in Helmand Province. That's nothing compared to worrying about sea levels in the Maldives in the year 2100.

This is pre-pre-traumatic stress disorder. It's far worse. Now the end of human civilization of course is not a scientist's day job. It's an indulgent perversion of a scientist's day job. His day job is in fact observing temperatures, sea currents, water vapor, measuring ice cores, lake sediments, tree rings. And that is the damage what I like to think of as the cartoon climatology. Especially the hockey stick. The cartoon climatology that will be promoted by this Paris conference is doing. It has led the leaders of advanced societies to utter pronouncements far more deranged than anything said by Mahmoud Ahmadinejad.

You may remember a couple of years ago, *Time* Magazine ran a fawning cover story on Arnold Schwarzenegger, the Governor of California at that time, and Michael Bloomberg, the Mayor of New York, the new action heroes. And so of course I opened it up hoping to find out what action they were taking. And it said that Bloomberg was quote talking about saving the planet, all of it, including the bits west of the Holland Tunnel, and Schwarzenegger was quote talking about eliminating disease. All of them.

I look forward to curing all these terrible diseases, he said to a man from *Time* Magazine. Bloomberg, *Time* Magazine noted approvingly, had echo enacted America's most draconian smoking ban and the first big city trans-fat ban. Three days later, the guy who regulates your trans fats and salt intake had his city hit by a giant snowstorm. And the action hero mayor who had been relentless in his pursuit of trans fats was unable to fulfill as basic a municipal responsibility as getting any snow out of the streets for the best part of a week.

So here's the city of New York can regulate the salt out of your cheeseburger, but it can't regulate the salt onto Seventh Avenue during a snowstorm. In Governor Schwarzenegger's state, over one third of the patients in Los Angeles County hospitals are illegal immigrants. They've overwhelmed the systems. Dozens of emergency rooms have closed after it's become de fact Mexico's healthcare system.

A couple of years later, Superstorm Sandy, you may remember, flooded New York, because unlike London and the Dutch Coast and Saint Petersburg, there's no flood barrier. They're actually very cheap and quick to put up. But it takes you half a century to get anything through the zoning process now here. So Mayor Bloomberg, who had been busy regulating the amount of soda you're allowed to have in your Coca-Cola cup in New York, suddenly discovered he'd neglected to regulate the amount of ocean you're allowed to have in the New York City subway system.

At least when King Canute sat on the beach and watched the sea lap over his feet, he hadn't spent the previous half decade passing regulations on the amount of mead and grog you're allowed to have in your big gulp flagon. That was left to Bloomberg. And if you are worried about sea levels in the Maldives in the year 2100, and it is giving you pre-traumatic stress disorder, like these poor scientists, well, there's 350,000 people in the Maldives, and since their new constitution in 2008, it's requirement of citizenship to be a Sunni Muslim.

So they're 100 percent Sunni Muslim. So if the sea levels do wash away their country, we'll be able to move all 350,000 of them to Germany, where, thanks to Angela Merkel, they'll fit right in. In fact, you won't even notice another third of a million Sunni Muslims, because during September and October, these last two months, a third of a million so-called refugees entered just one German state, Bavaria. So in the last two months, the entire population of the Maldives moved to Bavaria! And Chancellor Merkel said do you see how easy it is? Hey, presto, who cares about sea levels in the Maldives? There's plenty of room in Bavaria!

And Chancellor Merkel says that's not enough, we need more, come on down. Which brings me to my second topic. Which I think is the single biggest unlike climate change is actually the single biggest story of our time. And that's demography. Demography underlines everything. The biggest news this week was not – if you watched the CNBC presidential debate, the biggest news was whether we need federal regulation of fantasy football, and whether homophobes should be shopping at Costco. I think they were the biggest stories from CNBC.

But in fact the biggest story of the week was the announcement that China has ended its one child policy. From the BBC. Quote. Couples will now be allowed to have two children, a statement from the communist party said. The controversial policy was introduced nationally in 1979 to slow the population growth rate. It is estimated to have prevented over 400 million births.

However, concerns at China's aging population led to pressure for change, unquote. Now I don't regard myself as any kind of genius, and I don't necessarily want to go back over every single prediction I made a few years ago, and I wouldn't want to be called to stand on it. We had a little discussion of that here earlier *[laughter]*. It can get unpleasant when you hold people to account. But nine years ago, since I'm going to toot my – Gary plays the clarinet.

I'd like to toot my own horn for a bit. And nine years ago, in my book, *America Alone*, I wrote, quote, will China be the hyper power of the 21st century? Answer: no. Its population will get old before it's got rich. I've been using that line for about 15 years. And I've been interested to watch it catch on. A couple of years back I heard Henry Kissinger use it. China will get old before it's got rich. It sounds much better in his gravelly voice, by the way. *[Impersonation]* China will get old before it's got rich.

It sounds much – has a lot more gravitas coming out of Henry's voice. But it took the geniuses on the polit-bureau nine years to catch up with me. And, as a result, they have a huge problem. Because since 1979 Chinese women have given birth to boys and aborted all the girls. When you can only have one kid, everyone has a boy. As I also wrote in my book, *America Alone*, the People's Republic's most distinctive structural flaw is the most gender distorted demographic cohort in global history – the so-called Guang-Gun Bare-Branches.

Since China introduced its one child policy in 1978, the imbalance between the sexes has increased to the point where in today's generation there are 119 boys for every 100 girls. And the pioneer generation of that male surplus are now adults. Unless China is planning to become the first gay superpower since Sparta, what's going to happen to those young men? As a general rule, large numbers of excitable lads who can't get any action is not a recipe for social tranquility.

China's dangerous not, as many argue, because of its strength, but because of its weakness. The millions of surplus young men who map government policy is deprived of female companionship is a recipe either for wrenching social convulsions at home or for war abroad, which is the traditional surplus inventory clearance method for great powers. You know. So that's actually worse news than if China was cruising to uncontested global hegemony. Because it means that Beijing's calculations on how the Sino-American relationship evolves are even less likely to align with us. China has to maximize its power before demographic decay sets in.

Europe, Japan, even America doesn't have a fertility rate that is at replacement rate, which is one reason why immigration has become such a hot topic in this election season. The countries that built and maintain global order and progress are all now in demographic decline. Japan now sells as many adult diapers as baby diapers. Europe's problems are also demographic. I listened to Bobby Jindal in CNBC the other day warning that we don't want to end up like Greece.

He was talking about it in debt terms. In welfare terms. And it's true that Greeks have voted themselves a somewhat leisurely lifestyle. In Greece, a female working in a quote hazardous job can retire with a full government pension at the age of 50. Now, initially, hazardous meant jobs like bomb disposal and mining. Have we got any bomb disposal guys in the crowd tonight? I don't blame you. It's very dangerous. I wouldn't want to do it.

But as is the way of government entitlements, the hazardous category growed like topsy, and 580 professions now qualify as hazardous. Among them, hairdressing. I use 100 different chemicals every day, dyes, ammonia, you name it, 28 year old Vassya Varimi told the *New York Times*. You think there's no risk in that? Not to mention all those scissors.

Like hairdressers, Greek TV and radio hosts can also retire at 50 because of their high level of exposure to microphone bacteria. Holy cow! Who let these things in the room? I like Gary and Brien, but when they booked me and Krauthammer and the rest of us in here, they knew all about the risks of microphone bacteria, but they went ahead and screwed our life expectancy anyway.

It all sounds great. Who wouldn't want to be a Greek hairdresser? Unfortunately, being a Greek, period, is now a hazardous profession. The only really relevant fact about Greek – whenever anyone talks to you about Greece, this s the only statistic you need to know. 100 grandparents have 42 grandchildren. Greece has an upside down family tree. It's *My Big Fat Greek Funeral*. Greeks voted themselves a lifestyle they weren't willing to pay for, and instead pre-authorized their grandchildren's credit cards, and then they forgot to have those grandchildren.

So, again, ask yourself this, is it remotely likely that the debts run up by 100 people will be paid off by 42 people? We all know the answer to that. How do you have economic growth in a market shrinking remorselessly like that? You build a parking lot in your shopping mall for 100 cars, and now there are only 42 cars. And after that, two generations on, there's only going to be 15 cars.

Once upon a time, Angela Merkel seemed to understand that. When she met Barack Obama for the first time seven years ago, she explained to him that Germany wouldn't be having a stimulus, because it didn't have enough young people to pay it off. A rare moment of honesty in the Western world's political conversation.

Like Greece, Germany has deathbed demography. 30 percent of Germany women are childless. 40 percent of university educated women are childless. The UK *Daily Telegraph* reported earlier this year Germany's birthrate has collapsed to the lowest level in the world, and its workforce will start plunging at a faster rate than Japan's by the early 2020s, seriously threatening the long term viability of Europe's leading economy. The German government expects the population to shrink from 81 million to 67 million by 2060.

I would say that's an underestimate. The question at the heart of the European Union, from Germany's point of view, is whether you can turn Greeks into Germans. At heart, Chancellor Merkel knows the answer to that question, yet she is now importing millions of young Muslim men to be the children Germans couldn't be bothered to have themselves. Having concluded you can't turn Greeks into Germans, she's going to turn millions of Pashtuns and Yemenis and Somalis and Uzbeks into Germans.

And in some of the older societies on Earth, from Madrid to Tokyo, we're witnessing a kind of voluntary societal self-extinction. In Europe it's obscured by high Muslim immigration. In Japan, which retains a cultural aversion to immigration of any kind, there are no foreigners to be the children you couldn't be bothered having yourself. Japan doesn't have any immigration, doesn't want any. And so it provides an excellent opportunity to watch the developed world's demographic death spiral in its purest form.

And it's already getting kind of weird. A quarter century ago, when the Japanese were buying Columbia Pictures and Rockefeller Center, we had all those scary ads, you remember, warning that we'd soon be speaking Japanese at the mall. It's not clear there will be anyone to speak Japanese at Japan's shopping malls the way they're going on. And yet for 20 years, we wrote about it as a business page story. It's not a business page story. It's actually a going out of business story. Going out of business as a functioning society.

The Japanese stopped having babies. Large numbers of them have stopped having sex. Or even heavy petting. They're not interested in getting to first base. A survey two years ago by the Japan Family Planning Association reported that over a quarter of men aged 16 to 24 quote were not interested in or despise sexual contact. And I thought that was amazing. A quarter of men aged 16 to – when I was 16 to 24, I was certainly interested in sexual contact. Even when I wasn't actively interested in it, I certainly never despised it. I thought about it 23 out of 24 hours a day at that age.

A quarter of Japanese men not interested in or despise sexual contact. For women it's 45 percent. The *Observer* newspaper reported this story in the traditional manner of progressive newspapers. It's nothing a little more sexual adventurism can't cure. So the lead paragraph was devoted to an interview with a quote sex and relationship counselor and former dominatrix who specialized in dripping hot wax on her clients' nipples, and was once invited to North Korea, to squeeze the testicles of Kim Jong Il's top generals.

This is how one of the most read newspapers on the planet addresses demographic decline. Now being a healthy well-adjusted crowd I'm sure most of you guys will be going back to your hotels this evening, ordering up some hot wax from room service, and saying, no, tonight, why don't you be the Japanese dominatrix and I'll be the North Korean general? But it doesn't seem to quite get to the scale of the problem here.

49 percent of Japanese women under 34 are not in any kind of romantic relationship, and nor are 61 percent of single men. A third of Japanese adults under 30 have never dated anyone ever. It's not that they've stopped having quote having sex or disinclined to have hot wax poured on their nipples. It's bigger than that. It's a flight from human intimacy. We are now seeing in these countries what happens when you have an aging society with insufficient young people around to provide the services from them.

Who are your soldiers in the most basic sense? Who are your policemen? Who maintains law and order? It's not the 87 year old guy. It's young people who were the nurses in the nursing homes. Who were the people who ensure that the streets are maintained when they open up with potholes that there were young guys who were able to fix them? There. They're running out of young people every year in Japan. Demography is the biggest story of our time.

And yet a lot of people here especially on the climate change front still have that Paul Ehrlich population bomb idea that the problem is too many people, too many people. The civilization that built the modern world is dying because there are insufficient young people, and that has – that's a highly relevant subject to investment. Why would you invest in Greece? Its domestic market is dying. How do you grow a market in Greece when the country is shrinking? How do you grow a market in Japan?

You got to make more and more for export in territories where you know the market less and less and less you got to go further and further and further afield. Which is why German banks wound up holding so much of that subprime mortgage junk a few years ago. But we don't. It's so social change is a lagging indicator and we still think of them in backward terms. 100 years ago, the British Isles and British West Africa had about the same population. As to say on the one hand England, Scotland, Ireland, and Wales, and, on the other, the colonies that are now Nigeria, Sierra Leone, Ghana, The Gambia, Cameroon. They've both had about 45 million people.

Now England, Scotland, Ireland, and Wales have about 69 million people. And Nigeria, Sierra Leone, Ghana, The Gambia, and Cameroon have about 250 million people. That's a huge transformative change. In the first decade of this century, Niger increased its population from almost half, from just over 10 million to just over 15 million.

Half a million of its children at the beginning of this population increase were estimated to be starving. So they decided to have a whole lot more. They're estimated to hit 100 million by the end of this century in a country that can't feed a population a tenth that size. Is it likely that an extra 90 million people will choose to stay within Niger, particularly when Angela Merkel has just told them if you can make a short boat trip across to the Mediterranean you can walk into Europe and take it?

I'm not particularly fond of Germany or Austria. But they're extremely efficient well-ordered societies where everything works. And they won't be in the future. Because they're running out of people. And the human capital they're frantically trying to train up to replace them is arriving in such numbers they will not be able to do the job. And finally the one topic I wanted to conclude with which I think goes to whether we're going to be able to discuss some of these big picture issues honestly in the years ahead, and that is free speech.

We are losing individual liberty on all fronts except one. Sexual liberty. You can do anything you want with whoever you want, living or dead, pretty much anything goes these days. I used to joke that in our overregulated age that sexual license is now the only thing you don't need a license for. But in fact it's actually even that is fraught with peril. Even sex and our attitudes to it are rigorously policed. You may have seen *Glamour* Magazine has named Caitlyn Jenner woman of the year.

And Cardiff University, as a result, wants to ban the great Australian feminist, Germaine Greer, from speaking to them, because she is supposedly transphobic. She doesn't think that Caitlyn Jenner should be woman of the year, because in the remarkable headline of *The New York Post*, quote, Caitlyn Jenner still has her penis, unquote. Quote, her penis. They're words you didn't use to see in headlines.

Please, please, ease up on the transphobia, will you? There's – so there's an officially rigorously enforced position on Caitlyn Jenner that trumps free speech. You can't say, oh, live and let live, oh, I don't mind Caitlyn Jenner, I don't really particularly agree with trans people, but she looked absolutely fabulous in that corset she was wearing on – you can. There's no give and take in this. There's an official position on Caitlyn Jenner and you have to agree with it or else you can't speak at a university.

So the question then becomes – if you have two generations of people that we've raised on these campuses who now accept that free speech doesn't extend to Caitlyn Jenner's penis, to gay marriage, to climate change, and to a bunch of other subjects, why shouldn't a lot of other things also get that same circumspection? Why shouldn't we add Islam to that list? If you can't express disagreement about Caitlyn Jenner's sex change, why shouldn't you be able to question Sharia law?

So we have raised two generations of people who think that free speech is subordinate to the agreed ideological position on things. Middlebury College in Vermont just issued guidelines today on how to have a safe Halloween. The college's chief diversity officer and dean of students have issued a guide on costumes and cultural appropriation. Because you can't dress up as a werewolf on Halloween, in case it offends members of the hirsute American community who have a problem with a bit of five o'clock shadow because they got their sex change done on Obamacare.

You've got to be – so even Halloween, the dean of students has to issue a guide about cultural appropriation. I spoke in Copenhagen about two weeks ago on the tenth anniversary of the Mohammed cartoons. And I was top of the bill. And I didn't quite understand why I was top of the bill, because there were a lot more people closer to the scene and more eminent than I. And then I realized the reason I was top of the bill was because everyone else they might have asked is either dead or in hiding. They've been killed. Or been driven to live under 24/7 police protection. Which is kind of sad.

But again, it's not sad to people at colleges throughout the Western world. At Trinity College, Dublin, where I'm sad to say my uncle went to school, at Trinity College, Dublin, white liberal progressive Westerners cheered a speaker who said that Charlie Hebdo had been asking for it, and got what they deserved. Now, what did all those dead bodies on the floor at Charlie Hebdo die for? What did they deserve? They didn't deserve John Kerry flying to Paris a week later, accompanied at taxpayer expense by James Taylor, to sing *You've Got a Friend* at them.

They didn't deserve a hashtag and a candlelight vigil. None of those who seized eagerly on that Je Suis Charlie as the cause du jour – like George Clooney and the other Hollywood celebrities at the Golden Globes, to the thousands in the streets, and the millions across the internet. None of them were willing to do the one thing that would have mattered and show the reason why those guys died. So the cowardly and evasive support, the stupid hashtag and the little broach that Helen Mirren won wore to the Oscars with the pencil on it, all that did was tell the survivors of the bloodbath the limits of the Western world's belief in free speech, and how we'll go next time.

Oh, yeah, we'll be sad when you die, too. Although probably not quite as sad and not in as many numbers because like been there done that. That told – that told our enemies something. That a core Western liberty that is vital to what you guys do – we're not prepared to defend. Why is it so vital? Professor Sir Tim Hunt, fellow of the Royal Society and a Nobel laureate, one of the most brilliant minds on the planet, he was in Seoul, Korea, a couple of months back at a science conference, and he was required to make a few remarks.

And he began with an ill-advised attempt at warming up the room. And he said, let me tell you about my trouble with girls. Three things happen when they are in the lab. You fall in love with them. They fall in love with you. And when you criticize them, they cry. It's not the funniest line in the world, but this guy is a Nobel laureate. He's a brilliant mind. His social skills are not what they gave him the Nobel Prize for.

So the genuine – if you've met any scientists, you'll know their genius is often inversely proportional to their social ease. So he didn't anticipate that a throwaway line about how girls are so emotional would – girls are so emotional about these things – he didn't realize that that would result in girls getting so emotional about these things. And he got on the plane at Seoul in Korea and while he was on his flight, his life was destroyed.

By the time he landed at Heathrow, he'd lost everything because of 12 seconds in a glorious half century of scientific brilliance. Last year, the European Space Agency landed a spaceship on a comet 300 million miles away. Never been done before. Amazing. 300 million miles away. All anybody cared about was the fact that at the press conference the lead scientist on the project, the astrophysicist, Matt Taylor, was wearing a shirt featuring stylized cartoon women in scanty clothing. This guy did something nobody in human history has ever done before. He landed a spaceship on a comet.

Comet. Spaceship. All forgotten. Because he wore a novelty shirt. The shirt heard around the world as you Americans would say. How can feminists be expected to celebrate the first sexist to land on a comet? Back in 1969, there was a line you heard a lot from feminists. If they can put a man on the moon, why can't they put them all there? It was a joke. But at that press conference, it turned real. If a sexist scientist can put a spaceship on a comet 300 million miles away, why can't he put himself up there, too?

So he's over. He's finished. So the Royal Society bounced Sir Tim Hunt from its biological sciences award committee, and is under pressure to revoke his fellowship entirely. Shall we lose a superb Nobel scientist? Shall we lose an eminent astrophysicist? And we lose James Watson, the guy who discovered DNA, but hasn't given a speech since 2007 because of some controversial remarks that killed his public speaking career to the point where he was obliged to auction his Nobel Prize for cash in New York last year.

Shall we lose all these brilliant exceptional people, and we keep all the third rate mediocrities who finger these guys to social media. And it seems not unreasonable to conclude this sort of stuff is going on sotto voce all over the planet every day of the week, that key levers of society are one by one being surrendered to the irredeemably stupid and mendacious. And similar scenarios are playing out every day around the Western world.

One day, the planes will start dropping out of the sky and we'll wonder how on earth that came about. You know the more topics you rule beyond debate – immigration, Islam, gender fluidity, whatever it is – the more you render people incapable of debate, and therefore incapable of the defining activity of free societies. You're helping to usher in a world where real rights like freedom of expression come a distance second to the new tribalism of identity group rites.

And then comes the final eerie silence, where universities are no longer institutions of inquiry, but safe spaces, where delicate flowers of diversity of race, of sex, of orientation, of gender fluidity, and everything else except diversity of thought, which is the only diversity that matters, they have to be in these safe spaces, where they're protected from exposure to any unsafe ideas.

The biggest safe space on the planet, as it happens, is the Muslim world. For a millennium, Islamic scholars have insisted as firmly as any climate scientist or American sophomore offended by transphobia that there's nothing to debate. And what happened? As the United Nations Human Development Program's famous 2002 report blandly noted – more books are translated in Spain in a single year than have been translated into Arabic in the last thousand years.

Free speech and a dynamic, innovative, growing, advanced, prosperous society are intimately connected. A culture that can't bear a dissenting word on race or religion or gender fluidity or carbon offsets or whatever the next protected topic that comes along is, is a society that will cease to innovate, and then stagnate, and then decline very fast. And that's why the death of free speech, and indeed the denigration of the concept is a disaster for our civilization. The safe speech is where cultures go to die.

And so I would urge you in conclusion just to think about these two topics. The defining topics of our time. Free speech in the advance of the loss of individual liberty, and the demographic transformation that is going to be the most salient factor about the Western world in the two to three decades ahead. To address it, we have to be able to talk about it honestly. Thank you very much indeed. Thank you. Okay.

And Gary has said he's happy for me to take a few questions. At the microphone.

Audience: Thank you, Mark, that was tremendous, and so well said. And I have seen this myself everywhere. I'm from New Orleans. You're making such a good point about freedom of speech, but there is a balance let's say right now, and it comes even from your profession and from the whole talk show world where there's still freedom of speech. How do you think that will play out? Will the talk show people finally be suppressed? And then it's fully over with? I know it's universities and mainstream media and whatnot are totally suppression.

Mark Steyn: Yeah. I think actually I mean America has absolute free speech in theory, in the first amendment, which is – a majority of Democrats actually voted to end a couple of years back. But for the moment that exists, that theoretical thing. But what matters is the general parameters in which you're allowed to discuss subjects. And in that sense, America's newspapers for example are less interesting than Pakistan's newspapers.

They have a less wide and vigorous back and forth. And that's why it's not just about the government censoring speech. If, for example, at Mozilla, a guy makes a $100.00 donation to the marriage referendum in California, and he's not allowed to be the chief executive of Mozilla anymore – he's to be hounded out of public life entirely – now, you can say Mozilla is a private company and entitled to do that. But all private companies should have a decent respect – that matters more than government – for what the bounds of free speech are.

I flew in here on United. That was my first mistake. The second was when I paid $12.00 for internet access on the plane. And I discovered that my own website is banned by United Airlines. Which is why I'm not flying United anymore. I'm having to make some rather hurried arrangements to get out of here tomorrow. If you see me at the Greyhound station and you want to give me a lift, that'd be welcome.

It might be most welcome. But they've banned me presumably because somebody, some climate scientist or whatever, was on there. And reported me as a hater. But they let me on the plane, by the way, to terrorize the passengers. I could have instead of just dialing up the website, I could have struck up a conversation with a person in the adjoining seat. I could have bent the ear of the stewardess. It was a massive security breach. They banned my website but they let the source of the hate actually on board the plane.

So don't fly United. Because this tells you about the – how safe their security is, you know. And I actually had priority boarding. That's how bad it is. They give the haters priority boarding at United. So these things are small indications. You should always listen carefully when somebody is telling you to shut up. People who disagree with gay marriage, they disagree with gay marriage. They don't disagree with the right of gays to advocate gay marriage. But as that Mozilla guy found, people who oppose gay marriage, the other side doesn't even want to let them say anything.

The climate guys now think that abject climate denialism should be a criminal offense. There should be jail terms for people who disagree with the climate consensus. These are things that are telling you – you still theoretically have the first amendment, but if you raise certain issues, your career will be ended, you'll be insulted on Twitter, you'll be socially ostracized. We do not have the proper boundaries of free speech.

Audience: And how will the talk show people be affected by this or balance it off? I have a talk show –

Mark Steyn: Yeah, because I guest host for Rush, and people probably wonder why does he have a foreigner guest host for him? That is one of the jobs Americans would do, you would have thought. So when the new fairness doctrine is enacted, I'll be able to get to sponsor Rush for to become a British subject, so he can do his show, beam his show into America from the Turks and Caicos Islands, because that is what is going to be happening if they do come up with a new fairness doctrine.

Audience: You think they'll do that? You think they can pull that off?

Mark Steyn: I don't rule that out. And it's interesting. The Caitlyn Jenner thing is interesting. It's like it was this is the thing that most people don't think about. The most people don't think about transgender people all the time. Because if you've had it done well the whole idea is that nobody knows you were a guy three years earlier. That's the point of it. You're not meant to be out of the closet. You're meant to have such a fabulous closet that you're the hottest looking chick anyone has ever seen. That's the whole point of it.

And yet the minute – and so it wasn't an issue people had even thought about much. But what was interesting was that the minute that happened, it was agreed there was an approved line on it, and you couldn't disagree with it. And that's why that's what they're telling you on that. They're telling you what they would like to do to the next topic that catches their fancy. You should always look. When you start having this ruled out of debate and that ruled out of debate, you should think, well, I don't want to talk about transgendered people. It makes me a little bit uncomfortable, frankly. I'd rather you just moved on and brought something else.

You should think instead what's the next topic you're not going to be able to talk about? And the one after that. Thank you very much for your question.

Audience: Hi, Mr. Steyn. I'm a huge fan of yours. I look forward to you every time you fill in for Rush. I'm still looking forward to your song, *Anchor Babies*. You rattled off a great lyric right of the top of your head.

Mark Steyn: I did. I can't remember *[laughs]* what it was now. What was it? Anchor – you love it. What do we know? It's November tomorrow. So if you listen to the seasonal channels, they're going to be playing this all the way to Christmas day. It was – *[sings]* Anchor babies, slip a passport under the tree for me *[laughs]*.

Audience: That was it.

Mark Steyn: *[Sings]* Anchor baby, hurry across the border tonight *[laughs]*. It's the Trump campaign theme. It'll be everywhere. You'll love it.

Audience: Yes. I just love you. I have your book. Just started reading it. *Disgrace to the Profession*. And it's great reading and easy reading, too. You can bring it in the bathroom with you. Short chapters.

Mark Steyn: Take it on a United flight, because you won't be able to get my website up there. Dogged ear paperback, that'll get you through it.

Audience: You are actually the only reason that I'm here.

Mark Steyn: Really?

Audience: Yes.

Mark Steyn: Oh, don't say that.

Audience: It's really true.

Mark Steyn: Don't say that.

Audience: I actually got in here for free.

Mark Steyn: I was doing so well.

Audience: Not to disparage any investors here.

Mark Steyn: This is – I had a night like this before, when I was appearing in Mansbridge, Ohio. Somebody said, oh, did that – you're the only reason I'm here. I was doing so well. I had the crowd with me all the way. Then I shook them off at Cleveland. And it was okay. But thank you. Thank you very much.

Audience: Yeah, I actually got in for free for –

Mark Steyn: Oh, come on, now you're making –

Audience: I did, I did, I exchanged –

Mark Steyn: This is like being on United. Because I paid $3,300.00 for that flight, and it was oh, yes, I'm – I was – I paid $49.00, but I got upgraded, it's like you're doing the same thing. People have paid hundreds of dollars. This is *[laughs]* –

Audience: No, actually, I'm a massage therapist.

Mark Steyn: You got in for free.

Audience: I did. I'm an –

Mark Steyn: You came in down the ventilation shaft, okay.

Audience: Actually exchanging –

Mark Steyn: That's a tip for next time.

Audience: - free chair massages.

Mark Steyn: Thank you very much. Any more questions *[laughs]*? Okay.

Audience: Mark, I lived in Northern Germany in the mid '70s. As you said, it's a very ordered society. Even after the unpleasantness of the '40s and the '30s. Pretty much a – very much racially pure society. And I cannot wrap my hands around how German society – the folks in these wonderful, beautiful, sparkling clean villages, how they're going to react to this? I think they're going to get awfully pissed off, and I see a whole lot of turmoil, societally, in Germany, and I'd like your comment on that.

Mark Steyn: Yeah, I think you're right. What did you say? Overlooking – you said it's a well ordered society overlooking the unpleasantness of what happened in the '30s and '40s. Actually the reason it was so unpleasant in the '30s and '40s was that they were actually incredibly efficient and well-ordered about what they did then, too. And there's no reason to think that when things get unpleasant, in your word, again, that that won't also come into play.

I mean it's already happening – as I said, you can not like Germany, and you can not like Austria, and you can not like – but those societies work. Everything works incredibly well there. And it's already breaking down in Austrian border villages. For example, if you go on the internet, you can see these extraordinary videos. The trains now won't go from Vienna all the way to the border. They stop at the town that's six miles short of the border. Because the border village has been overwhelmed by these immigrants.

And, as a result, it doesn't work anymore. It's very difficult to buy a shotgun in Austria right now. They've had this massive boom in shotgun sales in Austria out of nowhere. Because people no longer feel safe. You cannot admit numbers on that scale. And by the way Austria already had demography by the year 2040 a majority of Austrians under 15 will be Muslim. Now this is a country that two generations ago was overwhelmingly Catholic. I don't need to tell you. You've all seen *The Sound of Music*. That was Austria in 1940. Salzburg, 1940.

[Sings] How do you solve a problem like Mariah?

Now, Austria, 2040, *[sings]* how do you solve a problem like Sharia? It's a hole. And in nothing flat. Nothing flat. And so this idea that there are no consequences to that, that it's just like these cast changes they have in the – everyone's talking about should James Bond be black? I think they made for comic book fans here today I think they made was it Green Arrow or Green Lantern? One of those guys. They made him gay. And it worked well. So now they're thinking maybe they'll make Daredevil or Spiderman gay.

And they're thinking they think it's like a cast change, like that, that you can make James Bond black, but it's still the whole thing goes on. It'll still have the interactions. I'm afraid you're growing rather tiresome, Mr. Bond, and the shark tank, and all the rest of it, it's just the white guy's been replaced with the black guy. And they think in Europe that they – that's what Chancellor Merkel thinks. You can replace your human capital, and Germany will still be the most efficient society on Earth, and German cars will still be the best cars on the planet.

It's not going to be like that. Germany under Angela Merkel's plan has chosen to basically close down. And that's the problem. So it won't be – I'm not really sure whether making the Incredible Hulk gay actually leaves the whole thing unchanged. I think there's kind of issues with that, too but this idea you can simply – people are interchangeable like that is not true. And that's why this one way traffic in Europe at the moment is the sharp end of the biggest story of our time.

Thank you very much, indeed. Thank you.

Summit on Americas Future

Gary Alexander (MC), Charles Krauthammer, Lawrence Reed, Mark Steyn

Gary Alexander: So could I ask our other panelists to come out now. Lawrence Reed you heard this morning talk about the political process in terms of character, how our leaders need to exhibit more character, and Charles Krauthammer, who have the talk before lunch about the political year of the insurgency, so I'm gonna ask both of those panelists to come up and join us at this time.

And I have a few preliminary comments, and we do hope to open it up to the sidebar questions from the microphones toward the end. I have four basic questions. The first one is political, and then we move into economics. But when we talk about the Summit of America's Future, we're generally talking for a medium – intermediate term in the future, like ten years. And I'm thinking to America's official 250th birthday, which will come in about 10 years.

But I am gonna argue, since I do a history column in my weekly blog for Navellier.com, that I could argue that the United States, as an idea, was born 250 years ago this month in the Stamp Act Congress. Now, I don't know how many people have heard of this since their school days. But 9 of the colonies sent 27 delegates to New York City in what become Federal Hall, where President George Washington took his inaugural oath and was the first executive mansion.

They met in the month of October 1765 for 18 days, and they sent a letter – a demand actually – to Parliament and to King George that the Stamp Act be removed. Of course, the Parliament did not listen. King George was a young impetuous man, and neither did he listen, but you could argue that the seeds of the American idea were sewn in New York City in Wall Street, that Federal Hall, 250 years ago this month.

So my first question has to do with politics. I'm gonna start with Charles and then come on down the line. This conference started Wednesday evening during the presidential Republican debate, so I'm just imagining that most of you did not see the whole debate on TV 'cause I saw you all over there with our welcoming reception. I'm sure you could have seen it on a replay and a television or your mobile device or some other item. But from what I saw in clips, it was an outrageous performance by what I thought was a business-friendly channel, CNBC, to approach the Republicans in a way in which would bring out their best ideas but, instead, became a game of Trivial of Pursuit. That was my feeling.

Now, Charles Krauthammer had gone on TV that night. I saw a clip of it – I think it was O'Reilly – and called the performance of CNBC obnoxious. Now, Charles, I want you to take off the gloves, and don't use such guarded words tonight. Tell us what you really felt about the CNBC coverage and what could be improved in the next Republican debate.

C. Krauthammer: Well, I have to confess that I'm still stuck on the image of the Japanese dominatrix and the North Korean general. I went up and down the hall trying to shake that outta my head, but –

[Laughter]

Mark Steyn: You're in New Orleans. You don't have to shake it out of your head. It's like two blocks away.

C. Krauthammer: And I'm here on the right night for that, too. Look, I think, as I said in my talk, I think that was a rather salutary development. That was about as naked a demonstration of the bias of the media, and I don't remember which of the panelists pointed it out. It could've been Marco, but you just contrast it with fawning my end, which the panelist had interviewed and questioned the Democratic candidates.

I mean media bias is so overwhelming and so obvious that I've counseled Conservatives, young Conservatives, to simply give up complaining about it, stop whining, and live with it like the rain and the occasional tornado. It's there. Reagan was able to overcome it. In fact, it was worse 50 years ago when the left had a monopoly of all the major instruments of mass communication, the three networks, the two weekly magazines.

The beauty is that with the advent of the Internet and with the rise of talk radio, the Conservatives actually have opposition voices. The reason that Liberals so hate and are so fixated on Fox News is because it broke the monopoly. The genius of Roger Ailes and Rupert Murdoch was in finding a niche audience in American television news – half the American people.

[Laughter]

And Liberals can't get over it, and I don't think it's a great conspiracy. I think people just – Liberals tend, more, to gravitate to those kinda professions – the media, the helping professions, while young Conservatives decide to go out and drill mines in Fiji and make a lot of money and do a lot of good things and produce things. That's sort of how it is – self-selection, but accept it.

And remember this: Despite 50 years of this cultural imperialism on the part of the left, whereby marching through the institutions, they gain what Lennon would call the "commanding heights" of the culture. This country remains center right, so it tells you something about how bedrock is this natural love of liberty among Americans and their common sense. I suspect some of my more pessimistic friends here might disagree. I'm waiting for Mark to erupt, and I think I will sit back and enjoy the eruption.

Gary Alexander: Oh, Charles, I have to remind folks that we used to have adversaries on this panel. I think that a lot of us agree on a lot of points here. But three or four years ago, we had James Carville, who said he felt like a "fire plug at a dog show," to which you said… Do you remember?

C. Krauthammer: I remember. It was my opening statement after –

Gary Alexander: It was something like –

C. Krauthammer: – Ragin' Cajun smoke. I said –

Gary Alexander: I'll help –

C. Krauthammer: I said, "James, permit me to lift my leg."

[Laughter]

Gary Alexander: All right, Mark Steyn, I guess you, as a Canadian, can't vote in this upcoming election, but who would you vote for and why if you could?

Mark Steyn: Well, actually, as a Canadian, I can vote in this election, and I go 47 states around America. I may do it early and often on Election Day.

Gary Alexander: Good.

Mark Steyn: It would be totally racist to prevent me, as you know. As a Canadian, one of the slightly depressing things – I don't like this idea of "American isolationism." A lot of people talk about the idea that America shouldn't be involved in the world and should come back to a fortress America, and I always say, "What fortress?" Because 60 percent of the population in Mexico now lives in the United States. They've moved north of the border, and 88 percent of bad Canadian ideas that I came down here to get away from have followed me south of the border.

And I think if you look at that, this idea that – I don't really buy the center right argument that Charles makes, a natural center right nation. Because I think if you take the Democrats and the media, they all share the view, openly expressed by Bernie Sanders a couple of weeks ago, that the natural end point of the developed society is Denmark and that America is just taking a little longer to get to it than other countries. Half the population of America does not seriously disagree with that, and a significant chunk of the other half has been happy to seed large portions of societal leaders from the schools to the pop culture to the mainstream churches to people who are essentially are looking at a Scandinavian destination.

You, in fact, have done a bit of this yourself, Charles, when, shortly after Obama was elected, you said you didn't think he was born in Kenya. I think you said you thought he was born in Stockholm because he was a natural Scandinavian in his approach.

C. Krauthammer: Yeah. And that used to be a funny line. It doesn't –

[Laughter]

Mark Steyn: Yeah, I killed it.

C. Krauthammer: It doesn't work. It's in the delivery, Mark.

Mark Steyn: It's the accent, I think.

C. Krauthammer: The other thing I said is they've really chosen the wrong city for the Obama presidential library. It should obviously be in Havana, but let me just say one thing. If you assume that politics follows culture, then your pessimism is warranted, and you would expect that. You would expect that after 50 years of relentless messaging, to use a very ugly word, from the left in the universities, in the newspapers, on television, in Hollywood – I mean every possible cultural venue, all the way down to the national museums, which are a disgrace – that it would translate into a liberal politics being prevalent and pervasive.

You look at the 2014 midterm election, and it is not true. And my argument is you may think that's true because of Obama's success at the presidential level. But my argument was, earlier today, that I think that's an anomaly having to do with the nature of the candidate, and it will be seen as a historical contingency – first African American and all that. But I think we're gonna see a reversion of the norm.

And for some reason – and I say it's a kind of a mystery; perhaps, it's an expression of American exceptionalism – for some reason the "expected" change of politics to follow the change of culture has not occurred in America. And you can attribute it to providence, whether you're a believer or not, that there's something about the common sense, the decency, and the love of liberty that remains inherent among ordinary Americans that resist that – continues to. I'm not saying it could not – that the history couldn't change, but I'm not a determinant when it comes to predicting that that will change simply because the other guys control *The New York Times*.

Gary Alexander: Well, Larry, you're an economist. This morning, you spoke about what I would call morality, character, honesty, integrity, optimism, courage. Are there any of the candidates that kind of have that Mount Rushmore look about them in your eyes, right now?

Lawrence Reed: Well, there are a couple on Mount Rushmore I wouldn't have put there, so that's not a very good – well, I go into every presidential debate with very low expectations, and they still manage to disappoint me every time. I think it was Mark Twain who once said a great line about politicians. There weren't many that he liked, and one, in particular, that he didn't like apparently had passed away. And he said, "I didn't attend the funeral, but I sent a nice letter indicating that I approved of it." That's sort of my feeling towards most of 'em.

No, I recognize that you've gotta have, ultimately, if you're gonna undo the mess we're in, you've gotta have politicians who will do the undoing, who will be elected, but I think people put too much attention on politics and politicians and, invariably, are disappointed. And more of our time and attention of our investments out to be focused on changing ideas, changing the climate of opinion, because, ultimately, no politician in a Democratic society can act very far outside of the parameters of public opinion. That's where we need a lot of work.

If you expect even the best of politicians to actually deliver on their promises, you better make sure that the climate of opinion will be there with them. And until we fix that, I don't put a whole lot of faith in politicians, so I'm focused more, at our organization, on things like young people and ideas on the assumption that if we get those things right, the politics and the politicians will ultimately take care of themselves.

Gary Alexander: Well, my second round of questions I think gets to the core of exactly what you're talking about – policies. And I'm going to focus on entitlements, and I'm going to expand that beyond the normal Medicare and Obamacare and Social Security to things like disability.

In 1960, 1 percent of our labor force was disabled. Now, it's eight percent, and we have far fewer coal miners, firefighters, dangerous professions, farmers, and we have more deskwork, where I believe that a lot of this is being enabled by a government, which says, "Sure. You're entitled to this. You might be able to work, but why should you?" And I'm 70 now, so I'm in that cutting edge of the baby boomers, and they're coming along, the "pig in the python," as they're called, coming through the demographic of age groups to the time in which they're expected to be taken care of.

Now, a few years ago, we had on this Summit of America's Future – we had Newt Gingrich and Dick Armey, along with Charles Krauthammer. And Charles gave his speech about – or his three-pronged points on how to solve the entitlement crisis, and Dick Armey got a little agitated. He said, "You mean if I have a private pension and a government pension, the government's gonna tell me, because your private pension's done well, you don't get this government pension? That would be fraud in an industry, and it would be fraud if the government did it." And this is – you know, Dick Armey's a fairly free market guy.

So what I'd like to do now is have Charles Krauthammer tell us the – again, remind us of the three prongs, which I thought were fairly sound-minded as far as the solution to the entitlement. And then, let Mark Steyn and Larry Reed respond to that. Charles?

C. Krauthammer: Well, I hesitate a little bit to do that because Dick Armey isn't here to defend himself. Look, incidentally, on the disability issue, there's a very easy way, I think, a rather very simple policy way to solve the problem. The problem of the millions who have been added to the roles since the recession. The recession does a lot of things, but it doesn't increase the number of accidents per capita in a country. So obviously, this is all – or largely – fraud, another way to retire, and that is to renew the whatever examination is given when the initial granting of disability status occurs. You do it every couple of years, and you will find that the number of renewals will drop dramatically.

As to the back-of-the-envelope stuff, for Social Security, it is back-of-the-envelope. It is very simple, simply a question of political will because you always you get demagogue. Very simply, you raise the retirement age. That's number one, and it's screamingly obvious.

When Social Security was instituted, the life expectancy was 62. When Bismarck – Bismarck was the first to create a state pension plan. I think it was in the late 1880s, and life expectancy he chose, incidentally, as the age in which you receive the pension benefits was 70. You know what life expectancy was at the time in Germany? Around 47.

The man was a genius. He wasn't a philanthropist. Nobody got there. So we clearly have to raise it and index it to longevity. Social Security was intended to prevent destitution among the elderly. It was never intended to subsidize the green fees of a generation of boomers, which is what it's doing, now.

The second is the adjustment to the cost of living formula. It's complicated to explain it, but it's extremely easy to do it – stroke of the pen – because, right now, our estimates overestimate what inflation is. And the third is – and this is the most controversial – this is where Armey and I disagreed – is the means test. The argument against it is you paid into it, so it's fraud and deception and theft for the government to withhold your pension simply 'cause you're rich when you retire.

Well, the fact is that you paid in, and the money's already stolen. It doesn't exist. There's a box somewhere in West Virginia that contains the money that you put in. The money has been taken, and what's left behind are pieces of paper that said the government owes you this money, which it doesn't have. It's already been spent. It's a pay-as-you-go system. It is not a pension system.

So that's it. It's not hard to do. It could be enacted in ten pages and in one day. And if I'm right – and I'm extremely optimistic – if we end up with Ryan and Rubio, I think we might actually get it.

Gary Alexander: What do you think of that means testing? I assume all of us have means, men of means up here. Would you agree with that, Mark?

Lawrence Reed: Speak for yourself *[laughs]*.

Mark Steyn: Yeah, I think the idea of universal benefits, the age of universal benefits, is over. And I would say the response to Dick Armey is that when you have a government that has to pay back $18 trillion just to get back to having nothing at all – by the way, nobody in human history has ever paid back $18 trillion. Nobody has ever done that. Nobody has done what Obama has done, which has spent $8 trillion. No human being has ever done that, not just spent it, but spent it and had nothing to show for it, which, again, is I think is kind of impressive, in a way.

So I think – because you know, you say what you like about those Europeans, but I took the train from Copenhagen to Malmo a couple of weeks ago, and you go over the Oresund Bridge, which is a fantastic bridge. Obama says only government can build the Golden Gate Bridge. Only government can build the Hoover Dam. You would have enough in his stimulus to build a Golden Gate Bridge from Boston to Shannon in Ireland.

[Laughter]

See, I'm being serious. That's the "Golden Gate Bridge," and instead, he hasn't done anything there. He's done bureaucracy and dependency because the two have a maligned relationship. If you have more dependents, you need more bureaucrats to minister to them, which generates more dependents, which generates more bureaucrats.

And what happens, again, I would say – Charles mentioned politics and culture – I would say that's a cultural thing as much as anything, that once depressed towns get into the habit of not seeing their menfolk coming out the front door and going to work every morning, then it's easy for that to settle in and become a transgenerational thing. And to get out of that requires a cultural change.

But that cultural change also covers the Dick Armeys. Because when you're as broke as the federal government is, then it's time to give back something to your country, frankly, if you want the country to still be around. I know it's nice to have Social Security because maybe Dick Armey, that works out, you know, the 75 cents – it works out to 75 cents less than he personally has to pay to see Tony Danza in dinner theater in *South Pacific* in Coconut Grove or whatever he's planning on doing with his retirement.

But you have to have the cultural climate in which people are willing to do that 'cause this life, fiscally, this is Road Runner when Wile E. Coyote has run off the cliff. And he's stepped four feet off the cliff and he looks down, and he hasn't yet fallen because that's cartoon magic. So he takes a fifth one, and he's still up there. And then, he takes a sixth, and he plummets all the way to the cliff. And the big anvil from the Acme Company follows him down and lands on his head and smashes him. Dick Armey is four steps off the cliff, and his time for him to give a little back.

Gary Alexander: Larry.

Lawrence Reed: Since we've invoked –

Gary Alexander: Oh, Dick, I'm gonna defend you when it's my turn again.

Lawrence Reed: Yeah. Well, I remember when a very memorable line from Dick Armey when he was on a panel at this conference a few years ago. There were several of us on the panel moderated by Mark Scalzo that, at one point, Mark asked each of us to say who our favorite president was, and one person said Teddy Roosevelt. I said Grover Cleveland. Somebody else said – who knows who they were? But Dick Armey came last, and he said, "I'm in favor of much smaller government, so I'd have to say my favorite president was Jeff Davis because he tried to cut it in half."

[Laughter]

No, I think I would be in general argument with both Mark and Charles here, especially the emphasis on a cultural change if we're to fix the entitlements process. That's another way of saying this has to be a moral, personal, characteristic renaissance from the ground level up.

Now, there was a time in America when we had no sense of entitlement or if we did, an entitlement met a paycheck, not a welfare check. What a change in this country when we don't think of paychecks today. We use that term "entitlement," don't there was a stigma attached to living at the expense of others, especially if there was some measure of dishonesty to it if you really didn't have to, if you were breaking the rules. Today, that's so widely accepted, and people grumble about it, but it goes on, and it gets worse, and nothing happens no matter who's in power.

So I really think that goes back to what I talked about earlier this morning, that if we're to save this country, fiscally, financially, and in every other respect, there has to be, from the ground up, a moral, personal, character renaissance. Nothing else will do it. We will not fix these problems in the long run in spite of all the good little tinkerings we might do along the way. We're not gonna ultimately fix it until that renaissance take place one person at a time.

C. Krauthammer: Can I make one point about that?

Gary Alexander: Sure.

C. Krauthammer: I agree entirely that we need and could use a cultural moral renaissance, but fracking helps, as well.

[Laughter]

Mark Steyn talked about the towns where the habit of going to work, intergenerational, not seeing your father work, and you get this sort of culture – intergenerational culture of indolence, poverty, and despair. Well, then, fracking comes along in Pennsylvania along the Marcellus Shale. One side of New York State bans it. The other side, Pennsylvania, allows it.

This is as political decision. The moral and cultural differences between the two communities is rather minimal, and yet one is flourishing. The towns are reviving, and the other side is not. So I don't think you ought to, for all of the importance, which I concede of the cultural needs and the influence of culture on politics. Politics makes a big difference. That's the reason that we have elections, and they have consequences.

For instance, and this is the most obvious, and I'll stop with this, depending on who you elect to the presidency, you will get the Supreme Court influencing our culture in a way that will last a generation. And that's, I think, the single-most important consequence of any presidential election.

Unknown Male: Good point. Yeah.

[Crosstalk]

Mark Steyn: Could I just disagree? I'd like to, just the in the interest of controversy, I'd like to, with trepidation, disagree with Charles on that because I think, again, I think, even you look at the Supreme Court, everyone always says, "Well, I don't really like my party's candidate, but the Supreme Court is crucial. So he'll get to make two or three appointments, so we've got to drag him across the finish line."

But I think even the Supreme Court actually plays catch-up to culture. I don't think when Anthony Kennedy decided in favor of – and by the way, I'm not really in favor of the idea where you have five robed regents who are the most important people in a nation of 300 million. But when Anthony Kennedy decided that same-sex marriage was – he suddenly claimed to have detected the emanations from the penumbra in the Constitution legalizing same-sex marriage 25 years after the chief justice of the United States had basically said there's no such thing, nothing really changed in jurisprudential terms between 1987 and last year. All that changed was the culture, and Anthony Kennedy looked in the mirror and decided it was time for him to play catch-up to the culture.

And when, in the fullness of time, some transgendered bathroom ordinance comes up before him in two or three years' time, he'll be playing catch-up to the culture again. And that's why I would say Republican-appointed nominees go rogue far more often than

Democrat. No, you don't have to worry about Ruth Bader Ginsburg suddenly coming against abortion or whatever. But even those Supreme Court justices are playing catch-up. Even Anthony Kennedy is just playing catch-up to the culture in that respect.

C. Krauthammer: Mark, the only reason Anthony Kennedy was on the court and able to make that crucial swing decision is that he was the third choice when Robert Bork was defeated, and that was a political event. We didn't have enough senators – we, conservatism, didn't have enough senators to stand up and to take and to elect Robert Bork. His defeat led us to having Anthony Kennedy, who finds emanations and the new meaning of existence in the Supreme Court and the Constitution every time he looks at it, and that is precisely a political act. That's the perfect example of the politics dictating how the culture is influenced.

Again, I'm not denying that they influence each other, but Kennedy wouldn't be there if there hadn't be a political act by the Senate, depending on the number of votes on either side. We would've had Robert Bork, and I can assure you he would not have found the same decision that Kennedy did.

Gary Alexander: Larry.

Lawrence Reed: I don't know that we're all that far apart here. I think all of us would agree that –

Gary Alexander: Oh, we're jading it up, so get a little thing going.

[Laughter]

Lawrence Reed: Yeah, so we get a little excitement going. Politics, of course, is important and what politicians do, how they shape policy, and the decisions they make are very important. But I think that they ultimately are reflective of the general culture and the climate of ideas back home.

And let me just use this as an opportunity to add an idea that may be an extra arrow in your quiver of arguing for smaller government. The debates certainly, I think, highlight this, as well. Most Americans would tell you, without much thinking, that politics and politicians are too corrupt. They're too unpredictable, too unreliable. There's a lot about it that's just dirty business, and I think that's certainly true. But they don't necessarily make the connection between that and the duties, the responsibilities that we've asked government to take on, the power that we've allowed it to accumulate.

There is no way in the world that you can have both good government and big government. You just can't. They cannot go together. The bigger it gets, the more inherently corrupt it becomes. The more it's enabled to pass out favors to its cronies, the more corruption there will be, and guess what happens.

The truly good people of solid character – and I hear this all the time – say, "I might've wanted to run for this office at some point," or, "At some point in my life, I thought about politics, but not anymore because it's just lousy, rotten, dirty business. Why do I want my name to be dragged through the mud?" And I'm sympathetic to that. I think that's one of the casualties of the size and the scope and the intrusiveness of government.

Gary Alexander: Well, you ran for office, right? You experienced that.

Lawrence Reed: I didn't make it. Yeah. Right. Yeah. Well, I'm still pure and uncorrupted because I didn't make it, but that's – I think we need to remind people you cannot have big government and good government at the same time. If you want better government, you ought to also be working for smaller government.

Gary Alexander: Well, yeah, great. Well, right now, I want to combine the economic and the political into question because this is an investment conference. And in the process, I'll defend poor Dick Armey.

There was a slide on the speaker after Larry this morning, Peter Ricchiuti. Now, I align with his general point of view very closely, but I didn't align with his chart, which shows that Democrats are better for the stock market. He showed the stock market went down under George Bush, up under Obama, up under Clinton.

My first problem was that – is it didn't go far back enough. It didn't include an up market with Reagan, Eisenhower, Coolidge, and a down market with Carter and some other Democrats. But the more important is that, putting the judicial aside, half of the determination of our policies comes from the White House, the other half from Congress, and you can't ascribe an entire economy to a president.

And in this particular case, Clinton had a monopoly of Democratic Congress in the White House. His first two years the stock market was flat. It was only when the Republican revolution came in '94 with Dick Armey and Newt Gingrich and John Kassich and others in which the economy and the market took off. And you could say the same thing about some previous decades, and Mr. Obama had a Democratic monopoly the first two years. But it's only after the Tea Party in 2010 when the market began rising a lot faster.

So my main point of view is it takes two to tango, and my favorite moment in the entire history of this political of this conference is when Karl Rove was here debating Howard Dean. And I said to Karl, just like this, right his face, I said, "Karl, you had the White House and the Congress for six years, and you passed No Child Left Behind, Medicare benefits. You broke the budget, and, Karl, you broke our hearts."

[Laughter]

Lawrence Reed: That was one of the great moments. Great moment.

Gary Alexander: Now, my question is, and I'm gonna start with Charles Krauthammer, even if we get a Republican like Marco Rubio and Paul Ryan, are they going to break the contract with the people the way Larry has said? The big government gets monopoly power, and they might not do the right thing? What do you think?

C. Krauthammer: Well, they will surely break your heart. That I have no doubt. Whether they'll break mine, I'm not sure because I'm less Utopian, I think, in my thinking about what government can do. I think really where we all agree, we're in a crisis of the welfare state. We're gonna have to make a decision. I think Mark is exactly right. Obama managed to go on the biggest spending spree in galactic history, and that includes the Klingons, who apparently spent a lot of money on their weapons and had nothing to show for it.

You're right. The Hoover Dam was left behind by FDR. Eisenhower left behind the Internet, you know, Interstate Highway System, and Obama will be remember for leaving behind Solyndra, which is about… So we agree on that.

I do think that the – and we're at a crisis point mostly because of a demographic and technology. I happen to think the structure of the welfare state, as established in the mid-20th century were reasonable for dealing with the problem at the time. Again, when life expectancy is fairly low, you can have a very generous pension plan. You can't have it now. You have to reform it.

And we're at a point, where, if we don't reform it, we're gonna be Road Runner. We got one more step, and we're gonna all the way down, and we have to do that. We have to do it quickly, which is why I think this is a very important election. We might still have a chance in 2020, but it's getting pretty close.

It was Herb Stein who once said, "If something can't go on, it won't," which I think is one of the most profound things I've ever heard, meaning, in this context, it's endless deficit spending. At a certain point, you're out of money. You're done, and then the economy will collapse. You become Greece, and I like the idea of us becoming Greek hairdressers.

[Laughter]

If we had done that, we could now be vacationing on the beach in the Adriatic instead of being here, right now, but I digress. We can do this. It's not that complicated. One of the most encouraging things is that a lot of Conservative think tanks, run by very young people, like Yuval Levin and others that we all know, have come up with fairly interesting reform plans.

Now, of course, they're called "rhinos." They're compromisers. They're not gonna revolutionize the country. Conservatives don't generally wanna revolutionize things. If we can adapt the welfare state for all the good it does, and it needs to – any decent society has to take responsibility for the helpless and those who cannot help themselves. We have to find a way to do it without going bankrupt, and it can be done. So I'm rather optimistic.

Whether it will satisfy the more constitutional expectations, which share but don't expect to see, which is paring down even our understanding of what government ought to do. I think that's less likely. But for now, I'll take Social Security reform.

Mark Steyn: Yeah, I like that Herb Stein line, too: "If something can't go on forever, it won't." But I do think it makes a difference whether you manage to go down to third and then second gear and come to a stop four inches before the cliff edge or whether you go over the cliff, and it doesn't go on forever because you're lying at the bottom in a smashed heap of rubble after a big fireball.

And I find it interesting when I'm talking to people in Washington on the right – Republican Party – and you talk about the debt. There's this worrying look in their eyes, which is like some kind of Klingon alien civilization thing. But when you talk about the debt, you can see there is no serious plan to actually paying down the debt. This budget that was just agreed upon a couple of days ago is a very good example.

And then, the assumption is always, "Well, actually, nobody really pays down the debt." Other countries pay down their debt. New Zealand will have paid off, what they call down there, it's "Crown debt" – "the" Crown's debt. They will have paid off all their Crown debt, I think, by 2017.

The Canadian Liberal Party paid off national debt all through the 1990s. I was on the radio up in Canada a couple of weeks ago. My compatriots, God rot 'em, have just made this buffoon, Justin Trudeau, prime minister, who is basically some stoner assistant high school drama teacher. I'm not kidding you. That's the two things he spent his first 40 years doing – 2 years as a drama teacher and 3 decades taking pot, and he's now prime minister.

And he said he's going to run deficits. He's a controversial figure because he's proposed running federal deficits in Ottawa for the next three years. All right? A Canadian Liberal prime minister, his shocking, fiscally profligate, totally irresponsible plan is to run deficits for the next three years.

When you talk to suppose deficit hawks in Washington, they've got plans to marginally – well, like this budget, which you spend more the next 3 years, and then, in 2075 or 2183 or 2359 or in the year 2525, then, the rate of increase of growth starts to decline by 0.04 percent, and we will be on the course to… So I'm in the weird situation of thinking, "Why can't right-wing Republican mad men, who supposedly wanna shove your granny off the cliff, why can't they be as fiscally responsible as this useless pothead drama teacher who's managed to wind up being prime minister of Canada?" There's no realistic expectation.

And again, it's so weird to me because it is actually the government itself, which is just increasing. Nobody's getting anything. Nobody's saying, "Oh, I love the new Obama Dam or the Obama Bridge," or whatever.

In my corner, New Hampshire, the border crossing I often use to go to Quebec is between Mansonville, Quebec and North Troy, Vermont. And for as long as I've known it – cross that thing for 30 years – on one side of the border – it's a two-lane blacktop in the middle of the North Woods. And on one side, Uncle Sam has a one-room hut, and on the northern side of the border, her majesty, the queen, has a one-room hut. And that's how it's always been.

And I went around it last year after the stimulus had kicked in, and here majesty, the queen, still made due with a one-room hut. And then, the guy raises the thing, and you drive through into America, and you see Uncle Sam's old one-room hut abandoned. And then, you round the corner, and there's thing like the Starship Enterprise that has been dropped out of space.

You can see it. Go to Google Earth. You can see it from 400,000 miles up just sitting there, this thing squatting in the middle of the woods, in the middle of nowhere, and the road widens to six lanes. And the guy comes out in the full Robocop, waddling awkwardly 'cause you can't walk in that thing. This is for a border crossing that gets 12 cars an hour, North Troy, Vermont.

When the aliens prowl through the rubble of our civilization, they'll see this thing, saying, "North Troy. What an all-mighty empire, North Troy, the emperor of North Troy. He must've commanded it all. *[Inaudible due to laughing]*

Twelve cars an hour, right? So there's two lanes. That's in peak times, two cars an hour for off-peak hours. So you got two lanes, one for the car going north, one for the car going south, and four lanes for the Department of Homeland Security to go bowling in. That's what they've done, and it's all like that.

There is nothing. It's just government growing of itself, government growing as government, and that's what's so weird about, too. That's what so different from what the Scandinavians do.

C. Krauthammer: But, Mark, it's not all of it, and you know that. Everything you mentioned is waste and should and can be wiped out. But if you did that, it would make no difference on what you are correctly terribly worried about – the growth of the debt. That's from transfer payments. It's not from the border crossing of North Troy, Vermont, which, incidentally, is a Klingon structure.

[Laughter]

It's all going – the money comes from the taxpayer to Washington. Yes, some of it is wasted. It's a miniscule fraction relative to the trillions that are transferred, and the rest ends up transferred to other people, to the point where – I mean there are all kinds of calculations. But if you take just Social Security, Medicaid, Medicare, Obamacare, and national debt, I think the number is that by 2029, there'll be nothing left to spend on anything else.

It's appalling, if you live in Washington, to see all the waste everywhere, but it is, as a matter – if you're worried about the overriding issue – and you say this is the issue that's gonna put us on the Road Runner path – is the national debt – that's in controlling transfer payments. And if you do that, then you can actually get hold of the curve.

And you say, "Why can't we be like Canada and New Zealand?" Look, that would be very nice, but there's one difference. We spend money to defend the world, and they don't.

Now, you can argue that we shouldn't. We know the Europeans abolish their militaries, spend it all on the welfare state, and that reduces their debt. And the reason they were able to do it for 70 years since the Second World War is because we were the umbrella, and we were spending 10 percent of GDP in the Kennedy years. It's now about three percent and dropping.

But that is the extra expense that we have and that we've accepted the burden to defend the free world, partially out of a matter of self-preservation. We don't wanna be the only island of liberty on the planet, as we would've been had we not helped to win the Second World War, and partially as a matter of nobility. This is who we are.

We decided to accept the torch of liberty. We never asked for it. We didn't want it. We are not unlike Britain, France, Spain, and the others, intrinsically an imperial power. We hate it, but we do it because it's the right thing to do.

So that adds to the burden, and that's one of the reasons why we cannot be as pure in eliminating the debt as our little cousins are around the free world. And I'm including Canada and New Zealand. I don't think the burden of defending the West rests on the New Zealand Navy. It rests on the American Navy. It's unfortunate, but it's a fact.

Mark Steyn: I don't disagree. I don't disagree with that, Charles, and I think that's a valid point. And that's actually one of the reasons why this is a troubling situation because when Europe declined, America was there. There was no one to play the role for America that America played for Europe in Europe's decline. That's one of the worries about this situation.

But I'm not sanguine about the waste because I think that is one of the reasons why nothing gets done because we live in a situation now where people say that. "Oh, yes, sure you could eliminate this or that program, but that would be a mere $40 billion. It's hardly worth troubling ourselves to hold a congressional debate and pass a bill to abolish it for."

I would say that is part of the deep corruption and dysfunction, when, essentially, the argument of that is our debt is now so massive that actually getting rid of these little rinky-dink things is no longer worth the trouble. And I would urge all of you – not just at the federal level but at the state, the county, municipal, school district level, that that corrupts the integrity of government, and you should be alert. You should be alert to waste at every level of government.

And I'm always fascinated. I occasionally complain about the number of street signs that there are on the roads, where the federal government just passed a requirement a couple of years ago that all the uppercase signs on America's roads had to be replaced by lowercase signs. You may have noticed them in your own community now, where, before, it used to be one in capital letters on one stick. It cost about $300.

Now, they say it's in lowercase, and if it's a long street name – and in Vermont and New Hampshire, they have lots of these little bucolic street names like Maple Tree Cottage Lane and things. That, now, requires two poles. So the $300.00 sign is now $600.00. And why did the federal government suddenly decide that street signs had to be lowercase?

If we just say, "Well, we're not gonna bother with any of this nonsense, but someday we're gonna fix the entitlements," it would be just nice to just warm up, get your feet wet. Just see what it's like to kind of roll back things. And maybe they'll say, "Well, yeah, maybe we don't need six lanes at North Troy, Vermont. Maybe we don't need the two-pole Maple Tree Lane sign."

If you can't even do that, the idea that, suddenly, massive transfer payments, then that's the Herb Stein thing. People are fatalistic. They say, "Well, it's not worth rolling in these small programs now, so we'll wait until we deal with the entitlements and then the small programs will matter." That corrupts the integrity of government.

C. Krauthammer: Mark, but that's not what I'm saying. I'm not saying that there's no point in doing the little things. I'm countering the point you made that we're about to go over a cliff, and I'm telling you that there is a way to get a handle around that, and that's where the real money is. The Willie

Sutton money is in entitlements. Of course you do. I'm all for uppercase road signs.

[Laughter]

Absolutely. I'm 100 percent. I'll campaign on that. In fact, I'll write it into my will that I'll support any organization that wants uppercase road signs. I'll put that in.

Mark Steyn: Wait. Wait. Wait. I've got an awareness-raising ribbon if you wanna go there.

[Crosstalk]

C. Krauthammer: But the point I'm trying to make is that's not gonna cure the problem you're identifying as the problem that will be fatal to us in the United States. That's the only point I'm making. Otherwise, we agree entirely.

Gary Alexander: We have to get Larry in here to solve this division.

Lawrence Reed: Well, I would really much rather listen Mark and Charles the rest of the time that we have. But I wanna hark back to something Charles said and use it as an opportunity to work our way towards an optimistic, uplifting ending, I hope because I see we have just a matter of minutes left. Charles, you mentioned in a hopeful way the emergence of Conservative think tanks in the States, and I want to underscore that because some of their successes really point to future potential successes, perhaps, at the federal level and should give us reason for hope.

Before I went to the Foundation for Economic Education seven years ago, I ran the Mackinac Center in Michigan for 21 years. And early in our history, in the late '80s, we looked ahead, and we asked ourselves, "How are we gonna change this state?" And we thought, well, one of our objectives for changing Michigan should be to make this a right-to-work state, a state in which no worker could be compelled to pay dues or join a labor organization as a condition of employment.

And I can't tell you how unrealistic, how farfetched, how ridiculous that seemed to an awful lot of Michiganians in the late 1980s and all through the 1990s. People who were with us often would say things like, "Oh, good luck with that one," or, "That'll never happen. You've got the United Auto Workers here. You've got the most powerful, perhaps, of all the teachers' unions in the 50 states headquartered right here, the Michigan Education Association."

But we decided that we were gonna chip away at that. We were going to get ever smarter at how to communicate the message of freedom in labor representation. And you just never know when the right confluence of individuals that you couldn't have predicted and ideas and events may come together – sometimes very rapidly as they did in 1989 on the world stage in freeing Eastern Europe. You never know when those things might appear.

But when it happens and big changes occur, you look back and just say, "Well, it was because back when everybody thought it couldn't happen, good people who had their heads on straight and knew what had to be done committed themselves to do it, and they made it happen." So Michigan, today, is unbelievably a right-to-work state. Who would've guessed it 30 years ago?

So even at the federal level, I think we ought to recognize that you cannot predict the emergence of the right personalities, ideas, and events that might come together at a particular magical moment. But history is full of such moments, and good people simply have to set themselves the task of working to bring it about, do all they can for what they know to be right, and let the chips fall where they may.

Gary Alexander: Good. Very good, Larry.

Lawrence Reed: Thank you.

Gary Alexander: You know, Larry and I went to Europe to Scandinavia and to Russia in '86, and in the '80s, he and I and Jim Blanchard were quite a part of spreading freedom literature throughout the world, and that did have an impact. But nobody thought the Berlin Wall could fall even six months before it did, and we talked about budgets. Back in '93, the CBO said we can't balance the budget ever again as far as the eye can see, and yet within 5 years, 1999, we did have – so there can be surprises, shocking surprises.

And we only have about five minutes left. I wondered if I could go down the line. I haven't prepped you with this question, so anybody jump in who wants to be first. What really big surprise do you see happening in the next five years, a positive surprise, hopefully, that will help to turn things around that we just really can't anticipate, right now? I know this is an ambush question. Anybody wanna try first? I guess not. Larry.

Lawrence Reed: We work with young people at FEE, so maybe that biases my answer, but I think in the next 10 or 20 years, we're gonna start talking about a renaissance an ideas of liberty among young people. They are turned on by some of the entrepreneurial opportunities they see that the freedoms we still have left in our economy offer them. And they're turned on by new ways of doing things and are represented by technology, everything from Bitcoin to Airbnb to Uber, and you name it. And increasingly, I think they're going to start putting two and two together, realizing that politics and politicians, too often, are barriers to these wonderful things that can empower individuals if we just get out of the way.

So I see it among the young people who come to our programs. They are excited. They may not have heard of ideas of liberty before they come to something we do, but it doesn't take long to turn them on. And I just thing that the seeds are being planted not just by us but lots of groups that may change this generation of millennials and younger in the right direction in the not-too-distant future.

Gary Alexander: Anyone else?

C. Krauthammer: Well, I was gonna say Fantasy Football.

[Laughter]

But there's another answer, and there's something about – and I think, actually, it's more imminent than just pie in the sky – I think, at a certain point – this is the Herb Stein philosophy – at a certain point, things can't go on; they're gonna change. And I do feel either this cycle, or maybe the next, that we have the right constellation of forces for precisely the kind of concrete reform.

Our problems are not abstract. I don't think there's a disease at the heart of the American soul. I don't agree with erstwhile boss Jimmy Carter that there's a malaise at the heart of American life. I do agree entirely with Mark. I think Europe is lost, decadent beyond repair, and that's not where the future of the world's gonna be determined. It will be determined here.

Our history tells me and one of the reasons I'm optimistic – well, the main reason I'm optimistic is I got tired of delivering speeches that left my audiences so depressed that by the end I was hearing weeping and sobbing from the background. And I would have to offer my services as a psychiatrist to write prescriptions for antidepressants for anybody who needed 'em just get home, but I don't wanna cheer you up pharmacologically. I'll do it rhetorically.

There's something in our history that I think is sort of – it's about the energy, the innovation, and, again, love of liberty that is inherent in our history and in our people. Just think of how improbable it was that at the end of the 1700s, in this little island of civilization 3000 miles away, very poorly populated, we produced the greatest generation of political geniuses in the history of the species.

In the 19th century, we needed a Lincoln. We got a Lincoln. The 20th, we needed an FDR who got us through the Depression and that won the Second World War – with apologies to some of you about the first of those two items. And in the second half of the 20th century, we needed a Reagan to revive us, and he did.

I'm not hoping for a Reagan. I don't expect a Reagan, but I do think that the left has overplayed its hand in the Obama years. And the fruits of what he's done are being seen domestically – one and a half percent GDP growth at the end of the worst recovery in the history of the United States, the only one in which the median income has decline;

and abroad, a complete collapse of America's position every you look. I think the country's ready for renewal.

At the same time, fortuitously perhaps, there's a young generation and young generation of Conservative thinkers and a younger generation of political actors who are ready to act if given the power. And if that happens – and I think it'll either happen this cycle or next – there are concrete things. This is not a sickness of the soul.

The French ambassador said in the middle of the oil crisis of the late 1970s, "What a country. This is the only country in the world where it can be said that it can be cured with a 50 percent gas tax." Well, you may not agree with a 50 percent gas tax, but what he meant is we are not that far away from correcting the misdirection, being off the correct track that we have been.

Concrete steps, real politics, real changes in policy – they've already been outlined by the thinkers. They're waiting for the doers. That's what I think might happen. There's no guarantee. We can fall into decadence along the way and make the wrong choices, but it's certainly within our grasp.

Gary Alexander: Mark, you have the final word.

Mark Steyn: Yeah, I would like to second what Charles said because I talked earlier about demography, and demography largely is destiny. But it's never just a numbers game, and Charles talked about the most remarkable group of political thinkers and an underpopulated bunch of colonies thousands of miles from the metropolis, where, supposedly, power and destiny resides. They had better ideas.

The majority of colonists, at the time they started talking about these ideas disagreed with them. And even after the revolution, a significant chunk still disagreed with them. A huge part of New York's population moved to the other side of the St. Lawrence in what's now Ontario.

So it's never just a numbers game. It's about extraordinary people coming up with dissident approaches, innovative ideas that they sell to people who are just kinda content to tag along. And I think it is possible that we will see that in politics. We do see it in small businesses like Uber and Airbnb.

And I think one of the areas that we will start to see it in is one that's been sort of underpinning a lot of what we've been talking about, which is the culture. I think we will see the same kind of innovations, democratization, and opening up to new ideas in these old – you know, Hollywood is almost as ossified as the Social Security program in its approach to storytelling. And I think we will see new kinds of storytellers break through there that will actually transform the cultural battleground in which a lot of these conversations take place.

So it's never about 51 percent of people agreeing with things. It's about people staking themselves as outliers, as Ronald Reagan was in 1976 and persuading – and Mrs. Thatcher certainly was in 1978 – and persuading people to move toward them. And that's what this country still produces in a way that no other does.

Gary Alexander: Thank you very much, and please thank all of our panelists. Thank you very much.