NEW ORLEANS 2018 INVESTMENT CONFERENCE

The World's Greatest Investment Event

General Session Transcripts

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Introduction

The following report provides word-by-word transcripts of the General Session presentations from the 2018 New Orleans Investment Conference. It represents an incredible value — hundreds of pages jam-packed with some of the most insightful, enlightening and entertaining investment information you'll ever encounter.

We are confident that you'll deeply enjoy the analyses, forecasts and specific recommendations provided.

However, by the very nature of having these presentations transcribed by an independent service, there will be errors in the resulting document. We've tried to catch most of them, but please forgive those that snuck through.

TABLE OF CONTENTS

Guy Adami

"Forewarned Is Forearmed: Where Are The Markets Headed?"

Lindsay Hall: Next up you have Guy Adami who is a TV personality, author, financial analyst, and professional investor. He's one of the original fast money five on the show Fast Money on CNBC. Adami joined Goldman Sachs' commodity group J. Aron as vice president in 1996 and six years later he left Goldman Sachs to become an executive director at CIBC World Markets.

It was during this tenure at CIBC World Markets that he became a contributor CNBC's Squawk Box and later a permanent cast member on Fast Money. He's also currently managing director at Drakon Capital. In March 2009, he took on the position of vice chairman at TradeMonster. In 2012, Adami completed the first ever New York City Ironman challenge with a time of 16:19:52. With that being said, welcome your TV personality, expert, and Ironman from New York City, Guy Adami.

Guy Adami: That last panel, that killed me. My god, I wanted to get out of here on a plane as fast as I could. Usually I'm the most bearish person in the room. I think on that table I was the most bullish. But it was an honor to be on that panel, it's an honor to be in front of you folks here.

We don't have a lot of time so, when I typically speak I like to tell just a little bit about myself. I think it's important for the audience to sort of know who you are and how you're wired. I'm the oldest of five kids. My mom and dad met in 1960, the first day at law school at Fordham University. My mom was one of five women in that class. On the first day of class, the professor looked to her and said, "Why are you here?" Looked at another young lady, "Why are you here?" If you're here to meet your husband, you're in the wrong place. This is 58 years ago.

Well my mother and those other four women graduated from law school and they all went on to do amazing things. My mom took the bar exam in March of 1964, having given birth to me in December of 1963. I mention that because I think I'm sort of wired the way a lot of you folks in this room are wired. I don't take anything for granted and I'm always sort of pushing. I don't allow people to define who I am. I learned that sort of from my mom.

She wasn't going to be defined by that professor, nor were those other four women, and you know what, I'm not going to be defined by things either. I'm always trying to push and to try to figure out what lies beneath the curtain. What's the unforeseen risk. By the way, sort of fast forward to that. A few years ago, five years ago I took my mom to her 50th reunion from law school. The other four women were there as well. To a person, every man in that class that was there, came up and said how proud you should be of your mother and these other four women.

I think it's important because don't allow people to define who you are. But quite frankly, you're the only person that's putting obstacles in the way of yourself. Whether you're a trader, whether you're an investor. Your success, your failure really is predicated on the obstacles you put in front of yourself. Lindsay mentioned that I did the Ironman, I think it's now six years ago. August 2012. I'll give you a quick backstory of an Ironman.

I'm on the board of directors of the Leukemia Society in New Jersey. Before my first board meeting, on our show Fast Money, we had the three guys that were putting together the logistics, the licenses, all the ancillary stuff to put on what would be the first ever New York City Ironman. It took these guys five years to put everything in place and they came on our show. They talked about how in August of 2012, 2,500 people will jump in the Hudson River in an attempt to become an Ironman.

I'm saying to myself, man that's pretty cool but who does this. I mean, these people are insane. Took their card, left the show, and I attended my board meeting at Leukemia Society a few days later. At that board meeting, at the end of the meeting, a gentleman stood up. Talked about how he had just survived AML which has a 16% survival rate. Now he's doing triathlons to raise money for the foundation.

Of course the light bulb went off in my head and I'm like, "Wow." I just met the three guys who are going to put on the first ever New York City Ironman, I bet if they call them they will give us, us being Leukemia Society, some spots for the Ironman. These things typically sell out anywhere from five to fifteen minutes. Sure enough, I made the call and I was able to get ten spots for the Leukemia Society.

Well there's a saying in life, no good deed goes sort of unanswered. I typically should see things. I fashion myself somebody that sort of sees ahead and figures things out. But I didn't see this one coming because they called me back and said, "You know what Guy, that's fantastic but we want you not only to put together the team for the Ironman, we want you to be on that team." At the time I'm I think 45-46 years old, I weigh about 239 pounds, I fashioned myself a decent athlete at one time. But I was a meathead athlete. I played football and basketball. I wasn't a long-distance runner. I didn't run, I didn't swim, and I didn't bike.

I'd get out of breath walking up a flight of stairs. I don't even know what my blood pressure was. It probably wasn't important. I'm Sicilian so unless there's a bone sticking out of my arm I'm not going to a doctor. I'm one of those people. But I'm about to say to myself, you know what, there's a reason why I met these three guys. There's a reason why I'm on the board of Leukemia Society and I said I'm going to do it. Everybody to a person either laughed at me to my face or laughed at me behind my back. Nobody thought I could do it. Quite frankly, I didn't think I could do it either.

But over the course of the next eight months, I whittled myself down from about 239 pounds to 190 pounds. I got my resting pulse down to 46. I jumped in the water that day along with 2400 of my closest friends to try to complete the first ever New York City Ironman. Now, if you don't know what an Ironman is, it's pretty cool. 2.4 mile open water swim, 112 mile bike ride, followed by a marathon, 26.2 miles and they'll tell you the point two miles is really what gets you. You have 17 hours to finish. They typically start at 7:00 am and they end at midnight.

Little anecdotal story, hopefully you all ate breakfast. The Hudson River is not the most pristine body of water in the United States. It was made less pristine three days prior to the Ironman because there was a raw sewage spill in Tarrytown, which is North. The water flows from North to South and that's the way we were swimming. But the swim went off, I got out of the water in an hour and nine minutes which was remarkable. In my day, for me that was it. The fact that I didn't drown was a miracle. But 16 hours and 19 minutes later, as Lindsay mentioned, I completed the first ever New York City Ironman.

Zero business doing that thing. Point is, huge obstacle, I was able to overcome it because if you put your mind to something in life, you absolutely can overcome it. Sort of on another anecdote, we raised almost $700,000 for the Leukemia Society. Which I think is in large part why I was able to finish that day, because I did it for the right reasons. As investors, as in traders, to the extent that they're traders out here or investors out here or people that think differently than everybody else. You're always going to be challenged, you're always going to be challenged by people who say they know better that you are or they know things that you don't know. Or maybe you're looking at the world differently.

You know what, push back on those challenges. Look at the world the way you look at the world. Don't let others define how you're going trade. If you put on a good investment, it's because you put it on, not because you heard about it on CNBC. If you put on a bad trade or a bad investment, quite frankly it's because you put it on not because you heard it on CNBC. Live and die with your own thoughts.

Now let's talk quickly about the markets and the environment we find ourselves in. Fast Money is an interesting show. Hopefully some of you folks have seen it. If we make it to January it'll be 12 years on air, which is pretty remarkable. People ask, "How did you wind up on this show?" Again, I'll give you a quick story.

I was a commodities trader. I worked at Drexel Burnham Lambert in the 1980s. I left Drexel to go work at Goldman Sachs. I worked at J. Aron which is the commodities, the fixed income, currency and commodities group within Goldman Sachs. I worked with Gary Cohn, I'm sure you know that name. I worked with Lloyd Blankfine. I'll give you a quick Lloyd story because this is sort of the way he and a lot of the folks at Goldman were wired.

They called me up in the Spring of '96 and they said, "Listen, we'd like to come talk to you about potentially working at Goldman Sachs." I said, "Absolutely. Tell me where to be." They said, "Come down to 85 Broad Street on some random Friday." I made my way down to 85 Broad Street, the headquarters of Goldman Sachs. In a room I met with a guy named Jim Riley, who none of you should know. I also met with Lloyd Blankfine, who hopefully all of you will know. They sat me in a conference room and they said to me, "We've followed your career, you've done a great job trading gold for Drexel, subsequently AIG. Our gold trader is leaving to go work in London, we'd love for you to come over." I said, "Wow. Lloyd, Jim, this is amazing. It's humbling. Thank you so much." I said to them, "Do I have any time to think about it?"

Lloyd said, looked me in the eye and said, "Guy, you have all the time you need. I just need an answer before you leave this room today." It was then that I knew that was my first test at Goldman Sachs. That was my absolute first test. Even though I didn't work there yet, I was being tested. I said, "You know what Lloyd, you're right. When do I start?" I trusted my instincts. I find in life, and I believe this with all my heart, I think we're all born with great instincts. I think the only time we get ourselves in trouble in life, whether it's athletically, educationally, personally, relationship wise, or investing wise, is when we fight against our instincts.

I think we should always trust our instincts. I trusted mine that day and it got me into J. Aron. Now, at J. Aron at Goldman Sachs nobody goes on TV except a few people and I was never on that course. I was also not on the course to be a partner at Goldman Sachs. You're either on the partner track or you're on the Guy Adami track. I was sort of on the Guy Adami track. When I was there there was 6,000 people at Goldman Sachs and everybody thought they were going to be partner. The reality is, that wasn't going to happen.

At a certain point you have to make a decision there. You're either going to stay in your current role or you're going to say, "You know what, I'm not on the partner track, maybe I can lever this and move on." I chose the latter, I levered it and moved on and went to work at a place called CIBC. Within one of my first few weeks at CIBC, CNBC came in with a camera crew. Bertha Coombs was the anchor that was there.

We were doing our charity day at CIBC. They came in and said, "We'd like to interview a few traders during the day." Nobody wanted to do it. One of the guys came up to me and said, "Guy look, we'd really like you to do this. Nobody wants to do it. Would you mind going on CNBC?" I said, "Yeah. Sure, I'll talk about whatever you want me to talk about." I went on, I was on with Bertha Coombs, it was Liz Clayman's show. It went pretty well. A couple weeks later I got a phone call from Liz and she said, "We really liked what you did last week. Would you mind coming on sort of a weekly spot?"

I said, "Absolutely." That coincided with Jim Cramer's show Mad Money. Now, as a lot of you folks know, Jim did a show with Larry Kudlow called The Kudlow Report, show was awful. Why was it awful? Because both of those guys are brilliant but neither one of them were themselves around the other guy. They were so respectful of each other that it made for miserable TV. A woman named Susan Krakower came to CNBC and said, "Alright look, this show is miserable so this is what we're gonna do. Larry, you're gonna get your own show at 5:00 each day called The Kudlow Report and Jim we have an idea for you." The idea for Jim was Mad Money.

Within six months that show absolutely explodes. But in television, it's sort of what's next. They ask Susan, "What's next?" She had been incubating an idea with a guy named Dylan Radigan about a show about traders. What is a trader, what do they look like, how do they interact with each other, what's their relationships, what do they do when the market's closed. They wanted to replicate that on a television show.

Over the course of about six months, from November of '05 to sort of early Spring of '06, CNBC brought in about 450 people. Effectively anybody that ever been on a network in any capacity, to screen test for, interview for, talk about a yet to be named show. They picked me and they picked three other guys. Jeff Mackie was one of those folks. A guy named Tim Strazini and somebody who may folks know, a guy named Eric Bowling and Dylan Radigan was our host.

All through the backend of 2006, we did what is now Fast Money as an eight minute segment on an existing show. As fate would have it, in September, Larry Kudlow went on vacation. The Thursday before he was going on vacation the network came to us and said, "We've made a decision, you guys are now going to have Larry's spot next week." Instead of doing eight minutes once or twice a week, you're going to have an hour long show from 5:00 to 6:00 next week.

None of us were journalists except Dylan. I don't consider myself a journalist now. But we were able to pull it off and the show went really well. The numbers were great. By the end of the year it was pretty clear that we were going to get our own gig. Well, I still had a day job at CIBC. My firm came to me and said, "Look, we've allowed you to do this for the last six, seven months but it's untenable at this point. You have to make a choice." I said, "Look, I understand that this show, this CNBC stuff is really great for me but I also think it could be great for the firm. It's a great way to brand the firm."

They didn't see it that way. Here's where trusting your instincts come in as well. I was in my early 40s, three kids, mortgage, the whole rig. I said, "You know what, I think you're making a mistake but if you're asking me to choose, I choose CNBC. I quit." I left to join a show that might've lasted a week, a month, maybe six months, but certainly not a year. I tell that because if we make it to January, and they always say if, if we make it to January we'll have been on air for 12 years. Which is a remarkable run on TV.

What we try to do is help people and navigate. We're not a stock picker show. We try to help navigate the waters. You'll recall in '08-'09, people were flocking to Fast Money in numbers that CNBC had never seen before. We saw things on a daily basis that hopefully we'll never see again. But quite frankly, none of us had ever seen before. But we helped sort of navigate those waters.

What I also think it did, it empowered people. Because for a long time Wall Street was a place where, don't worry about it we got it. We're smarter about your money than you are, we'll take care of it. What '08-'09, taught people is, wait a second, these so-called experts, which I am not by the way, but they don't know any more than I do. I can lose money just as easily as they can lose money. I think it empowered people to invest, to trade on their own.

It also helped people to ask the right questions and to maybe look at the world a little bit differently. Let's talk about the world real quick. Because I share a lot of the same views that the panelists did as well. But I want to say this, I'm always been in terms of my professional career, a half-empty person. I think it's really important to put that out there. I'm always looking for the next exogenous event. I'm always looking for the next shoe to fall. Prepare for the worst and hope for the best.

When I played football a hundred years ago, if we won a game, that's when the coach would get on us the hardest. Now, the last couple weeks notwithstanding, the stock market's basically only gone up for the last eight or nine years. Now's a really good time to point out what potentially could go wrong. October 8th, 1871 was the day of the Great Chicago Fire. It also happened to be the day of a fire in Peshtigo, Wisconsin. To this day, it was the deadliest fire in the history of the United States. Depending on what textbook you read, it killed anywhere from 1,500 to 2,500 people.

From that fire the National Forestry Service was born. Their main job, their mandate, was fire sequestration. Why? Because clearly forest fires were destructive but they were also very deadly. If somehow they could sequester fires, it would be in everybody's best interests. For a long time they were able to do just that. But what they learned was, forest fires are a natural part of the cycle. Old trees burn down, new growth comes up, and that's how the forest survives. Darwinism at its very best.

Yes they're unsightly, yes they're destructive, but more importantly they're necessary. What they learned was, trees that had been impervious to fires were now falling victim. Why? Because the fires that were necessary that were being sequestered were five times worse when they finally did happen. Why do I bring that up? Because in my opinion that's exactly what's happened with our Federal Reserve and it started under Chairman Greenspan.

He said to himself, correctly, that they would be able to chemistry out or orchestrate out the recession from the cycle. They were able to do that. But what we learned the hard way is, recessions are a natural part of the cycle. If you don't allow them to happen, bad things will be 10 times worse. I think in '08-'09, that was a manifestation of exactly that.

But I also believe in my heart that the problems of '08-'09 weren't solved, they were just moved. They were just moved from the balance sheets of banks to the balance sheet of our Federal Reserve. As I mentioned earlier, I was something called a prop trader. A prop trader's job is to make bets and to make bets on things going higher and to make bets on things going lower. Putting on a position is the easy part.

I'm a huge Giant fan, okay. You go to the Meadowlands on a pristine October Sunday, you go, everybody drives there. But driving in on these beautiful days, everybody drives in, they're ladies and they're gentleman. You first, no after you, enjoy the game. Everything's beautiful it's going to be a great day. Everybody enters as human beings. Then the game starts, Giants go down 17 to 3. Third quarter starts, some rainclouds come up. The other team scores another touchdown. Before you know it, it's 24-3. Mid fourth quarter, everybody decides to leave at the same time because now it's raining.

But those same people that went in as ladies and gentlemen, leave like absolute animals. You're not leaving the same way you came in. It's easy to get into the Meadowlands, it's really hard to get out. It's the same way with prop trading. It's easy to get into a position, it's really hard to get out. What's my point? My point is, in my opinion, our Federal Reserve put on the biggest prop trade in the history of mankind. Their balance sheet ballooned to almost $5 trillion under Chairman Bernanke and under Chairman Yellen.

What are they trying to do now? Well, they're trying to exit this trade. They're trying to do it in a way that's going to be non-disruptive. But almost by definition, it has to be disruptive. Now if you listen to the President, correctly or incorrectly, he's talking about how Chairman Powell and the Fed is moving too quickly. But I ask you folks this following question, to think about and these are not my words. The President has said on a number of occasions, maybe correctly, maybe incorrectly, I don't know I'm not an economist. I'm not smart enough or humorous enough to be one. But he has said that this is the greatest economy in the history of our republic.

Maybe it's true. Unemployment rate just ticked down to what? 3.7-3.8 percent-ish. Obviously we've seen wage growth now for the first time, a significant wage growth for the first time in decades. Consumer optimism is through the roof. Small business optimism is through the roof. All those things are true. Until recently, our stock market's been on fire. Maybe the economy is the greatest in the history of our republic.

But if in fact that's the case, then why are interest rates still basically at flat. Fed funds and inflation are basically the same thing. We're talking about zero percent real interest rates. If our economy can't handle normalization, then maybe the economy's not as strong as we seem to think it is. But what is the economy? I've said this on the show and I want you to think about this as well.

Does a recession cause a market selloff or does a market selloff cause a recession. I ask that as a serious question. I think I know the answer. I happen to think it's the latter but that's what makes markets. Why do I say that? Well, 73-74% of our economy is driven by the consumer. It's driven by events like this, it's driven by the fact that 100,000 people will probably show up tonight in Baton Rouge to watch the Alabama, Louisiana State game. Half the amount of those people-ish, will show up tomorrow to watch the Saint and the Rams. They'll all buy beer. That's our economy.

People will spend money as long as they feel good about things. What are things? Again my opinion, all I think consumer optimism is, is an overlay of the S&P 500. In my option, when the stock market goes higher, people feel better. Now you say, "Well wait a second. Everybody doesn't have money in the stock market." That's true. But for whatever reason, whether you have a dollar in the market or not, if the stock market's going higher, you feel wealthier. If you feel wealthier, you're more inclined to spend.

If you spend, that drives our economy. As long as you feel good about things, you will spend. I hear it on the network all the time. The US consumer has never been better. I don't know necessarily about that. I never question the US consumers' want to spend. Never underestimate the US consumers' want to spend but should they be spending? Right now, consumer debt to GDP is about 54%, the highest level we've seen in quite some time.

By the way, anecdotally again, people talk about corporate balance sheets never looking better. Maybe that's true. But corporate debt to GDP is right around now 50%. My opinion, we have a tremendous debt problem but it hasn't manifested itself in the market yet 'cause everybody feels so good about things. But if the market were to start to turn, and we've seen glimpses of it obviously over the last couple weeks. If the market becomes a story, and not a story for the right reasons, will people stop spending? Will people say, "Wait a second. What's going on out there?" That's my concern.

While I'm railing against the Fed and I happen to think, by the way, that Chairman Powell is doing all of the right things. I want you to think about this as well, unintended consequences. History is littered with disastrous outcomes born of great intentions. All throughout history that's the case. I also think it's the case here. One of the unintended consequences, in my opinion, of a central bank that's been extraordinarily too accommodative for the last decade, it's made corporate America lazy.

What does that mean? Well, I'll give you two great examples. When money is cheap, corporations don't have to really focus and examine their businesses. They borrow money, they buy back their stock, they pay a dividend, the market goes up, they look like geniuses. They don't have to forecast, they don't have to take critical looks because the market's doing it for 'em. The market's made corporate America lazy. The central bank has made corporate America lazy.

You want proof positive? I'll give you two examples and you know both these companies. Look at General Electric over the last decade and look where it closed last week. Look at IBM as well. Both those companies bought back ridiculous amounts of stock but yet didn't focus on their business model. Well you say, "IBM I mean, that was just old tech. All old tech was gonna die." No, not true because if you look down the street at Microsoft under leadership of Satya Nadella, they actually were able to make that pivot. So it's not all companies. Some companies got lazy, other companies didn't.

The Federal Reserve, in my opinion, did not allow corporate Darwinism to work. We're starting to see it manifest itself in some of these companies. I don't want to leave you all doom and gloom. I do believe in the United States and our entrepreneurial spirit. My biggest concern is the central banks, our Fed specifically, has curtailed and sort of squashed that over the last few years.

I think we're in for a heightened point of volatility but I also think it's a great time to look at your portfolios and to ask the tough questions. Hope is not an investment thesis. Thanks for having me everybody. I appreciate it. Enjoy the conference.

Pamela Aden

"What's Happening On The World Stage And What To Do Today"

Robert Helms: So Pamela and Mary Anne Aden are the co-editors and publishers of Aden Forecast, a monthly newsletter, now in its 37th year, famed for its precise forecast of the precious metal markets as well as forex and the US and global stock markets, interest rates and bonds, and the global economy. They also publish Gold Charts R Us, a weekly trading service founded by the retired legendary investment advisor, Sir Harry Schultz, and we met him yesterday, Omar Ayales, is its chief trading strategist. Aden Research also now publishes Richard Russel's famed Dow Theory Letters, as a joint collaborative writing effort with an expert team of seasoned analysts and writers, and Aden Research sponsors the Daily Pfennig, written by Chuck Butler.

The Aden sisters have been featured in all kinds of major publications, including Business Week, Smart Money, Barrons, The Wall Street Journal, and Forbes. So here to talk about what's happening on the world stage and what to do today, please welcome Pamela Aden.

Pamela Aden: Thank you very much, and it's great being here with you tonight. Tonight, I'm going to focus on what's happening and the best places for your money. It's been a good year, actually, for the stock market and the economy, well except for this past month. Now that's kind of tossed another uncertainty, and everyone's getting nervous on top of the election coming up next week and the trade wars, so it's been a volatile month. Basically, what I'd like to do is talk about the top five items that are moving the markets and what we can do about them.

I'll start with number one, which is President Trump, because he does move the markets. The stock market has surged on President Trump's optimism, the market believes his presidency has been good for business, and it's also pushed the economy way up. Despite recent volatility, it's telling us that no recession, yet, and the stocks look ahead, like six to eight months down the road for the economy. So you're saying, "Well, what about the fall?" This is another story, in a moment.

The first chart I'd like to show you is ... can't see if it's on there ... I'm starting with this, because I'll tell you in a moment why. The Bull market is still in force, the 10 year old, almost, Bull market, and even though it's declined the S&P 500, which is this chart, going back to 2007, it's declined almost 10% since late September. It's actually not as bad as the two you see there, the 2011 and 15. I'm just giving an example of "What does a downward correction look like in the stock market?" It's been a Bull market for 10 years. Those declines were 14 and a half per cent on one of them, and the worst was almost 20%. We're not there yet, doesn't mean I have to do it, but the whole question today is, "Is this a correction? Or is it the beginning of a Bear market?"

Of course, everyone's heard about the phases in the Bull market. All Bull markets are the same, actually, and gold has this, too. But when a Bull market, the first phase is when smart money goes in and then the second phase starts coming and there's more news and more people start coming into the market, and the third phase is the frantic phase, when everyone pours in, and it's wild. The madness happens. Now that hasn't happened yet. It doesn't mean it has to happen, but it normally does happen. In the third phase, we're thinking, if there's going to be a melt up, as many people talk about, it would be happening now. We're like in the eighth inning of a game, so it's coming close to the end. So if you're in, we say, stay with it but stay cautious and be quick to know that it's a maturing Bull market coming up.

On the downside, just to cover that a moment, since it has been in a down correction, the transportation's hit a new low, if we see the Dow and the NASDAQ reach new lows for 2018, we'd pretty much say that's pretty much ... I wouldn't want to be in the market after that. Those are the numbers we're watching for, 23 thousand five something on the Dow, and 67-75, but anyway, numbers are kind of boring right now. That's the idea, it would be a new low for the 2018.

So this is what we're watching for on that. The positives and negatives facing the economy, which is the number two, but all things considered, the positives are still pretty more weight and have more weight than the negative. Now we go back to 2008, and the world was on the brink. The greatest crisis since the Great Depression, as we all know, and desperate measures were taken when the World Central Banks created tons of money. All this money that's floating around has caused many of the markets to soar and boosted the economic growth. Aside from the stock market, real estate, of course went up. And inflation has been picking up. As you can see here, it goes back a few years, you can see it's on the rise, in spite of it coming down a bit in the recent months. It's tame, but it's on its rise. And as long as this continues rising, it will effect the gold market and the stock market.

Now there's something really interesting happening, and this is what we're actually very exciting to be watching closely right now. The movement and the interactions that the stock market has with the gold price. If you go back to the ‘60s, there’s a correlation that’s very interesting. I’m not going to show you the details, I will in the workshop tomorrow night, but for now, it’s enough to tell you the bottom line of this study. For example, just to give you an example, when one of the markets is an underdog, like gold has been now, and like it was after the 20 year Bear market in ‘99, 2001, when it’s starting to turn on that point, on top of the roaring Bull market, when there’s one loved and one hated so much that when those start crossing over, they tend to cross over and rise together. Of course, the underdog doesn’t look like anything ‘cause no one’s really paying attention to it.

We think that’s what’s happening with gold and the stock market now. We think it’s in one of those trading places moments that could last a while longer, but we think there’s going to eventually be a trade off, that gold’s going to start in the Bull market, and the stock market’s going to end its Bull market, and they’re going to trade places. I can show you more clearly in the workshop, but this is what we’re watching closely, and we think that’s the bottom line, that they are in the process of changing places, and it could last a while longer, but we think that’s what’s happening right now. A maturing, roaring, loved Bull, and a hated market that has been actually bottoming for several years.

Now the next up, number three on the list of the five, is interest rates. Economic growth has made the Fed confident about raising rates ... As we know it, the Feds rose their rates for the third time this year, and it’s become a very big deal, because President Trump doesn’t want interest rates to rise and he thinks they’re moving too fast, and it’s not necessary. Rising interest rates are a relatively new situation as we all know. The markets are feeling it because it’s going too fast, even though it went like from zero to two, it was fast. I think the fastness is what’s causing to effect the markets. ‘Cause we originally thought, “Well going from zero to three or four per cent wouldn’t really effect the markets that much,” but they are going fast, and that’s what’s effecting the markets, and remember, the global economy was on such thin ice when the Fed and the rest of the World Center banks had to leave rates near zero for all those eight years, and some are still at or below zero, like in euro and the yen, the Japan.

The US is basically the Lone Ranger in raising rates right now. That’s kind of the glaring difference which is actually hurting the global economy. To show you the next chart, interests going back to five thousand years. That’s right, three thousand years BC. So this is showing you that this is a unique situation we have been in the last eight years. Such low rates. And we’re now rising, we’re seeing the rise from these low rates, and indeed, we’re seeing a confirm that rates are now heading higher, moderately higher, and eventually just heading higher. They don’t change very often.

The next chart I’ll show you shows you that it doesn’t change very often. It’s the longer term 30 year yield as the longest out when it goes back to 1930. And you can see here how it doesn’t change. It’s a very steady rise, like from the ‘40s to the ‘50s, ‘60s, up until 1981, it was above the red line, saying the mega trend is up, and it was up, interest rates were rising all that time, ‘til they turned down in the early ‘80’s, and you can see they’ve been a very steady decline since then. Only now, this year, did they rise above and stay well above this mega trend, so the 30 year yield above 3%, is a very bullish interest rate. Not right to say bullish, but it means the mega trend has turned up, and rates, not that they're going screaming higher, but their trend is now up, from here going forward, and into the years to come.

We always have a good story to tell on the flip side of this. Back in 1981, at that peak on the chart, a friend of ours, in interest rates, remember, the long term yield was the 15%. Bond prices were collapsing. There's only one person we knew that actually was buying bonds and a lot of government bonds at the time, and held them for those 30 years. At the expiration date, he walked away with huge bond profits, and double digit interest collected during that time. That was amazing. But he did do it. The point is now, we're on the opposite end, now we're going to have rising rates for probably the decade to come, just a steady rise, just like the steady decline.

And not to be a party pooper, but on the fourth point, I'd like to tell you about black swans. Those are always the unexpected events that come out of nowhere. We saw that with the subprime problem in 2007, and it usually takes most people by surprise, and I know at that time, they did, they took everyone with a surprise, including ourselves. But those are called the wild cards, and we think a wild card's very likely to come out. So this month has been a wild month, but it hasn't been a wild card. The 2008 financial crisis was, like I said.

Everyone knows what was happening at that time, when the banks were nervous. With the banking system teetering on the brink, stocks plunged fast, and it could happen again. Now what could cause some of the likely ... What are some of the likely black swans that could come? We think that one would be the tariff trade, is very much one of the ones that're going to come ... But first of all, I want to show you this.

With interest rates rising, and the dollar rising, and the trade tariff coming on this month, this year, from April until August we saw everything fall out of bed. The resource, the commodities, gold. So everything fell, and look what happened with Turkey, Argentina, and India, just for an example. This is just a small example of what happened. That's what the trade tariff did to the emerging worlds and the developed worlds. The global world. It caused all of them to feel the heat of rising, because everyone put their debt, a lot of countries put their debt in dollars. We've seen that in Costa Rica, ourselves, and we see the problem there, firsthand. But that's what's happening all around the world today, 'cause there's a lot of US dollar debt in the emerging world, and it's hard to pay it back if you aren't making dollars. That's a real problem in the world today.

So actually President Trump is correct. The stronger the dollar is, the worse the world economy can become. And interest rates, too. So they won't be screaming up, but they're moderately rising, and the dollar has been rising, but we see it as a limited rise. We don't see it yet, it has to still prove itself to see that it's really going to be all out. This is just an example, all their currencies collapsed, their stock market's down, and actually, the stock markets in Europe have been down. So everything is looking very weakish in the world, and the US being the gleaming light for the moment.

What's interesting here, is what happened with all this coming up, look what's happening to gold, right now. What's happening is that ... This is just this year. You can see the fall, this is gold around the world. Gold based is euros, Canadian dollars, the dollar, and the yen. And this is showing you how much, since August, how much gold is rising in all currencies. Now when gold rises in all currencies, it's a Bullish sign for the gold itself, 'cause it doesn't do that very often. It usually rises or falls with the dollar, but when it rises in all currencies, that's very Bullish for the gold. This is a good start to a bad year. It's really a good start, and the fact that platinum is starting to bubble, silver looks like it's ready to go, when we start seeing the other precious metals themselves, starting to look good, like gold, like it is right now... And the fact that it's a seasonally strong time for gold right now, we think that ... If you want to call it leg up, we're in the process of right now, is a very important leg to keep an eye on for the turn around time that we think's been going on in gold for a couple years.

So we're looking at that 1200 bottom that doesn't seem to want to go below 1200 right now, and we're looking at 1380 right now, which I want to show you here. Now if I go back, what I just showed you is part of this, what we call the five year saucer bottom. So this is, since 2013, this is what gold's been forming. You can see the 1380, that's like the magic number. We think there's a lot of good potential, but once it ever breaks that, then there's no stopping gold. You'll really want to be on board before then.

The big thing here, now, is, of course, like I mentioned, is the dollar. And the fact that gold has been the most hated market in 17 years. It's unloved by the general masses. But we think that is a good sign of a bottom itself. We can remember back in 2001 very well, many of you probably remember that is how bad it really was in those days. Really, the hard part of gold was when it fell that extra $50, really wasn't that much in dollar terms, but it was more the sentiment that really got it, with everything else falling in. And so that was it. Central banks have been buying, Hungary just bought a lot of gold, and all the countries have been buying over this weakness period, so the demand is picking up, and inflation is picking up, too. So we think gold's time is coming, and it's actually here, it's just not obvious yet, and we think that if you look at the big picture, which is this one, going back to 1967, that doesn't even look so bad. It looks actually very good, and that's the big picture of gold in the free market.

We recommend, keep your gold. These low times are a good time. Someone asked, "Is it good to buy in other currencies?" The currencies in gold all fail together, so actually, it's a good buy. I have a very nice looking chart of gold in euros that looks great. So you don't buy it in that currency, you just know that it's good in all currencies. It's a good buy regardless if you have yens or euros or dollars. It's a good buy in all currencies right now, which is unusual, and actually a very Bullish sign.

I'll leave you by saying that I hope to see you in my workshop tomorrow night at 6:00, I'm going into a lot more detail on this, and a lot of other things, too. I think you'll like it. And thank you very much.

Juraj Bednar
“Cryptocurrencies As An Asset”

Gary Alexander: And our next guest is from Slovakia, Bratislava. He has nonprofits in both Prague and the Czech Republic and Bratislava and these companies are operating almost exclusively in crypto currencies. So he has experience with using them as back end assets for running a business. He’s interested in exponential technologies to increase liberty. He founded several IT companies, mainly focused in IT security. This is a whole new world to some of us older folks. We believe in gold, obviously, but to some of us crypto currency is very new, and I’m very excited and happy to have someone here to help us understand how to profit in these areas. His name is Juraj Bednar, and he’s going to talk about crypto currency as an asset. Please welcome Juraj Bednar.

Juraj Bednar: Thank you. Alright, thanks for having me. There’s really, people ask, what is an Eastern European IT guy doing at an investment conference? That’s a good question, most people think that we fix your computers, the truth is that we usually break into them. So, the truth for me is that I used to do IT security, so I was breaking into banks and trying to help them improve security. Then I read the Bitcoin White paper, which kind of explained how you can do transactions and decentralize money without having a bank. So, I thought, okay this is great. It’s a technological innovation because if there is no bank, I would actually have to break into all the holders of bitcoin, into all the wallets that are there. I was very interested in that and I said okay, we’re going to use it for everything, It’s amazing. Then people started saying, “Okay, you can not, it’s not a unit of account, it’s based on nothing. You can not actually use it.” So, my answer to this question is usually, “Okay, have you tried?”

So we tried. We created this house that is running almost exclusively on the crypto currencies, meaning we only take crypto currencies as a payment. We have had some bumps, and it was a wild ride. The other reason why I think it’s good that I’m here, is that I’m from Eastern Europe, from a post-communist country, and we have experienced governments stealing money from us. So, I think that it’s the best value proposition of crypto currencies.

I’m going to tell you something about how I perceived the worlds now and why I think crypto currencies have their place in this world as an asset. First of all, I used to read books on offshore banking, and it’s like hiding money in the tax havens and tropical islands and stuff like that. Recently I realized that offshore banking is almost dead. It has some use cases but due to Fatca here in America and for the rest of the world the equivalence is always a common reporting standard. Which are basically ways, how banks, wherever they are in the world, they have to report on all your assets, all your capital gains to the tax office where you’re a tax resident. So even if you have a bank account in an offshore bank, there’s no banking secrets. It’s no longer secret, and they have to report everything. So there’s a lot of financial surveillance, also it is very difficult to conduct business with these banks because they will ask you questions like, “Source of funds, what are contracts, how did you get these funds and so on.” So it is very slow and painful to transact.

Also, I think we can count on some scary governments being out there. This is how much Venezuelan bolivars you needed to buy one banana. It's out of date, this is worth nothing right now but it's a good picture. We have Countries with hyperinflation, they are also not in the payment network, so it's not possible to just wire money to Venezuela, you can't just do it technically. There are Countries with inflation, there are a little bit better countries, like China or South Korea. South Korea is basically the future. If you have ever been to South Korea it's like what the world will look like in five years. It's advanced county, but it still cannot easily move your assets outside of South Korea because there are capital controls on limits. There are Countries that have very limited access to payment networks like Swift. One of the examples would be Iran because of the embargoes and being kicked out of Swift. So I think these problems can be solved, to some extent, by crypto currencies. This is the value proposition.

It is an asset that is very difficult for governments to steal. It doesn't have to be your government, so if you're investing into crypto currency or buying crypto currencies, if you are just open to the possibility that there are some governments out there that do this, people will start buying crypto currency there. It's a liquid market, so the price can go up, just because there are some governments that steal money. So like stealing gold by Roosevelt in 1933. We have experienced banking crisis in Cyprus, basically where banks stole money over 100,000 Euros from bank accounts of the owners of the bank accounts. A lot of people had all their retirement just sitting on the bank account and at one point they were left with 100,000 Euros, approximately 100,000 U.S. dollars.

So, crypto currencies can be stored and transferred easily. There is no third party involved. So if I send someone a crypto currency, I don't need to ask a bank for permission, it's not going through a central bank, it's a direct peer to peer communication. So the best analogy to this would be, if you just hand someone cash. There is no third party involved but with crypto currencies you can do it over the internet. So you can do it anywhere.

There are things like monetary reforms. A recent example would be in India, where they would change bank notes to different bank notes. If you couldn't prove where you got the money from and if you paid taxes on it they would just, basically, disappear. They would destroy this bank note. There are monetary reforms, inflation, it is much more difficult to steal by government. So that's one reason why I think they're interesting.

Another one is the banking secrecy. That, I said that after Fatca and CRS were introduced, there's no more banking secrecy, unless you can get rid of the financial intermediary, which is a bank but that also applies to gold storage. So even if you have a gold ETF or, even crypto exchange, if you have a financial institution and you store your assets there, they have to report all these assets to your government. It doesn't matter if it's in Saint Vincent or Bermuda or anywhere else, they still have to do it.

With crypto currencies, there are many of them. Most of them are pseudonyms notes. Which means you can create an account on your wallet. It never asks you who you are, not even your email address. You just click button and it will create an address and account that you can use. There is no barrier to entry. You can literally install a crypto currency wallet right now and just transact with people who have it. The problem with these three crypto currencies is that they're fully transparent. So all the transactions are visible for everyone. You just don't which account belongs to who, but they are visible. So it's good to know there still not censorable, you can still do whatever you want with your bitcoin or etherium or litecoin. Just know that the transactions are public, without the identity. There are other crypto currencies, like monero or zcash, which focus on privacy. With these crypto currencies nothing is visible, basically, if you do it right. So, that's the second reason.

I think crypto currencies are currently the easiest way to bring back banking secrecy. I don't know if you recently tried to open a bank account in an offshore jurisdiction, but they basically ask you everything. They want to know where did you get the money from? Did you pay taxes? Are you married? Are you in any debt? And so on, it's an interrogation basically. So I really like that with crypto currency you just install an application and you can use the crypto currencies. There are no questions asked.

No borders. I had to fill this form, while coming to the U.S. and they ask me if I am bringing over $10,000 U.S. or more over the border. Which I find, it's not very nice that they ask this question. I think it's very private. Even if you don't have counterparty risk, like if you have gold coins, it is very difficult to move your wealth out of the country. If something happens in the U.S. and you want to move to Hong Kong, you're not going to pack your gold coins into a suitcase. Because if they find it, they are going to steal it from you at the border. Either at the U.S. border or at the Hong Kong border.

With bitcoin, they're not really anywhere. The network is decentralized, so there's no jurisdiction. You cannot store them in the U.S. There's no such concept, they're stored everywhere. So if you want to send money to Venezuela, to Iran, to or from India, if you want to escape capital controls and move your wealth out of China or out of South Korea, it all works, it doesn't matter. Another nice thing is that since crypto currency is basically a set of private keys, which is like a password, I would say. If you remember this long number, which can be represented by 24 English words, you can remember it and that's all you need to access your crypto currencies. So, even if you want to escape a country and you are totally naked and you don't have anything on you, if you can remember 24 words, you can move out with your wealth. They cannot search it, you don't have any password written anywhere. It's 24 words that the wallet shows you. If you remember them, it's your back up and you can move it out. So borderless payments from anywhere to anywhere is my third reason.

So, one thing to know, we in the crypto currencies space, say that if you own these keys, it's your crypto currency. If someone else owns it, like an exchange, it's not your crypto currency. My piece of advice would be, if this is a hedge against government stealing your money, do not store it on an exchange because the government can always come to an exchange and say, "Okay, give me the list of customers and we are going to take the money out of this account, out of this account." But if you store it yourself, that means you send the crypto currencies from the exchange to your own wallet, it's your crypto currency. No one sees it, no none knows that you have it. That would be the first piece of advice.

The second piece of advice is, don't store it on your computer or on your phone. Like I have a wallet on my phone but it is basically pocket money so I can spend crypto and I can send it to friends and so on. Normally what you would do, is you would buy a hardware wallet, which is a device like that one on the picture. That's a Czech company that is building it. It's called [inaudible]. There's another one which is called Ledger and the reason why you want to use a hardware wallet is because it cannot get hacked, it cannot get malware, it cannot get attacked by a hacker. The way it works is you connect it to your computer, if you want to make a transaction you do it on your computer but a transaction is signed on the device. So you need to physically confirm on the device. On the display you will see, "okay, you are sending one bitcoin from this address to this address." And unless you physically push the button it doesn't get transferred. So this is the reason why it is more secure.

The thing with crypto currencies is, since there is no central authority, if someone steals your crypto currency, they're gone. You cannot sue anyone, you cannot ... there's no one that can return it to you, unless the other party sends it back. Make sure to store it securely. This device costs, I don't know, $100, more or less. It's a very, very good thing to do. Also, think about inheritance. If you want to pass your wealth to your children, to your grandchildren, it won't move automatically. If you have a super strong password on your [inaudible] and you don't tell anyone, they will not inherit anything because the government cannot move the crypto currencies. It's decentralized.

There's a really good book by an attorney from New York, Pamela Morgan, and she wrote the book on how to plan inheritance in crypto. It's called Crypto Inheritance Planning. I highly recommend you do it as soon as possible. So, get a hardware wallet and think about inheritance. Usually the question is, "Is it an investment? Is it a speculation?" Crypto currency doesn't produce anything. It's like gold, it's just sitting there. It's not an asset that produces anything. I think it's a speculation, but I think it's a good speculation because it's hedging against very probable events. So betting on governments being evil and stealing money from people anywhere in the world is, I think, a really good bet. I think crypto currencies are one of the few solutions to this problem.

There's a huge hype about new crypto currencies, block chain projects and so on, I highly recommend you don't look for features. It doesn't matter if it has faster transactions or if the fees are a little bit lower. The most important thing about money is the network effect. How many people can you pay with the crypto currency. So, if someone invents a new crypto currency that is a little bit better and it has five users, it will never get any value. The main thing that you should look for is the number of users. So if you are just starting, think about bitcoin, forget about all the other things.

I'm very skeptical about block chain applications, we have been talking about it yesterday with some people, for [inaudible] tracking and all these things. Happy to talk about it after but I'm not buying into that. What is really interesting is that some people say that bitcoin is the hardest money out there. The reason is that, for example, if the price of gold was a 100 times more, it makes more sense to mine it and you will mine more gold because if you put money into mining, you will just mine more gold and there will be a larger supply. What is very counterintuitive about bitcoin is even if you invest into bitcoin mining, which is the creation of new units, you will never mine more. It will just be more secure. So the supply is constant. The full supply, that will be ever created is 21 million bitcoin and if there are a hundred times more miners and more mining capacity, it's still doesn't affect the mining supply. There's a good book about it called "Bitcoin Standard," if you like it. So, I think it's a great thing.

One last thing I would like to say is that there are some smart new things you can do with crypto currencies. We are talking, or Robert Kiyosaki was talking about, using debt. What you can do now, since December, is to create collateralized loans on a block chain. So basically now is the time when the Federal Reserve has lost control over the money supply because there is a stable coin called Dai, D A I. Which is backed one to one U.S. dollar. You can create it by depositing crypto currency collateral. So you can hold crypto currency, put it in as a collateral and mint new units, which are backed one to one to U.S. dollar. It's really a new territory here because I can print U.S. dollars from my laptop. I just put in the crypto collateral and I can still use some of the wealth. So I don't need to just put it in the wallet and let it sit there but I can actually produce something and still keeping a little bit of the up side because I can access that collateral if I pay back the debt.

It's really exciting territory. I think crypto currencies have a place in every portfolio. If you just buy a few, just to play. I highly recommend doing it and you can use it in a business as well.

Thank you very much.

Peter Boockvar
"Buckle Up"

Robert Helms: Well, welcome back! You're gonna be glad you're here for this session, because many of you were at the panel earlier and got to hear a little bit from Peter, but now we have an opportunity to hear even more. And Peter Boockvar is the chief investment officer of Bleakley Advisory Group. It's a four billion dollar wealth management firm. He's also the editor of The Book Report, which is a market and economic newsletter.

Previously, Peter was chief market analyst for the Lindsey Group, which is a macroeconomic and market research firm, and prior to that, he spent a brief time at Omega Advisors, a New York-based hedge fund, as a macro-analyst and portfolio manager. He also was an employee and partner at Miller Tabak for 18 years, where he was the equity strategist and a portfolio manager.

So buckle up and please welcome Mr. Peter Boockvar!

Peter Boockvar: Thank you. Thanks. Hi all. Thanks for coming. So buckle up implies as an investor, it's time to put on your seat belts.

Okay. So one of the keys of investing success is getting your timing right, and being cautious was never the right thing over the last couple of years. It always paid to be bullish. And being cautious and not getting your timing right is essentially being wrong.

But I feel like we're on the cusp of the change in the markets that matter a lot, and these are the three factors that I talk about in this presentation of why now it begins to matter.

The reversal of these three things. The first one of course, the extraordinary easing we've seen. Number two quantifies the extent of the expansion of central bank balance sheets and the extraordinary number of negative yielding securities that we saw in the summer of 2016. And when this begins to reverse and why does it matter, and how does it matter.

So this is just a visual of the fed's balance sheet. We always hear about the expansion. I think it's always a good visual to see how extraordinary the increase was. We're at about nine hundred billion dollars back in 2008, and peaked at around four and a half trillion. And you can see on the right side, it is beginning to actually shrink.

This is the Bank of Japan balance sheet, which is up to almost 100% of the country's economy, and their holdings of the JGB market is about 40%. This is a chart of the BOJ balance sheet as a percentage of GDP. You can just see, we're just shy of 99%.

This is the ECB balance sheet. Another extraordinary increase, which is up more than double since the low of early 2015. Again, you know this, but I think it's just a good visual to see how extraordinary this amount of easing has been and the expansion of the balance sheets have been.

This is a chart of the dollar amount of negative-yielding bonds. As I mentioned in the first chart, it got as high as twelve trillion dollars in the summer of 2016, and now is at about seven trillion.

Now understand that a negative yielding bond is actually not an asset if you own it. It's a liability. Okay, so this time we're beginning to see reversal of central bank activity, but I want to show you the last few times that we've seen a reversal and the response of the markets.

So back in 2010, the Fed told you exactly how much they were going to buy in terms of assets with QE, and they told you exactly when it was going to end. But three weeks after it ended, the S&P 500 fell about 17%. Okay, so that was the first example of a market response to the end of central bank easing.

Now we know of course, this was only a temporary end to the easing. Because then we get to QE2, like clockwork, three weeks later, we began a correction that took the S&P 500 down as much as 19%. QE3 ended October, last day of October 2014, and what happened in the month and weeks before? The S&P 500 fell about 10%, just as we were about to end QE3.

What happened after the first Fed rate hike in December 2015? Not even two weeks later, the S&P 500 begins a correction that takes us down from the end of December through middle February, down about 13%.

So, what saved us after the Fed first raised interest rates in early 2015 and ended QE was instead of raising three times, or four times in 2016, they only raised once. And then of course, the ECB and the Bank of Japan ramped up their easing cycle.

So that actually bought the market time. We also got the tax cut of course, which the 2017 rally in the markets sort of priced in. So the Fed essentially got a respite in terms of market response after QE ended, and as they began to pick up the pace of their rate hikes, but the point being before, we had sell-offs every single time central bank easing ended.

Also, what helped the markets in the case of more rate hikes by the Fed this year was the strong earnings growth that we've seen, of course, helped out by the lower tax rate, which contributed about a third of the improvement in earnings, and we also had good revenue growth this year.

But, as my title of the speech implied, we're beginning to see vulnerabilities. This is a chart of a short VIX ETF, that as you can see, blew up in the beginning of the year. And what was the catalyst for this blow-up? It was a 30 basis point increase in the US 10 year yield, that went from 2.40 to 2.70. All of a sudden that very modest move, but a very rapid move, caused a complete unwind of what was in cumulative, a trillion dollar trade.

This is the Turkish lira. The higher it goes in this chart, the lower in value it is relative to the dollar. Turkey's had political problems for years, but now all of a sudden it mattered. Erdogan has been beating up its central bank for years, but now all of a sudden it mattered. This year.

This is the Argentinian peso. Again, the higher it went means the weaker it is against the dollar. And, most importantly, look what happened on the right side of this chart to Italian bond yields.

So I purposely moved this chart back to 2013, really mostly 2014. So in June 2014, Mario Draghi decided that he was going to go what I call down this rat hole of negative interest rates, in addition to ramping up his asset purchases. But as you can see, in May, 'cause this actually goes back to October, ends in October in the short. In May, you can see the spike.

So in a matter of two weeks, the Italian bond market gave back four years of central bank buying and negative interest rates. In two weeks the ECB lost control of the Italian bond market. This is the MSCI World Stock Index, not including the US. Okay, you can see what's happened this year.

This is the Shanghai composite, down dramatically this year. This is the German DAX, down dramatically this year. Okay, then all of a sudden what was going on overseas, and I argue in response, the tighter monetary policy, not just here, but the Bank of Japan cutting their QE in half, and the ECB working to ending their QE program, all these things started to happen.

'Cause you have to understand, when central bank liquidity goes the other way, vulnerabilities ... that are the weakest, start to get called out by the markets. So as I showed in the previous charts, the markets started to call out markets overseas, and beginning middle of September started to come to the US, where it usually starts with the small cap stocks, and then bleeds into the bigger cap stocks.

So this is the Russell 2000, which really began the US equity market correction, that accelerated once we got to October. And an important statistic beginning October 1st, what the Fed was taking out, subtracted by what the ECB and BOE were putting in netted to zero. This was versus a hundred billion dollars a month in Q4 2017.

So years of extraordinary liquidity injections have now netted to zero. Do you think it's a coincidence that two days into October, the big cap equity stocks started to roll over?

In addition too, growth overseas that has slowed, this is Chinese GDP. Now, I stretched this back pretty far, but you can see this very steady decline that we've been seeing on over the last bunch of years, where the last quarter for Q3 at 6.5%, if you believe it, is actually the lowest level since the first quarter 2009, which happened to be a trough of the global recession.

Chinese fixed asset investment. You can see the steady decline. German manufacturing and services composite index. This is from market. You can see we are at the lowest level since 2016. This is Germany. This is not some emerging market.

This is total Eurozone, manufacturing and services composite index. Weakest level since September 2016. Now, granted this is all with negative interest rates and all the easing the ECB has done. This is before he's even finished his asset purchases. This is German GDP estimates on a steady decline. This is actually for Q3. They haven't reported yet. They'll report I think next week for Q3, but you can see estimates have steadily declined since the spring.

So, the Euro area finally this week reported their third quarter GDP number, and you can see growth slowed to the weakest since 2014, and is below now 2%.

Here's a chart. Japanese exports declining year over year for the first time since 2016. 'Cause one of the other noteworthy characteristics of this economic slow-down has been a slow-down in global trade. And there's no better proxy than Japanese exports for a measurement of global trade, and we've also seen a softness in German exports where exports make up 40% of the German economy.

So this is something I wanted to talk about when we look at what's the equity market going to do from here in the context of the correction we've seen so far in October. The two greatest profit margin generators in this economic cycle that drove the impressive earnings growth was lower interest expense through zero interest rates and giving the companies ability to refinance into very low cost lending, or borrowing, and very modest labor costs.

So if you picture the profit pie of corporate America, the piece, the slice of labor a couple of years ago was the smallest since World War II. That has now changed. Labor is gaining more leverage. Employees are now experiencing wage increases. In fact today, in the payroll number, average weekly earnings on a year-over-year basis is now above 3%. It's actually 3.4%, which is the highest in years. So it's great for employees, but it's going to crimp profit margins.

And profit margins as of the third quarter did hit a record high. So we are now seeing a reversal in monetary policy, globally, and a peak in profit margins. The two biggest contributors to this bull market in equities.

Getting back to the cost of money, this is a chart of three month Libor. So take the Russell 2000, small cap stocks, 40% of the debt of Russell 2000 companies is floating rate, which means that it's tied to Libor, which means that every tick up in Libor raises the cost of capital for 40% of the debt on the balance sheets of Russell 2000 companies. So you better hope that whatever stock you invest in has the cash flow to finance this rising cost of capital.

This is inflation pressures, as I mentioned, average weekly earnings. This is 3.4%, and we pretty much match that in the number today. This is the employment cost index, which is another measurement of wages, and actually I would consider this probably the best measure. This is private sector wages and salaries year-over-year, and as you can see, we are growing wages again for the benefit of employees, but to the detriment of profit margins, at the quickest pace since 2008.

Labor is the biggest cost of a company's cost structure, and in the aggregate making up about 70% of company costs. This is actually a visual, and I don't know if you can see it back there, of what I'm talking about with exposure to rising rates and the differential between Russell 2000 companies at the bottom, versus companies at the top, the S&P 500, how much is floating rate? As you can see in the yellow, 40% give or take is floating rate for smaller companies. It's obviously much smaller for bigger companies at about 25%.

We also have inflation that is going to be a factor in raising not only the cost of doing business, but also the cost to potentially higher interest rates. And I just took some quotes from corporate America in the 3rd quarter earnings releases in their conference calls that talked about the rising cost pressures. And if you have yesterday's Wall Street Journal, the front page talked about the amount of companies in their conference calls talking about the cost of doing business and their ability and desire to raise prices.

And you can even throw up some food companies. Kellogg's reported that they're going to start raising prices as well. So this is an important issue.

This is actually a chart of the number of companies using the word tariffs on their conference calls and how it's affecting their business, whether it's affecting their business from a logistical supply chain standpoint, or it's affecting their business from a cost standpoint.

Okay, now I'm going to get into the weeds on terms of US growth, and if you look at the two biggest sectors of the US economy most sensitive to changes in interest rates, it's housing and autos, of course. So this is a chart of existing home sales. Weakest since November 2015. What's happening is buyers are getting turned off by these perpetual, annual, 5%-6% home price increases with now 5% mortgage rates, which are at the highest level since 2011. It's seven years of home buyers that have never seen a mortgage rate with a 5% handle on it. Now they are beginning to, and you can see visually how it's beginning to affect home sales.

So that chart was existing home sales. This is a chart of new home sales. Lowest level since December 2016. This is a picture of capital spending. We know business investment is a core part of the economy, and as you can see in this chart, it's slowed dramatically from the peak in 2014, pretty much down to the election of 2016, and only finally after the election, when there was at least some visibility on who was going to be president and what the tax situation was going to be, you were going to see an increase. But this increase has only taken us back to previous peaks. That's how much capital spending has been sluggish in this cycle.

This is auto sales, literally flat-lining. No growth in auto sales, at least through back through 2015. So imagine, auto sales peaked out outside of this one month spike in September 2017, auto sales essentially peaked three years ago.

Okay this is a chart on consumer spending, because with it being 70% of the economy, it's been the strength of the consumer that has really kept this economy afloat, and with rising wages, we hope that maybe that can continue. But as you can see on the chart on autos and housing, the big ticket items, the big ticket consumer items, are obviously getting impacted that rising wages can't offset.

So I want to talk about two years ago I was here, and I was pretty bearish on bonds, thinking that we saw the end of the bear market. And what I wanted to do here was really list the reasons why interest rates are rising. It's not just one or two things. It's not just the Fed raising interest rates. It's a combination of factors that I expect to continue.

Nominal GDP in the third quarter report was about 5%. Historically speaking, the 10-year yield matches up about where nominal GDP is. Now when the cycle was zero rates and all the QE, that relationship was pretty much destroyed, but I think with Fed easing reversing, you could get a relationship that is somewhat similar again. 10-year yields of 3.20%. I'm not saying we're going to go to 5% any time soon, but it can help explain this rise in interest rates.

Then we through in the inflation pressures, and it's not just tariffs and raw materials. It's transportation. Good luck getting a truck to deliver your goods from point A to point B. It's been very difficult sourcing drivers and the cost of transportation is running 7%-10%. Quantitative tightening, which is now at its max level. It went there in 4th quarter to 50 billion dollars a month, which is an annualized rate of 600 billion dollars, which means that we have to find another buyer of this 600 billion dollars of paper.

Paper which is now increasing dramatically in supply, where the US treasury is going to issue about 1.4 trillion dollars-worth of paper this year, versus about 600 billion last year. Some of that is refunding existing maturities, and some of it of course is dealing with the exploding deficit, which the CBO estimates will be near a trillion dollars next year.

Then of course we have the end of ECB QE. To give you an idea of how influential the ECB was, in terms of pushing interest rates down in Europe, is at peak, ECB buying, they were buying seven times net issuance of European government bonds. Seven times. The Fed at its peak was buying no more than 25% of US treasury net issuance. 25% versus seven times. That's why the ECB was able to push European bond yields literally to the ground.

They are now walking away. They will still be re-investing, but on a net basis, they're essentially walking away. So who's going to buy European bonds outside of the ECB? Who's going to buy a Spanish 10 year bond at 1.3%? Well, we saw Italian bond yields, no one's buying Italian bonds with yields that were at the floor, and now Italy's going to have to pay 3.5% for 10 year bonds, 10 year paper that they were paying below 2% just a few months ago.

The Bank of Japan has cut their QE purchases in half, and they are allowing a modest rise in long-term interest rates because they know a flat yield curve has destroyed the profitability of their banking system, and now they're beginning to give some room to the Japanese banks. Not enough, but still, a rise in Japanese interest rates will filter into a rise in European rates, and filter into a rise in US interest rates.

Also, if you're a Japanese investor or a European investor, and you think, "Wow, I can get 3.2% on a 10 year US treasury government bond, instead of buying a German bond at 40 basis points, or a Japanese JGB at 15 basis points?" Uh-uh. The cost of hedging that out eliminates that entire spread, so the only reason why you would do it is if you're willing to take currency risk. If you're not willing to take currency risk, your yield has basically gone to zero.

And the last point is foreigners have dramatically slowed the pace of buying US Treasurys. At the peak about ten year ago, they owned 50% of the US government bond market. That is now approaching 40%. So don't think US rates are rising just because the Fed is raising and maybe there are some inflation pressures. Yes, they're important, but there are a lot of other reasons why I expect rates to go up, and not for good reasons.

This is high yield credit, which up until a month ago, actually traded really well. Whereas, late September, the spread relative to treasuries got as tight as it did in July 2007. We know what happened after that, and you can see on the right side, we saw a blowing out of spreads and yields just this month. So high yield is finally beginning to get infected.

This is also the absolute yield on high yield, so the previous chart was a spread. This is the actual yield, and you can see the cost of capital is now at a 2.5 year high for those high-yield borrowers.

This is a chart of European high yield. Now just ... if you cannot see back there, European high yield. This is junk credit in Europe. Last year, got to a yield of 1.8%. Junk… 1.8%. And that yield has essentially doubled since.

Valuations of the equity market. You'll hear on TV, the PE ratio, it's only 15 times. It's very reasonable. It's very attractive. Well, understand that the E-part of that PE has been inflated by extraordinarily low interest expense, and very low labor costs, and as I mentioned, that is beginning to reverse. So looking at this chart, being a price-to-sales ratio, takes away the games you can play with earnings, so it's a different metric of valuations.

And as you can see, just recently, we were as expensive as we were in March of 2000. So I say, bottom line, buckle up, because now things begin to matter. Next year, the combined balance sheets of the Fed, ECB, and BOJ begin to shrink, after as I mentioned, are now flat lining. Corporate profit margins are now going to regress. Global growth will continue to slow. The previous chart I showed you how excessive equity valuations still are, and that the bond bull market is over, and if that is the case, and we are on the cusp of a further rise in US interest rates, then the US equity market is likely over as well.

So, where to hide? Here are a couple suggestions. Short-term T-bills. You can buy a two-year T-bill right now, and get almost 2.9%, and on a tax-adjusted basis, because you don't have to pay state taxes, it's actually above 3%. Gold and silver, I don't need to sell you on gold and silver, but understand the next catalyst for gold and silver will be next year when J. Powell blinks at either a slowing in the US economy, which I believe will occur as the weakness in housing and autos spread to other areas, or we see a sharp decline in the stock market that he blinks to.

When he does, the dollar weakens dramatically. Gold and silver go up a lot.

BNDX, that is a Vanguard ETF, which has a lot of international bonds, and it's kind of boring to watch, but I believe it's a short, based on my bearishness, particularly on European bonds.

European bonds to me really is a potential problem child, and you're going to potentially see much higher rates there, in that Italy is just really the dress rehearsal. I like uranium. I think the bear market is over. The catalyst for that was Cameco announcing that they were shutting down their biggest mine and were starting to buy product in the spot market. That followed Kazakhstan dramatically cutting their production.

And we've a pretty sharp rise in the spot price of uranium, which has gone from low $20 a pound to almost $30 a pound, and Cameco CCJ is a great way of playing it.

And how many people, raise your hand, if you've thought about investing in Greece. One. One hand. Okay? Well, that tells me that's a good thing. The reason is right now the president of Greece, Alexis Tsipras, is left of Bernie Sanders, if you can imagine that. And even with that, Greece has actually got their budget situation in control.

Next year there is an election. The new democracy party, which is the main opposition party, the head of that is this guy Kyriakos Mitsotakis. He is a very business friendly guy who understands economics. He is 10 points ahead in the polls. He will likely be the next leader of Greece. He will potentially be a game-changer for Greece. The Athens stock market is down 88% from its 2007 peak. That is just as bad as the Dow was in the 1930s in the Great Depression.

Greece has had their Great Depression. If you're looking for a cheap market out there with a lot of opportunity, if Mitsotakis wins, Greece is a place. If Mitsotakis loses, reverse the trade. I think he's going to win.

And that's it. Thank you very much.

Booms, Busts & Bubbles Panel

Albert Lu (MC), Ben Hunt, Mike Larson, Peter Schiff

Lindsay Hall: Welcome back, everybody. Please, come on in. If you're still coming in, get seated. And you guys are ready to listen to Booms, Busts, and Bubbles. You ready for all that? Three B's, yeah. All right. Good deal. Okay. Your participants for this panel today are going to be Ben Hunt of Second Foundation Partners, Mike Larson from Weiss Ratings and Peter Schiff from Euro Pacific Capital. Also Albert Lu from Sprott Media will be mediating.

Albert Lu MC: How's everyone doing? Hope you're doing well. This is going to be a fun panel. One of the things I want to do this morning is test out a hypothesis I have, and that relates to natural constants. And those are the things in the world that never change. As examples, C, the speed of light in a vacuum, G, the earth's gravitational constant, pi, the ratio of a circle's circumference to its diameter. These things never change. And I want to propose a new one. That is L, yeah, I'm naming it after myself. L equals 2.0, and that is the number of years until the next financial crisis. It never seems to change. Doesn't matter what the situation is, what the economy's doing, or who you're with. There is always someone who will say that it's two years away. So I want to see if that holds up during this panel and throughout the rest of the day.

I'm going to direct, I think my first question to Ben Hunt, because I'm least familiar with your views. Interested in knowing what you have to say. And to be perfectly honest, if you look to your left, this might be the only chance you have this morning to speak.

Ben Hunt: Yeah, I know. Yeah, once it gets to Peter, we're done. We're done. Yeah.

Albert Lu MC: So, yeah. Mike's pretty good, too. So, let's make it count. Where do you think we are in the global cycle?

Ben Hunt: Well, look, we are in a bubble. Let's call it the bubble of financial assets or the bubble of everything. And I've got a talk later, we'll show some charts about this. But basically, the idea is that really, as a country, you can't be richer than your economy grows, right? Not for long, anyway, and not by a lot. But we're now at kind of the third one of these, I'll call it central bank-induced bubbles, where future growth has been pulled forward, and it manifests itself in net worth of us, right? So you can see this really clearly, right? So we have the dot com bubble, we have the housing bubble and now we've got the bubble of everything, right, which has really been focused on financial assets.

So we're in a bubble, right? But to your point about, well, is the financial crisis two years away or some year away, what pops that bubble? And I gotta tell you, it is different today. It is, the bubble-popping process has been made different today, because we have a new, I'll call it a gravitational force in the world. And that is the 20 trillion dollars in assets that central banks have bought, right? There's enormous gravity that's formed by that, really starting in 2009, and still going on today, right? It's topping off but still going on today. You can't un-ring that bell, to mix a metaphor here. And it really does change everything in terms of the lifespan, the life cycle of bubbles, by having this enormous gravitational force there.

So I'll give you a quick example on it. So in 2012, summer of 2012, I was running a hedge fund. I mean, it's about 800 million, so it wasn't small. And we had a big bet on the Euro issues that the ECB was unable to face in the early summer of 2012. And look, I went that summer from having some of the best days of the fund to some of the worst days of the fund, to the point where by the end of the summer, really in that first week in August, when Mario Draghi gave his "whatever it takes" speech, followed by this entirely mythical program to prop up the European monetary system by making what they call outright monetary, outright purchases, of everything. Just those words were enough to alleviate the crisis, 'cause that was a full-blown financial crisis in the summer of 2012, and it was as if it didn't happen. And I got kicked in the teeth with the fund.

And what I realized was that our world had really changed, that just understanding the fundamentals, it was no longer enough, right? That we really do have these new forces that are determined to turn capital markets into political utilities. I really believe that's the goal here. And it's a darn effective mechanism they've got here. It's both the words and backing it up with the ability to buy trillions of dollars worth of stuff.

So what I'm looking for, to get back to your original point, what does pop the bubble? It has to be something that undermines market, global, whoever, confidence in the ability of central bankers to bail us out, to rescue us. And I don't think that that happens with another Euro crisis out of Italy, even though I think that could absolutely happen. It doesn't happen if China floats the yuan. Although I think that could absolutely happen. It doesn't happen if the Fed continues to raise interest rates and spark a cyclical recession here in the United States. None of those things, my view, are big enough to pop this bubble, because none of those things are big enough to undermine that global confidence that you've got central bankers with their words and their money to be able to save the day or prop up our prices.

So that's where I am. What I'm looking for is, well what is it that can undermine that? I think it's inflation. I think inflation can happen. I think that can undermine the confidence that people have with the Fed and the ECB and all these other banks can save the day. I think that's what it takes to pop the bubble.

Albert Lu MC: Okay. Thank you for that, Ben. I think we'll return to that with Peter. Before we do that, I want to talk to Mike a little bit because from our discussions yesterday, it sounds like you're not waiting for the catalyst. You're already rotating into cash and maybe into value stocks away from growth. Is that true?

Mike Larson: Yeah, that is. I think that some of the market activity that we've seen beginning in January, and especially with what happened in October, tells me to some degree that these background concerns that have been simmering and building up for a long time are now starting to bubble over, if you'll pardon the pun. Ben mentioned there's sort of a bubble of everything, but the term I've been working with is the Uber Bubble, and it's kind of a play on the fact that Uber means largest, biggest example of it. But also, private tech companies, valuations of Uber and many other firms in that industry are radically, are pretty much ridiculous by my standpoint. Haven't made a penny of operating profit in nine years and they're worth $120 billion. It's up about two million, 220-odd percent since it was founded. But that's just one example.

I mean, what I, when I look at this sort of bubble cycle that we're in, the last two cycles we're very high in amplitude, right? You had a extreme bubble in dot coms. The rest of the economy, not necessarily impacted as much by that. And then that popped. Housing, same kind of thing. Very amplified sort of wave pattern where the bubble in housing was extreme. Other parts of the economy weren't as touched by it.

What's happened this time, in my opinion, is sort of the trough-to-trough measure of this bubble. It's much broader, not as highly amplified, but much broader. And it's in things like stocks, it's in things like high-yield bonds, it's in housing again, commercial real estate again. But if you'll indulge me, there's examples that you're finding in all kinds of other markets that you don't hear about a lot, but it just shows that the asset economy, asset valuations, are out of control. We just sold in November 2017 this Salvator Mundi painting. Some people think it's da Vinci, but they don't know, and it sold for $450 million, which was the, beat the previous record of 179 million. You have, for example, NFL team. Everybody's kind of interested in what's going to with the Saints later around here. The average value of an NFL franchise was up 8% last year, 2% this year. And is up 146% in the last sort of QE period.

There's a company called PWCC Marketplace. They track the value of baseball and other trading cards. If you look at what baseball cards have done, for example, they are up 265% in the last several years during the QE era. If you look at vintage comic books and comic book art. In Chicago, we just had a sale, $12.2 million total auction value, up 17% from the previous record. I could go on and on. There was a bottle of vintage scotch, actually, that was just auctioned off in October of 2018. It sold for $42,980 an ounce, an all-time record. A 1962 Ferrari just changed hands for $48.4 million, all-time record for any vintage car as well.

So, again, it's everywhere and so when I talk about that wave pattern. It's much broader, it's much more all-encompassing. And it does raise the issue of where you go to hide if indeed we are kind of the ship that's going to hit up against the rocks. And that's the real problem. I think last two cycles were narrower and higher in amplitude. Now they're broader and more dangerous. So that's why, beginning in, with some of the market activity that we saw in February and March and so on, we've gotten much more defensive. And I think the process of unwinding some of this is already beginning.

Albert Lu MC: Thank you. I'm going to go with Peter now, and I think most people in the room are familiar with Peter's background, but I just want to revisit it a little bit, because if you go back to 2004-2008, America was really getting drunk on cheap credit, on homes that seemed to appreciate forever. Peter was out there, one of the leading voices warning of what was going to happen. And he really called it, and I think of it as a playground. The kids are all just going nuts. And Peter's a cool kid in the back of the room saying, synthetic CDOs suck, man. I'm not participating in that." And he really nailed it. That was then.

This is now. Now what I'm seeing is, yes, Peter, you've maintained your opinion on what's going on, but I'm seeing other people come in as well. So now you got guys like Jack Bogle warning. You have investment banks warning that growth is going to slow down over the next couple years because what we've done with QE. You have people from the Fed like Richard Fisher, saying "Look, we pulled forward growth," sort of echoing your sentiments, Peter, "this can't continue." And then even, it goes as far as people like Carl Icahn and Ray Dalio, people who managed a lot of money, warning. And so my question to you, Peter, is, well it looks like being bearish is not as cool as it was before. It's a bigger club. But now that so many people are actually saying it, what's taking so long? Usually in the public markets, if everyone is looking for the same thing to happen, it happens, correct? So what's taking so long?

Peter Schiff: Well first of all, I still think that those warnings are too tepid. So they're just not nearly bearish enough. They don't really appreciate the severity of what is about to happen. They look back at 2008 as some kind of reference point, like, "Well that's as bad as it's going to get. So whatever we have now isn't going to be as bad as that." It's going to be a lot worse than 2008.

This, the panel is about bubbles, so I wanted to talk a little bit about bubbles and the nature of bubbles and where they come from. And generally, bubbles are a creation of central banks. I mean not always. I mean they didn't create the Beanie Baby bubble. I mean, that was created just, human greed and bad decisions when it came to Beanie Babies. But when you see rampant, wide-scale bad decisions, generally a central banker is behind it, and they have made a bad decision to create too much money and to artificially manipulate interest rates down.

And that is a very important thing, because interest rates are an important price on market economy. And like all prices, they need to be determined by the free market, by supply and demand. Supply is savings and demand is people who want to invest that savings. And the market is going to find an equilibrium rate. Well when the government doesn't like the market rate, it tries to set a rate that is below that. And just like whenever the government price fixes something, they create big distortions. They create mal-investments. And the further from the market rate that the central banks put rates, and the longer they leave them there, the more mistakes, the more mal-investments.

So the dot com bubble was a result of the Fed keeping interest rates too low and creating too much money, and for all sorts of reasons during the 1990s. You can remember a lot of the things that were going on. Fears about Y2K towards the end, the Russia debt default, Asian collapse in '97, a long-term management blowing up. Every time something went wrong, there was Alan Greenspan with more money to make the problems go away. And so that manifested itself in that bubble. But when that bubble popped, the Fed came back with even more aggressive monetary policy. They lower rates down to 1%, which at that time was pretty much a record low. And it took a few years to get them back up to 5%.

And so during that period of time, we created this gigantic housing bubble. And there were so many mistakes made during that bubble that when it popped, we had what we now call the Financial Crisis of 2008, but which many people say produced the worst recession since the Great Depression, and it would've been a whole lot worse had we not blown an even bigger bubble.

But what the Federal Reserve was able to accomplish, now, we didn't just stop at 1% when it came to interest rates. We went all the way to zero. And we didn't just leave them there for a year and a half. They were there for eight years. And the Fed's been raising rates now for about three years, and now they've got them all the way back up to 2%. So we have had artificially low interest rates for an unprecedented number of years at an unprecedented low rate. So the mistakes that have been made during this time period dwarf mistakes that have ever been made in any bubble in the past, because the bubble is so much bigger.

The busts, the recessions that follow, that is the free market trying to fix all the stuff that was done wrong, all the bad decisions, all the misallocations of resources, all the mal-investments. That all needs to get liquidated. That all needs to get cleaned out. And the bigger the boom, the bigger the bust. The problem now is that the boom is so big that the bust will be catastrophic. And what's going to make this bust different is that there is no bailout. There is no stimulus. It is impossible to reflate this bubble, because as Ben said, this is a bubble of everything. They can't make the bubble go someplace else. It already is every place. But the one place there's no bubble is in gold, but there's a bubble in everything else. And that just shows you that there's also a bubble in complacency and optimism. People are so drunk on all this cheap money, they think nothing can go wrong. That's why you have these record low spreads between high-yield and credit quality.

But all that is changing. Rates have been rising and even though they're at 2%, that's too high when you have so much debt. People keep saying, "Oh, we're just normalizing rates." Well fine, but we have an abnormal amount of debt because rates were kept so low for so long, everybody borrowed more money than could ever be repaid. In fact, they can't even be serviced if interest rates even approach normal.

And as far as what the pin's going to be, look, I mean there are so many possible pins for this bubble, but most people, when you're in a bubble, you can't see the pins. There a lot of pins that were pretty obvious in 2006, 2007 when I was forecasting a collapse. There are more pins now. Believe me, it's more obvious now that we're headed for a train wreck.

Albert Lu MC: Peter, can I jump in for a second here? I wanna make a point-

Peter Schiff: All right, yeah. Okay.

Albert Lu MC: Based on something that James Grant said yesterday. I'll come back to your point, though. I just want to interject something. Jim Grant spoke and he said something that was really interesting. He said if you look at sort of scientific progress, engineering progress, it's people standing on the shoulders of other people, learning and improving. Why is it that in economics, it seems like we're stepping on the same darn rake all of the time? Right? And the rake is getting faster and more dangerous, just this, weapons of mass destruction, as Warren Buffet likes to refer to it. But I think it's because each cycle is just a little bit different. People have forgotten. It's just a little bit different enough to fool us.

So Peter, one of the things about the call you made in the early 2000s wasn't that you timed it correctly. It was how specific you were about the catalyst that was really impressive. You said, "Watch subprime defaults." And it all kind of went off of that. Do you see one thing, Ben was saying possibly inflation, do you see one thing that we should be watching that might give us a hint that this is about to happen?

Peter Schiff: Well I don't know if it's one thing. I mean we just had that, Bank of the Ozarks was the new name of it, just, they just blew up 25% in one day. I think the stock's down 60% because of losses on real estate-related loans. I mean this is a canary in a coalmine that people are ignoring. We have this stuff happening in '07, but you could look at stocks like GE having to eliminate their dividend and crashing to 9-, 10-year lows. Look at the auto stocks. Look [crosstalk 00:18:30]-

Albert Lu MC: But Peter, are any of those as big as subprime, though? Are any of those as big as subprime?

Peter Schiff: Well the problem with subprime is the government now owns the subprime industry. All the subprime loans are owned by the government now. The government basically took that over. But your point, it is amazing how we've advanced. We know a lot more about science and a lot more about a lot of things than our ancestors, but when it comes to economics, we haven't learned anything. We repeat the mistakes over and over again. And it's crazy that this time, the mistakes are so close together.

I remember when I was on CNBC, probably in 2005 or 6, when Mark Haines was still alive, and Mark was kidding me because he said, "Peter, bubbles are a once-in-a-lifetime thing and we just had one in dot coms. Are you expecting us to believe that we have another bubble so soon after having the last one?" And I said, "That's exactly what I want you to believe, because it's the same bubble." It all started with Greenspan and it's continued. It's all part of the same thing because the government never allows it to fully reflate. The government never allows the free market to fix the problem because it rushes in with another dose of monetary heroin.

So the reason that so many people don't understand that there's a crisis coming now is because they never understood the problem. They think the Fed solved the problem. They don't understand that the Fed made the very problem that caused '08 much worse.

Mike Larson: I think-

Albert Lu MC: Okay, yeah, can I ask you a specific question, Mike?

Mike Larson: Yeah, sure.

Albert Lu MC: Well, what asset class are you most concerned about crashing?

Mike Larson: Well I think-

Albert Lu MC: [crosstalk 00:20:02] same thing for Ben Hunt as well after.

Mike Larson: Sure. To me, the most concerning activity that I see is almost the parallels that are happening in sort of private tech valuation world that we saw in public tech back in the dot com peak. I mean if you look at where sort of the easy money has flooded most aggressively this time, it's in the corporate arena versus mortgages. And it's also in the incredible amounts of money that you have seen thrown at private tech companies of all different kinds, and that are manifesting themselves in so many places. I mean I mentioned Uber earlier as one example. But if you look at a DoorDash, for example. They're valued at something like $4 billion and they deliver food and they have 500 competitors to do the same thing. It's absolutely ridiculous. They don't make any money. And you can find example after example of that.

You look at real estate in the Bay Area as a result of what's happened in the tech market. As of this spring, the average San Francisco house was going up $561 and 64 cents per day, or $23 and 40 cents per hour. I always joke you could sit on your couch eating Doritos and playing Xbox and make more money than you could by working. And that's what you've seen. So I think if you had to say what part of it was most concerning, I think it's happening in the private, and to some degree public, tech market. I would point out that as of the first nine months of this year, 83% of the companies that IPO'd were losing money in the 12 months leading up to their IPO. The only time literally in history we saw anything close was in '99 and 2000 when it was 81%. So-

Peter Schiff: I was about to interject that [crosstalk 00:21:34]-

Albert Lu MC: Okay, same question. Ben Hunt, please.

Ben Hunt: Yes, I'm going to flip it around. For me it's not what asset class is, I'm most worried about. I'm looking at where can I make the most money. And right now, you've got a setup that's actually very similar to the setup in, well, starting in late '07 and going through '08, where you could buy credit default swaps at basis points, right? So it was at, basically, it was a free option on a financial debt instrument that could blow out enormously. It's risk and reward, an asymmetry of risk and reward. And today you've still got that to an extent in the credit default swap market, which is as big or bigger than it ever was back in '07 and '08.

But what I'm looking at are long-term interest rates. They don't have to be too cute about this, but the fact is that nobody in markets today believes that long-term interest rates can make a sustained and violent move up. They just don't. Right? So, people say, Ok well we've got the wage inflation. We've got some inflationary pressures. All true, right? But the perception on markets is that this is cyclical, this is a blip, and that the next deflationary shock, whether it's from Europe or whether it's from the Fed's own actions or whether it's from China, well that's, we're just on this long race log to nowhere.

So on assets and what you can do, you can purchase these very long dated, long-termed interest rate swaps or futures, however you want to express it, basically for nothing. Right? Because no one believes in markets today that there's any possibility that we get what I'll call a regime change in inflation. We've had 30-plus years of declining inflationary expectations. The last 10 years, we've been just rock bottom on inflation expectations. And what I really believe is that is starting to change.

Albert Lu MC: And how would you-

Peter Schiff: ... that, yeah, everybody wants to fight the last war. And if you look at the most recent round of stress tests that the Federal Reserve put the banks through and they bragged about all the banks passed, but even under their most adverse scenario, interest rates didn't go up. They stayed the same. And inflation went down in their worst-case scenario. They cannot even envision a scenario where in a recession, interest rates go up.

Ben Hunt: That's right.

Peter Schiff: They can't envision stagflation, even though it happened in the 1970s. Not the 1870s, the 1970s. Everybody on the Federal Reserve was alive in the 1970s, so it's not ancient history. But it's something that they consider so impossible, so implausible, that they're not even stress testing for it.

So, it's what people don't expect. Nobody expected the collapse of the housing market even though it was so obvious, 'cause people talk about, "Oh, real estate prices never go down. It's never happened." Nobody expected it. And so right now nobody expects inflation, and that's exactly what they're going to get. And they're going to get stagflation, and the Fed can't deal with that.

Mike Larson: Well you know what's really interesting-

Albert Lu MC: Can I, sorry, can I just follow up with a question for Ben? Just a quick-

Ben Hunt: Yes.

Albert Lu MC: ... answer. How do you compare the mispricing you see in these interest rate derivatives compared with what we had with the credit default swaps on CDOs back in the last [crosstalk 00:24:54]-

Ben Hunt: I never thought we would, so in my hedge fund this is how we made our bones with credit default swaps in '07 and into '08. I never thought I would see it again. I never, I mean I just ... How is it possible that we could see that level of excess again?

Albert Lu MC: Is it that level?

Ben Hunt: It is absolutely at that level.

Albert Lu MC: Okay. Thank you. Mike.

Mike Larson: Well I was just going to say, you talk about how people traditionally, for many, many years, stocks go down, stocks go down, what do you do? You buy treasuries, the money flows from one side of the boat to the other. But what's interesting even as recently as Friday, you have a day where the Dow's up a couple-hundred points. It's down 300 points at the worst, somewhere in that neighborhood. And what happens to treasuries all day? Prices go down, rates go up. And you look at the pattern for the last year and a half in the bond market, steadily declining bond prices, steadily rising interest rates. That is clearly a different pattern in the short term. We're starting to see it more often. And it makes you wonder, is this, again, like I said, is this the surprise that people aren't expecting? That even if the economy starts to hit the rocks, what happens to rates? They go up.

Peter Schiff: Yeah, I mean, people think that oh, if there's a crisis, people are going buy bonds, but bonds are also in a bubble. They're one of the bubbles that has been inflated. When the stock market crashed 30 years ago in 1987, yields were at 9%. [crosstalk 00:26:15]-

Ben Hunt: But look, Peter, don't-

Peter Schiff: Bonds were a buy.

Ben Hunt: When there is a crisis, people will buy bonds. All right, my point is you need to think of your bond allocation as a tactical allocation as opposed to a core allocation.

Peter Schiff: But they won't buy bonds if part of the crisis is sovereign debt and the dollar. I mean if you're worried about the ability of the US government to pay its debt and to make the interest payments on its debt, and if you're worried about massive money printing in order to monetize that debt, you're not going have any safety-

Ben Hunt: I'm with you, Peter, but that's, that is years down the line.

Peter Schiff: Maybe.

Ben Hunt: Right?

Peter Schiff: Maybe not.

Ben Hunt: That's, and between that, 'cause the path matters here, right? So when there is a crisis that emanates from China or from Europe, or from some emerging market, people will buy US bonds.

Peter Schiff: You don't know that.

Ben Hunt: Oh, absolutely I know that. [crosstalk 00:27:02]-

Peter Schiff: ... people expect that. Look, even when-

Ben Hunt: Come on, come on.

Peter Schiff: ... even when, I mean, when Standard and Poor's downgraded the US Treasury debt that first time, and I think it's all junk bonds anyway, but they downgraded it, and people were so worried about the downgrade of US treasuries that they bought US treasuries as a safe haven.

Ben Hunt: That's right.

Peter Schiff: So it, but that, right, but that irrational-

Ben Hunt: That's my point, Peter.

Peter Schiff: ... behavior is going to come to an end-

Ben Hunt: It's not irrational.

Peter Schiff: ... nothing that can't go on forever

Ben Hunt: I don't [crosstalk 00:27:26]-

Peter Schiff: It is irrational.

Ben Hunt: ... solution that is irrational that some magical free market genie that's going come down and undo all the socializations happen in markets. I agree it has happened in socialization markets. But to say that, oh well, magic's going to happen and that will all reverse-

Peter Schiff: Well that's not magic, that's just common sense. But if you look around, we don't have all our friends anymore like we used to. I don't think the Chinese are gonna step it up. The Russians, the Japanese, the Saudis. Who's gonna buy all these-

Ben Hunt: Every-

Peter Schiff: ... bonds?

Ben Hunt: ... institutional investor in the world

Mike Larson: I think if you want to focus on bonds, you've got to start with the credit-sensitive side of the market. That's where you're going to have more problems, in my opinion, at least in the first couple of phases of this thing than you are in government debt. I mean, again, if you look at where the highest-risk lending, highest-risk borrowing, highest-risk behavior is going on, it's clearly on the corporate side versus mortgages last time. There was a lot of garbage debt, garbage securities out there. You look at some of the things, a company like we work has sold. There's plenty of examples of paper and companies that are gonna be in a lot of trouble based on what they've done in the corporate bond market [crosstalk 00:28:35]-

Peter Schiff: And a lot of these companies are going to lose a lot of money. They're not going to be able to buy bonds. But I think if you're talking about bubbles, the bond bubble, for my money, is a bigger bubble than the stock market. So why would you want to take refuge from one bubble by participating in an even bigger bubble?

Ben Hunt: Because we have to live in the real world, right? And in the real world we have stocks and bonds. We have government rate instruments. And we can't, most of us can't, step back for five years, for the popping of the big bubble. We have to play the game-

Peter Schiff: Well no, you don't have to buy 30-year bonds. You can buy one-year or two-year bonds. You can stay in cash. You can buy bonds issued by other governments that have better credit quality. You can buy gold. I mean, there are other assets. It's not just stocks or long-term bonds. There are a lot of other things you could buy.

Ben Hunt: Yeah. Okay.

Albert Lu MC: I want to ask you guys about going abroad. I know Peter, your strategy has been foreign equities, right? Getting away from the US. Mike, I know that you like to stay in the US. And so I guess I'll direct this question to all three of you. Is it possible that sometimes we overrate or overvalue things that are overseas or abroad or less familiar to us? Because if you think about it, our banking crisis was someone else's foreign investment, right? There were some people, someone out there was putting Singaporean teachers into Lehman Brothers-structured products. So, what is the value of investing abroad, and are we overvaluing that in terms of diversity? I'll start with Ben.

Ben Hunt: I don't invest overseas. I don't. I mean I'm completely opposite on this. I think that given both the deflationary shocks that I think we all see coming, the ultimate inflationary pressures that come from monetization of debt, which I agree is absolutely coming. It's going to happen. I want to be, I want to push away from the table of the casino, if you will, of public securities, particularly those that are overseas. So I'm looking at real assets, particularly at those that are as closer to home as I can get. I want real cash flows as close to home as I can get. That's what I'm focused on.

Albert Lu MC: Mike.

Mike Larson: What I'm looking at, I mean again, since that sort of February/March timeframe, I said this at the earlier presentation, it's not greed is good. It's boring is good. I want to be as boring as possible. Consumer staples type things, high yield, low volatility, the portion of money that's still going to be in equities. And in our newsletters, we have 50% some-odd range in cash. Those few remaining things that we do have recommended are plays like that.

I think domestically, it's important to be domestic versus overseas. It's important to be boring versus extravagant. And I think the one last point that I've made is that you have so much money that has been into the growth overvalue trade that you have the Russell, the divergence between the Russell 1000 Growth and the Russell 1000 Value Index is at the widest, or the broadest spread you've seen except for the one-year period bracketing the peak of the dot com bubble. So the stuff that's undervalued, it's not the FAANG names and all that other stuff that's on TV all the time. It's your, some utilities, consumer staples. Things that aren't sexy but are going to save you or make you money even in a rough market, in my opinion.

Albert Lu MC: Mike, are there not any of those boring stocks to be found in overseas markets?

Mike Larson: I think the issue to me is really that, what's going to happen with the US dollar? I'm not negative on the dollar. I actually think that the dollar, as our rates go up and foreign rates don't, as money seeks safe havens, I actually think the dollar is likely more a bullish play than a bearish one. And I think that's going to work against you.

Peter Schiff: I agree-

Albert Lu MC: Okay Peter, your thesis has been sort of the opposite of that. Weak dollar. Are you still looking overseas?

Peter Schiff: Yeah, I mean, first of all, I mean I think the valuations are much better in the markets that I'm involved with. But I think more importantly, people are underpricing the political risk in the United States. Not only are our assets very expensive, but there is a real wave of socialism building in this country. I think the Bernie Sanders phenomena is much more important than Trump. Trump was able to win because he was able to tap into the frustration from a bunch of people who knew the economy was a lot weaker than the experts were telling them.

But when this bubble pops and we are in recession at a bear market, two very likely events that will occur and will be ongoing in 2020, Trump will be a one-termer, and his replacement will be a socialist and Congress will be a socialist, and all of these tax cuts, which people think are permanent, are going to be very temporary because one of the things that they're going to do is they're going to raise taxes rather dramatically. They're going to vilify corporations and greed and capitalism and blame all that for the problems. And they're going to jack up taxes and spending's going to go through the roof. And we're running massive deficits now under Trump, biggest trade deficits, biggest budget deficits in history. Obviously those records will be broken under the term of whoever who succeeds him.

So there's a lot of risk, inflation risk, political risk. I want to be far away from this blast when it happens. I want to look at countries that are, have better fundamentals, where they have trade surpluses, balanced budgets, budget surpluses, where people are saving money, not just borrowing it, where they have real industry and real production. And yes, the dollar went up on anticipation of the Fed raising rates. Well last year was the first year in five when the dollar went down. Now it's up a little bit again this year because people actually believe we're going to win this trade war. It's impossible for that to happen. We'll see if the dollar finishes the year higher. It's interesting. The dollar is not gaining much traction recently with the markets kind of blowing up and problems happening.

But I think the next big move is going to be when either the Fed has to admit that the economy is not as strong as they think, and they're going to change their forward guidance on rates and the dollar's going to tank, or the markets are going to figure this out and front-run the Fed, and the market is going to tank. But when they have to go back to zero, when they have to launch QE4, the dollar's going fall through the floor-

Ben Hunt: You think if the US market tanks that your foreign stocks are going to do well?

Peter Schiff: As long as the US dollar goes down, as long as the US dollar goes down, foreign stocks will do very well, because the problem for a lot of foreign stocks now is not only the overvalued dollar, but the expectation that the dollar's going to keep rising. When that expectation proves to be false, it's going to provide tremendous relief. Remember, a lot of these foreign markets have dollar debt, and when the dollar loses value, it's like their debt gets forgiven. And all of a sudden, commodities that are priced in dollars become less expensive for people who have other currencies to pay for them. So-

Ben Hunt: Look, if you invest overseas with the dollars, you are taking on currency risk with your investment.

Peter Schiff: That's exactly what I want-

Ben Hunt: And it swamps [crosstalk 00:35:37]-

Peter Schiff: ... because I'm-

Ben Hunt: No, no wait [crosstalk 00:35:38], let me finish-

Peter Schiff: I'm getting rid of the risk [crosstalk 00:35:39] of the dollar.

Ben Hunt: ... let me finish. It swamps all of your fundamental analysis of those companies that you're investing in, [crosstalk 00:35:45]-

Peter Schiff: Not if the dollar goes down.

Ben Hunt: ... well, that's my point. Not if the dollar goes down. If it goes up, you're making another bet, which I-

Peter Schiff: Yeah, I'm making a bet-

Ben Hunt: ... promise you-

Peter Schiff: ... that I think I'm gonna win.

Ben Hunt: Well, that's a very-

Peter Schiff: That the dollar's gonna fall.

Ben Hunt: That's a very, then just bet on the dollar. Why are you doing it investing in specific companies?

Peter Schiff: Because I make, if I own a company that earns currencies that are going to go up, then I make a lot more. [crosstalk 00:36:06] If I own a foreign stock, I can make money three ways. I can get the dividend on the stock. I can get the appreciation of the company. And I can get the foreign exchange gain. If you want to bet on the dollar, that's fine. That's a bet you want to make. I wouldn't want to make that bet.

Ben Hunt: No, you are betting on the dollar when you-

Peter Schiff: No I'm not.

Ben Hunt: ... invest in foreign stock.

Peter Schiff: I'm betting against the dollar.

Ben Hunt: You just are.

Peter Schiff: I'm betting by investing abroad. That's exactly what I'm doing.

Ben Hunt: All right.

Peter Schiff: And obviously, betting on the dollar was the right bet from, in 2016 and 2015 and 2014. But I'm in this game to win it. I just don't want to win, I'm not trying to win a few hands. I want to walk home, walk away with all the chips. And when this bubble bursts, I think the dollar goes down, just like it did, when the dot com bubble burst, the dollar tanked and it hit an all-time record low in 2008. When the real estate bubble burst, the dollar actually rose. But I think this time it's going to be a repeat of what happened in 2001, only a much bigger decline because when the '08 crisis started, gold was at an all-time record high and the dollar was at an all-time record low. And that's how everybody was positioned. But now nobody is long gold, and everybody is short the dollar. So people are, when they get surprised by the events that we have now, it's going to be a big drop in the dollar and a rise in gold.

Albert Lu MC: Gentlemen, just a few minutes left, and I want to turn the attention to gold because it's been a very tough number of years for gold investors. If you look since the crash, nine years, the stock market's been going up double digits year over year. We basically been flat. And it occurred to me, back in 2004 when I got married, I'm putting the ring on my wife's finger, and the gentleman is saying, "In sickness or in health, till death do you part," I thought he was talking about my wife. I think he was talking about the gold I was putting on her finger, because that trade has required a lot more faith and dedication than anything else that we've experienced as a married couple.

And I feel kind of duped, because I think the marriage proposal was a much more honest proposal, meaning that no one told me that my wife was going to look the same a thousand years from now, or that our marriage wouldn't become tarnished. There were no claims of malleability, like she would become any person I want her to be. And if I miss her, I can't carry a one-ounce version of her in my pocket. So I'm feeling a little bit disillusioned with the gold trade. And I'm seriously considering a fling with the S&P. If there's anyone in this room who can talk me out of it, it's Peter Schiff, so only 30 seconds Peter. Your best pitch.

Peter Schiff: Look, my cuff links are made of 24-karat gold. Got them from a company called Mene. My cuff links are going to outperform the S&P over the next five years. I mean gold, gold started this process. When they started blowing up the dot com bubble, gold was under 300. All right? It got as high as 1900 in 2011. This game is not over, right? The fat lady hasn't sung yet. When this final bubble pops, gold's going through the roof. I used to think gold was going to 5000. Now I think that's, I doubt it's only going to go to 5,000. 10,000 may be a more likely target than 5,000. But I do think that by the time this bubble has run its course, you'll be able to buy the Dow Jones for an ounce of gold. And-

Albert Lu MC: Mike.

Peter Schiff: ... that's where the Dow bottomed out in 1982, and that's where it bottomed out in 1932. So there is precedent for the Dow being worth one ounce of gold.

Albert Lu MC: Yeah, Mike.

Peter Schiff: So I think it'll be worth-

Mike Larson: Sure.

Peter Schiff: ... one ounce of gold again.

Mike Larson: All right, I'll preface this by just saying I'm not a gold bug by nature. There have been times I've liked gold, there is times when I don't. I think gold at this point has two things going for it. It has the fact that unlike many of these other assets I've talked about, Ben's talked about and Peter have talked about, being radically overvalued, gold is one of those assets that is undervalued and has not been swept up in this mania. That's the first thing. The second thing, frankly, in a higher volatility, higher risk, Uber bust scenario, whatever you want to call it, I think that one of the reasons gold declines so much is that the price of volatility itself was extremely low. I mean we had more days when the VIX was under 10 last year than we've ever had in recorded history. As that increases, gold is going to prove its role as chaos insurance in my book, and it's something you want to own.

Ben Hunt: So I own gold. I don't own it as an asset. I own it as an insurance policy, and that's exactly the way I think about it. I think today it's a cheap insurance policy. However, it is an insurance policy that will not pay off until confidence in central banks is broken, not just shaken, but broken. And that is a very long and very difficult and very dicey path. And all the shocks we're talking about, they're not going to break confidence in central banks. It's going to reinforce confidence in central banks. So it's an insurance policy, but don't be expecting it to pay off until everybody says the central banks don't have control over either inflation, well that's the only thing they can't have control over.

Peter Schiff: How did it go though from 300 to 1900?

Albert Lu MC: Guys, guys, out of time. Final question. How many years till the next recession?

Ben Hunt: The next recession? So a garden variety cyclical recession in the US within 12 months.

Albert Lu MC: Okay. And the next crisis, serious crisis.

Ben Hunt: Next serious crisis, I'll use your two years. It's going to be around either China devaluing its currency or around Italy standing up to Germany in the ECB.

Albert Lu MC: Okay, Mike. Same question.

Mike Larson: I think the markets are already topping. We're already carving out a rounded top, and I think we're probably in recession within the next 12 to 18 months.

Albert Lu MC: Financial crisis, on the horizon?

Mike Larson: Financial crisis, I believe we're already getting the first canaries in the coalmine, so to speak, and I think that the volatility's going to be increasing dramatically, and next year is not going to be a good one for the averages.

Albert Lu MC: Next year. Okay, Peter.

Peter Schiff: Yeah, I would agree. I mean, we could be in recession very soon. I think we're already in a bear market in stocks. People are going to call it a correction until it's officially a bear market, but all bear markets begin as corrections. But I don't think it's going to be focused in Europe or China. I think America is going to be the epicenter. And I think this time people are not going to run towards the blast. They are going run away from it.

Albert Lu MC: All right, that's it. Ladies and gentlemen, please thank the panel. Thank you very much.

Peter Schiff: Thank you.

Sean Brodrick

"The White Hot Metal That Will Make You A Millionaire"

Robert Helms: But now it's time to introduce you to our headline speaker for tonight. Our final speaker is Sean Brodrick, and he's going to share the White Hot Metal That Will Make You a Millionaire. Sean's travels have taken him from diamond fields north of the Arctic Circle, to gold projects in Argentina, to an ancient city of mummies and silver, to a wild patch of mountains in Alaska where gold flakes still wash down crystal cold streams. He's the editor of Weiss Ratings Monthly Wealth Supercycle and has a premium newsletter, Supercycle Investor. Sean's best selling book, The Ultimate Suburban Survivalist Guide, helps readers prepare for and profit from any crisis. Please welcome Mr. Sean Brodrick!

Sean Brodrick: Alright.

Robert Helms: Alright!

Sean Brodrick: Thanks. Thank you very much, folks. It's hard to follow marijuana and free giveaways, but I will do my level best.

Thank you all for showing up. I know this is the last session of the night, and we are in one of the best cities of the world. So you probably have better things to do. I will make this as brief as I can. I have 20 minutes. I have 23 slides. We're going to fly like this, like a pack of flying monkeys. But we are going to cover some ground here. And let's advance.

Alright. Does that go back? Yeah. That's me. And I will be talking about uranium tonight. I know many of you like gold. I like gold. I think gold looks really, really bullish. I'm not talking about gold tonight. I have a session on Sunday where I will talk about gold and uranium and other things. It's kind of a grab bag kind of stuff of lots of things that can make you money. Uranium in particular is doing extraordinarily well.

Gold has been kind of, you know, drip, drip, drip, kind of a painful thing for many of us in the past few months. Uranium is a metal that's doing extraordinarily well. It was up again today. It's up, I think it's 38.50 now, or some ...

Audience member: 2850

Sean Brodrick: 2850. Thank you very much. So up again today, and it's just been cranking up and up and up. There are some fantastic companies that are leveraged to that metal that really have some extraordinary potential. We're going to talk about some of those today, and just what can really go on here.

One thing you should know about me is that I'm a cycles guy. There are cycles in pretty much everything, and people can talk your ear off about this. But the important thing is there are cycles in markets, and the cycle for uranium is really coming around. There are many reasons for this, but there is a new bullish cycle due to the rapid building of nuclear reactors, not here in the US. Many investors only focus on the US, and so here you think, well, it's kind of stalled out. Places like China and India, they really have a building boom going on. So that's just a lot of future demand coming down the road.

In the meantime, the price just cratered for a bunch of reasons that I'm about to get to, and because of that production has been cut. But the price is still so low that it's cheaper to buy uranium on the spot market than it is to mine. That's the problem that Cameco, the big western uranium miner, actually ran into, so they cut production.

Now, I don't blame skeptics. I have heard promises we're going to hit a new uranium bull market every year from the uranium miners since 2014. However, I believe, for the reasons that I'm going to show you, that it's finally here.

Now, first we have to realize how we got to this place. Why did prices go down? We have surging supply from Kazakhstan. We had a tripe meltdown at Fukushima. We had rising inventories at US nuclear power plants. These things combined to drive down the price of uranium. In fact, uranium inventories at US utilities went up until 2016, but then they started living off them. They're just starting to tip over now, which is good if you want to see the price go higher.

The bears will argue that 12 US nuclear power plants are slated to close by 2025, and we've already lost four gigawatts of capacity since 2013. However, I believe that the existing US nuclear power plant fleet is going to be extended. They're going to have licenses extended. It's a large fleet, largest in the world until China catches up with us. That's really going to change the game. Plus, there's a lot more being added around the world. So there's just some tremendous demand coming on.

If you like to watch cycles, as I do, we saw a cyclical bottom in uranium. It hit in 2016. Prices went higher in 2017. That's only the third time uranium prices have gone higher in the past decade, and this year's gain so far is bigger. So we saw the cyclical bottom in uranium. It's going higher. The dog days are over, and so it's time to saddle up those horses and pick your winners, because we're going to see those thoroughbreds run. But even though uranium hasn't moved higher ... and I'll show you which chart on that. Prices are still 66% below the 2011 peak. It has a huge way to go. So they are coming fast. This chart already out of date. Now it's like 39%. But they're up 38%. The price of uranium is up about 38% since April.

Don’t you wish you could say the same for gold? Wouldn’t that be wonderful? I bet you have some stocks in your portfolio that would do very well if the price of gold went up like that. Uranium stocks are doing incredibly well, and they’re going to do much better going forward. This price rise is an acceleration off of last year’s bottom, and it’s looking pretty darn good.

One thing that is driving it is we have new physical uranium funds. We’ve had the Uranium Participation Corporation for quite a while. That was around during the last uranium bull market. Since January 1st, 2016 it’s about 2.65 million pounds of uranium stocking up as it does. Yellow Cake PLC was just launched this year over in London. It’s already scooped up eight and a half million pounds from Kazakhstan, and there are two more that are just about to launch. One in Australia and one in New York. The one in New York will have a lot more liquidity, and you can bet your britches that as soon as those funds make their debut they’re going to want to load up on uranium too.

We have a supply crunch looming. I’ve already explained that we’ve seen suppliers around the world closing production. So we’re seeing more demands from these funds. We see more nuclear power plants being built in China and India and elsewhere in the world. So how do you supply those funds and those new plants? Well, you need more uranium. But prices are so low nobody wants to sign long-term contracts. There haven’t been any new long-term contracts signed in the past two years. You have to go to the spot market.

And you see what’s happening to the spot market right now, and it’s just soaring. Part of this is Cameco. It has to fulfill existing contracts to supply uranium, because it shut in one of its big mines. It lost that mine production, so that’s off the market, and it has existing contracts that it has to fulfill. So it has to go into the spot market, and so that’s just kind of eating up all the uranium that’s lying around. I just wonder how long that will last.

This year there was a seven million pound deficit in the uranium market that was made up by stock piles, and yet we see the deficit coming and it’s just going to be huge. In fact, Cameco just announced that it has to buy one to three million pounds in the rest of this year, 2018. There’s only two months left in that. And then it has to buy 10 to 12 million pounds next year. Somewhere in the neighborhood of 14 million pounds. 2019 is going to be extra dry, and we are going to see just some tremendous demand in the spot market that could really light a fire under uranium prices.

Utilities, meanwhile, they’ve been under buying for years. Why have they been under buying? In other words, not buying nearly as much uranium as they should to fulfill their long-term demands. Because it was so cheap in the spot market. All they had to do was go and buy it there. It made them very lazy, and, actually, just not thinking about the long-term, which if you own nuclear power plants you really should think about the long-term. They’ve been under buying. This is one more thing that’s probably going to help fuel the next rise in uranium prices. In fact, it could kind of trigger what some call the mad dash, because according to Cameco, which is the big miner, or at least the big western miner in the space, uncovered utility requirements are projected to be 730 million pounds over the period between now and 2027. Which means either people have to sign new long-term contracts to fill that at higher prices or they have to buy it in the spot market. And as I said, the spot market is being soaked up right now.

There are risks to this, and I did want to mention that. We could see Kazakhstan, Cameco, others, switch the mines back on. It's not the easiest process in the world. It actually takes some months to do that, but they could do it. But in order to do it they'd have to have incentive to do it. And the incentive for them to do it would be for the price of uranium to get to between 60 and 80 bucks a pound. It's nowhere near that now. I mean, the price of uranium would have to double and more in order to get there.

According to the World Nuclear Association, in the five years from 2015 to 2019 you should see 55 new reactors start in 12 countries, and two of those countries will have their first nuclear power plant. Once you build one it's much easier to build more of them. So over that period, if the US reactors that are slated to shut down don't shut down, if they're extended, which they probably will be, and if we have the new ones come online, then we could see an enormous increase in the uranium base case demand. That's when the mad scramble begins.

A funny thing ... and I just want to touch on this a bit. The US used to be the world's biggest uranium supplier. We aren't anymore, Kazakhstan is. In fact, US uranium production hit a 70 year low in the first quarter of this year. Now, the White House is trying to do something about this. There was an executive order signed late last year, it has a list of critical minerals that we are dependent on foreign sources for that we'd really like to enhance our own sources. One of those is uranium. That's one of the 35 minerals on that list. Lithium, cobalt, vanadium, a lot of the other exciting minerals, which I'll also be speaking about Sunday, they're also on that list. You just wonder what the White House is actually going to do to actually promote the mining of those minerals. I have some ideas. I don't have time to get into it right now.

It's too bad that's ... oh, that's actually not cut off there. Okay.

How bad is it? The US produced 2.3 million pounds of uranium in 2017, and yet US utilities consumed 46.5 million pounds. The rest must be imported, and obviously that's the kind of thing that we really don't want to see. That has to change somehow.

Before I came, I put together my list of tradable uranium companies. Here they are, and I have 37. This includes some funds, and three of them aren't even trading yet but they will be. If you're a subscriber of mine you probably got this list today. Now, you might be thinking, there's a couple Australian companies that aren't on there. And yes, that's because those companies trade for two cents Australian, which isn't even real money. And if it goes down a penny then you lose 50% of the value of that stock. To make my list they have to trade at least a nickel. That's the lowest one, and I think that's crazy. But I still only came up with 37 names. This is a very, very small universe. The supply-demand crunch that I've been talking about has to be dealt with by 37 names. That's just crazy.

Now, sure, there will be more uranium companies launching. You can bet your britches on that one, too. But there's some real potential in these names. An investor with enough money could easily buy all of those and start his own fund. There's only 37 names for crying out loud. Some of these are going to get a heck of a lot more expensive.

These are some US uranium companies. I'll have a slightly different list when I speak on Sunday, because these are the most well-known ones. And then there's a kind of different list that's the one that I think have the most potential. But this isn't a bad list. UEC used to be in production. I've actually been to their mines in Texas, but they're not in production now. Waiting for higher prices. Probably waiting for around 45 to 50 bucks. UR Energy, they're producing in Wyoming. Lowest cost producer among list of public companies. And then Energy Fuels, which is a fascinating little company. Largest uranium producer in the US, and it's restarting is vanadium production this year. That's a really interesting metal use and steel has a chart that makes other metals envious. It's just been on a rocket ride, and I'll talk more about that Sunday.

The big enchilada in the uranium space is called Cameco. Now, it just shut down some large mines. It reported earnings today, and it beat earnings by five cents a share. It's kind of a sad commentary on the industry that by shutting mines down a company earns more money than people were expecting otherwise. The reason is because it's cheaper to buy uranium on the spot market than it is to mine it. So, Cameco, anyways, says every five dollar per pound increase in uranium prices gives the company an additional $54 million in revenue, and great cash flow, and all that stuff.

Now, it is facing the problem that many of its long-term contracts end in 2021. So it needs the uranium price to be over $30 to $35 per pound. By then, the good news is, I think, that the uranium price is definitely going to be over there by then. Also, Cameco just had a very favorable tax ruling in court up in Canada covering a few years in which they had a huge fight with the tax authorities up in Canada. The tax authorities lost. They are now appealing that, but there's likely to be more favorable tax rulings. I think this company, actually, has a lot going for it, and it's the largest one but it can get bigger. So, definitely keep your eye on that one.

Now, Energy Fuels. This is in two of my portfolios, both Supercycle Investor and Wealth Supercylce have this in there. One is up, I think, 65%, and one is 85%, because we got it near the lows. But it can go a heck of a lot higher. It has uranium, it has vanadium. This thing trades in the US. It's easy to buy. If you don't own a uranium name you might want to consider buying this one. And I will give more picks in energy metals.

I have these sessions coming up, but I did want to sum up my case here, which is that we have demand for uranium is steady and growing. The low base case is we are going to see demand increase by 2.3% per year if those US nuclear power plants do not shut down as scheduled. And if their licenses are extended, it's going to grow a lot faster than that. Supply has been forced lower. There's been no significant long-term contracts in the past two years, and the volatility in the spot market is really starting to heat up. Meanwhile, inventories are falling. That is probably going to spark a scramble among the utilities to actually fulfill the things they've just been pushing off and pushing off, because they could always buy it cheaper on the spot market. And that seems to be going away. And so, when the next price correction comes, it will be to the upside. It could be rather sharp, and when it happens we could see the spot price, I believe, go as much as 50% to 100% higher than it is now.

What will that do to the stocks of those mining companies that are leveraged to the price of uranium? They are going to go ballistic. I just gave you a list back there of ... that's one ... there we are. Any of those companies will do well. Some could do very well, and some could do extraordinarily well. Keep those things in mind. If you don't have any uranium names in your portfolio, if you're a person who just likes the precious metals and stuff like that, you have to think outside of the sandbox a little bit, because this market is not going to wait for you. The cycles have come around. They're heading much higher, and there is going to be an extraordinary move in both the price of the underlying metal and in the price of well positioned miners and developers and even explorers.

That said, going back to my list that I had earlier, not all these names will be winners. There are ones in that list that should do extraordinarily well. Some of them won't. So be careful if you're doing this on your own. They are not all going to be good, but there's so much potential in there. Just please, give it a look over, because you could really make a fortune in this metal and in these miners over the next few years.

And that's it for me. Thank you very much.

Doug Casey

"Collapse Of The Markets? No Problem. The Collapse Of Western Civilization? Big Problem"

Speaker 1: Next up a man who needs really no introduction, but I will introduce him anyhow. Doug Casey is the founder of Casey Research. His first book, The International Man, became the largest best selling book in the history of Rhodesia, a record that will never be broken. He's also the author or two New York Times nonfiction best sellers, Crisis Investing, and Strategic Investing, and now two novels, Speculator, and Drug Lord. He's visited over 150 countries, and lived in 10. He's an anarcho-capitalist, partial to Austrian School economics, reach him at caseyresearch.com, and internationalman.com. If you would, please give him a warm welcome. Doug Casey.

Doug Casey: Thank you, thank you. Okay, friendly greetings and a warm hello. All right, what I want to talk about this morning is why you shouldn't worry about the collapse of the markets, or the collapse of the economy, both of which are gonna happen. These are relatively trivial things. What you should really worry about is the collapse of Western civilization.

Okay, so let's go from the trivial to the important. Little bit of history on the markets and what you should do about them. You remember back ... little bit of ancient history, you remember back in the early '80s when U.S. government bonds were yielding 18%? Well, they've gone down to close to zero as of a couple years ago, and now they're heading back up. My projection is they're gonna be yielding much more than 18% before this is all over, so don't own bonds. That's one piece of investment advice.

Second thing, stocks. Back in the early 1980s when bonds were up there, the DOW was 850. Now it's about 27,000. My guess, where should it be? In real terms, real terms, 3,000, 4,000. I think it could fall a lot. Remember when Exxon used to yield 10% in dividends way back then when electric utilities used to yield 15%, just keep that in mind when you're chasing 1% or 2% stock yields today.

Real estate. Unfortunately, real estate is floating on a sea of debt, and as the price of that debt interest goes up, real estate's gonna go down. So, I don't want any of these conventional investments. What's gonna happen to the economy? It's over-financialized, and I've said this before, we're in the middle of a gigantic financial hurricane. We went through the leading edge of it in 2007, '08, and '09, we've been in the eye of this gigantic storm for years. We're going to the trailing edge, and the greater depression is going to be much worse, much different, and much longer lasting than the brief unpleasantness of 2008. Now, it's going to be much worse than it was in the episode of 1929 to 1946.

So, that's the bad news. The good news is that most of the real wealth in the world will still exist. The fields, factories, technologies, knowledge base, that's not gonna disappear just because a lot of companies do, it's just gonna change ownership, and that can be good news. Here's more good news, what drives the economy and the markets are two things. Remember this, two things, very important, why things will eventually get better. Savings, and technology. People are like squirrels, okay, we're programmed genetically to produce more than we consume, and save the difference, because winter's coming, we know this over hundreds of thousands of years. That's one thing. So, people continue doing that, it's genetic.

Second thing is technology, and since biologically modern humans evolved 200,000 years ago, Moore's Law, which was formulated by Gordon Moore in the mid-'60s ... actually, Moore's Law has been around for a couple hundred thousand years. Started out with the quest for fire, and maybe 100,000 years later maybe the bow and arrow came up, and 50,000 years later learned to domesticate the horse. So, it's slowly progressing, but compounding at a hyperbolic rate, but then it got faster and faster, and in the Industrial Revolution it became noticeable.

I think that Ray Kurzweil is right, and in only 20 years we're gonna see the singularity, at which point artificial intelligence, and robotics, and genetic engineering, and biotechnology are gonna change the whole nature of existence on the planet. So, that being more good news. I'm trying to throw out lots of good news here with the gloom and doom. It really doesn't matter what the economy does from that point of view. Except, there is a problem. If people stop saving, because they all save in dollars, or pounds, or euros, or kwachas, or pulas, or all these other fiat currencies, if those currencies are destroyed their savings are destroyed, and their desire to save more is destroyed for at least a while, and this could slow down.

So, that's one of the main springs of human progress destroyed, because of the fiat currency system, and the other thing is, is technology today is very capital intensive. You destroy savings, you don't have capital, and that might put paid to the hyperbolic curve of the growth of technical and Moore's Law. So, that would be very bad news. This stuff is important, what happens to the financial world and the economy. You don't want to lose everything you have. None of us want to be living under a bridge, but this isn't the real problem. This is relatively trivial. I'll tell you the real problem we're confronting, and that is political correctness. It's a real problem.

Let me kind of define, or at least describe what political correctness is, and what Western civilization is, and compare them, and how they relate. Wait a minute, let me give you some solutions. I'm gonna try to do that too. This is a practical seminar that we're at. What would I do about these financial and economic problems? Well, I have radical solutions 'cause they're radical problems. Number one, the U.S. government debt, I'd default on it, overtly. Honestly, default on it. Why? I don't think the next several generations should be turned into indentured servants in order to pay it off. I think when a building is about to collapse, a big building, it's better to have a controlled demolition, rather than waiting for it to fall randomly. That's another reasons to default, honestly on it.

The last thing is, I think it's morally important to punish the enablers that have lent the government all this debt. So, I would default on the debt. Of course, I would, number two, abolish the federal reserve, which is the engine of inflation. Third thing, a lot of you won't like this idea, but I would cut the military at least 90% because the military, American military, is not a defender of America and civilization, it's the greatest danger to it. Long story, won't go into it now. Fourth thing, I'd eliminate all regulatory agencies and all regulations, and fifth, that would enable cutting taxes by 90%. But don't worry, this is very radical. It's a space patrol, it's not going to happen. The only thing that's gonna happen for sure is the debt's gonna be defaulted on, but not the way I said.

So, let's get back to political correctness and how it's destroying Western civilization. What is Western civilization? If you've ever thought about this, it's a complex of traditions, ideas, and attitudes that started out with classical Greece and Rome, and then these things, attitudes, traditions, so forth, ideas, were amplified in the Renaissance, and the Enlightenment, and they're unique. I'm gonna give you a list of them. They're unique to the west. Others have adopted some elements of it randomly, but Western civilization has driven almost everything that's good in the world, and I mean this not just technologically and economically, but morally, and spiritually, and every other way. But it's going downhill.

Now, what's its enemy? It's a complex of things, a syndrome of things, of other ideas and attitudes that is generally can be termed political correctness. I first heard that term in about 1980. I was watching Saturday Night Live, and they mentioned political correctness. I thought it was a skit, part of a joke, but it's no joke. What is political correctness? It's a complex of things that stand in overt opposition to Western civilization and everything it stands for, believe it or not. Now, political correctness is perverted, destructive, degraded, but unfortunately it's widely accepted, and even lauded as being a good thing, and a moral thing today. This is a real problem.

Incidentally, Western civilization in this era of multiculturalism ... how do you feel about multiculturalism? Well, I'll tell you. Western civilization out of all the other so called civilizations in the world is absolutely the only one that's worth the powder to blow it to hell, which could easily be done with the others and we wouldn't be missing anything. Ayn Rand once said, "East minus West, equals zero.", and I thought about that, and I said, "Ah, that's going too far.", but then I thought about it more.

Yeah, it is going too far, 'cause we do get some good things from other civilizations, and I thought about it and I listed them. What are they? Well, we got yoga, that's good. Got martial arts, that's good. We got Taoism, it's good. Zen, I think it's good, and most important, we got Oriental cuisine, but I wouldn't make a trade between Western civilization and sushi, and moo goo gai pan. I don't think that's a fair trade, but that's about all you get from the other civilizations in the world, believe it or not.

So, what are the elements of Western civilization? I'm gonna give you a list of 12 things that are unique to Western civilization, which is almost as despised as middle aged white males, I mean, it's considered to be a horrible, terrible thing. Free thought, free speech, free markets, that's number three. Number four, limited government. Number five, individualism. Six, rationality. Seven, liberty. Eight, the concept of progress. Nine, privacy. 10, property rights. 11, the rule of law and 12, the idea of industry and entrepreneurialism.

Now, let me explain this a little bit. Free thought. This is the basis of everything. The ability to think freely ... actually, the main thing that separates us from monkeys, and George Orwell put his finger on this many years ago when he said that ... when he diagnosed that we were going in the direction of double think, and thought crime and such, but maybe even more important than free thought is free speech, because you can't crystallize your thoughts unless you have the words to express them even in your own mind. If you control language you control thought, and that's exactly what these people are trying to do, and are doing.

There are words today that are taboo. You're not supposed to use perfectly good English words. It's quite confusing. People don't define terms anymore, it's dangerous. I'm a freedom fighter, you're a rebel, he's a terrorist. Well, what's the difference? People never even think out what these different things mean, they just use them robotically. Democracy, which is really just mob rule. Mob rule dressed in a coat and tie, perhaps. It's confused with freedom. They're two very different things, but you listen to television, or listen to a teacher, and they're used interchangeably. You remember when the Defense Department was called the War Department, and it really made war. Now we have a Defense Departments that it's ... the language has changed to confuse the way people think.

Isolationist. That's what they call non-interventionists, and nobody objects, nobody brings this up. You remember during the 1960s there used to be this joke, "America will never have concentration camps. We'll call them something else.", and today, by God, we have detention centers. So, the old joke isn't a joke anymore. So, so much for free speech. Incidentally, part of free speech is hate speech. I'm a big fan of hate speech. I think we should use hate speech. Why? Because you're identifying who the enemy is. I'll get into this a little bit later, but one reason why hate speech is actually a good thing is ... a person who speaks in a certain way, good, bad, you decide, identifies who he is.

If you can't say anything for fear of offending people or whatever, you don't know who you're dealing with. I like to know who I'm dealing with. I like to know what they're thinking, and speech is how they express that. So, let people say whatever they'd like. And trigger words, this is a new phenomenon too. Yes, trigger words are fine. People insist on identifying trigger words. It helps me ... it lets me know that I'm dealing with a crazy person, people that actually has serious psychological problems that needs to be told that a trigger word is coming up.

Third thing, free markets. Socialism is actively being endorsed, and Bernie Sanders, an overt socialist, actually would've gotten more votes than Hillary if he'd actually been allowed to run. You've got lots of people in the democratic party that are endorsing socialism. Socialism is just the notion that everybody can live at the expense of everybody else. It's a stupid idea, but it's widely accepted.

Fourth notion of Western civilization. Unique to Western civilization, limited governments being replaced by the idea of unlimited government. Everybody thinks that the dictatorship of the proletariat, in effect, is a good thing. Busybodyism, which is what politics is all about, is very much in the air. Everybody sees the government as a solution, but let me tell you something about government. You don't get the best and brightest people to go into government, you get the worst people. The most criminal personalities that get into government. You got two kinds of people in the world, people that like to control physical reality, and people that like to control other people, and they go into government and all these stupid chimpanzees vote for them, and cheer them on, and give them money. It's insane.

Anyway, limited government, that's going out the window. Individualism. This is also uniquely Western. It's been totally replaced by identity politics. You're no longer an individual, you're a member of a race. Very important. We can't say that, but it's a fact. Well, at least if you're a white person you can't say that. You're a member of a gender, or a class, or a group of some type, but forget individualism, that's out the window. Rationality, uniquely Western concept actually. Things like science, and fact, and logic, are out the window, and they're being replaced by their traditional enemy, religion.

Now, I don't mean religion worshiping a God necessarily, not that type of religion. We live in a new era. It's being replaced by a secular religion. I don't even mean Islam, which is a ridiculous religion. I've actually read the Quran. It's intensely stupid and unreadable. You're not supposed to say that, but read it yourself, I suggest you do, it's only 400 pages, not much. You'd think that Allah would have more to say, I mean, it's not even the length of an encyclopedia. But, anyway, rationality is being replaced by secular religions, and group think, and superstition, and political correctness, which is actually a religion, and Greenism, which is another religion.

Seven, liberty. Another uniquely Western concept. This stuff doesn't exist in India, and China, and Indonesia, and Africa. Forget about it, it doesn't exist, the idea of personal liberty. Now, it's seen as danger because if you have liberty you might not be under control, you might do something ... you might offend somebody, you might violate somebody's safe space, a new concept that's risen to replace liberty. The concept of progress, all these PC people actually hate progress. Why? Because if you have progress it's neatly not equal. It means the smarter and harder working people get ahead. Well, wait a minute, what about no one left behind? Well, I got a thought for you. All these people want equality, which you can't have if you're gonna have progress. I got a better idea, how about justice? Justice is getting what you deserve. That's different from equality. I think equality is not a virtue, but justice is.

All right, next thing, privacy. Privacy is a dead duck. Uniquely Western concept. Dead duck. It's been replaced by transparency. Everybody says, "Yeah, transparency. We gotta be transparent. Gotta see through this." No, this is ridiculous. What about the concept of mind your own business? That's uniquely Western. We don't live in a primitive village, although these people would like that, they hate progress so much. Primitive village, you could hear what your neighbor's doing, you could look through the bamboo slats and see what he's doing. Privacy is uniquely Western. It's going out the window with transparency.

Property rights. All rights are based on property rights. These people hate property rights. They've been replaced by something called human rights. Well, it sounds okay, doesn't it? Well, I'll tell you what human rights are. They're the rights to other people's property. They're the opposite of property rights. You got a right to food. Everybody's got a right to eat, don't they? You got a right to housing. You got a right to education, right? Free education. You even got a right to a guaranteed income. You certainly got a right, a human right, not to be offended. This is all nonsense. It's antithetical to the idea of property rights, which are the real basis of human rights. This is all phony stuff, but people buy it.

Number 11, the rule of law. Of course people don't have any sense, you don't have any respect for the laws today 'cause you don't even know what the laws are. I mean, they fill libraries. How can anybody have knowledge of the law? You can't. There's thousands, millions of these laws, micro-laws. Everybody commits three felonies a day whether you know it or not, but I suggest that all these laws be replaced, including the constitution. I'll throw that out too, incidentally. I'm not a big fan of the constitution. The Constitutional Convention was actually an illegal coup d'état, another story won't get into that now, replacing the Articles of Confederation. But I'd say that we only need two laws. People can remember two things. You don't have to remember a lot, just two things. One, do all that you say you're gonna do, and two, don't impinge on other people's property, including their bodies. That's really simple. Do all you say you're gonna do, and don't aggress against other people's life, body, property. That's it.

But you know what, as I'm gonna point out momentarily, it's hard to remember stuff. Even remembering two things might be too much for some chimpanzees. So, let me break it down to one law. That makes it easy, doesn't it? Just one. Even Allah couldn't do that. Here's the one great law. It's ... the whole of the law is, do as thou wilt but be prepared to accept the consequences. Everybody basically does what they want anyway, don't they? But, if they're told to be prepared to accept the consequences, "Wait a minute, maybe I gotta think about this before I do it." Now, is this reasonable or realistic that we have a society where there's only one law, that one? Probably not, because the average person would have to be thoughtful, responsible, and I'm afraid that the human race hasn't been around that long to make that possible, but it's an ideal to shoot for. So, that takes care of the rule of law, okay if I've been clear, throw out all the laws we got. Two laws, better one law.

Last is the 12th thing that's unique to Western civilization, and it's all being flushed, it's all being flushed, is the idea of industry and entrepreneurialism. People are no longer interested in creating things, they're interested in preserving nature. Now, I love the birds and the bunnies as much as anybody, I promise you, but I think George Carlin was right when he said the, "Save those bees, save those trees, save those whales, save those snails." I mean, this is what it's all about, it's nature has become a mania, and nature isn't your friend, it's your enemy actually.

Nature always ... it's always wanted to kill you. That's what nature ... it's not friendly, it's the enemy. It's only since industrialism in Western civilization have mellowed things out, and allowed us to live without driving herds of buffalo over cliffs, and burning down forests in order ... this is what primitive people do. Actually, industrialism is the friend of nature, but these people, the PC people think it's the enemy of it. So, they want you to preserve it, and de-industrialize. Greenism is another manifestation of this religion.

Okay, so I've given you 12 things, very important things, that are unique to Western civilization, and are hated like Western civilization itself. Okay, why are they important? These are just concepts, okay, they're nice, because they have effects. What are the fruits, the effects, of these 12 concepts I just gave you? I'll give you six. They're literature, one. Music, two. Art, three. Philosophy, four. Science, five. And a high standard of living, six. Now, let me explain this, if I may, and how Western civilization is responsible for these things. Literature, you just kind of expect, you got a book, you could read it.

Well, in colleges today, I'll talk about that too, they don't teach the ancient classics anymore. Forget about it, doesn't exist. They don't even teach Shakespeare anymore. I was a trustee of the 10th oldest college in the U.S., Washington College, for I don't know four, five years, and I attended classes. I went to one class, an English literature class, and forget about Shakespeare. The professor walks in, in gym shorts and a tank top, I'm not kidding, and he starts ... and the assigned reading was a book written by a black guy, I don't know what he was like, I don't know if the ... but it was an almost unreadable, illiterate book written by a guy who was just out of jail, but it was very political correct. That is what's being taught instead of Western classics, so forget about literature. That's going out the window with political correctness.

How about music? We all enjoy that. Beethoven, Bach, well, you don't have to listen to that all the time, but it's been replaced by rap and hip-hop. All right, yes I know, it's a matter of taste, that ... I know rock and roll ... I love rock and roll, when it came in everybody thought it was jungle music, and so forth, I know, tastes, but the fact is things like rap and hip-hop are in fact atonal and discordant and they use foul language. Incidentally, I've got nothing against foul language, I'm a big fan of Deadwood, which is structured around foul language.

So no, I'm not a puritan, but when it's constantly being sung at you, it has an affect on the way you think. You remember American Bandstand with Dick Clark, back way back when, ancient history times? The kids that were on American Bandstand, it was very funny, Dick would ask them, "Well, what'd you think about that song, Jimmy?" "Well, the lyrics were pretty good, I'll give them a 63, but the words weren't so hot, I'm only gonna give them a 32." Well, that was a standard deviation above hip-hop and rap today. Just an opinion.

Art. Art. This is a sign of civilization. Leonardo, Rembrandt, people like that, forget about it, even in the market. Things really turned definitely in the '70s, I forget the so-called artist, who did something called "Piss Christ". Remember that was a ... I'm not a Christian, incidentally, so this isn't another religious comment, but I just thought it was in bad taste, where there's a crucifix and it's in a plastic display full of urine, and this went for a lot of money, one is exhibited in the Met, and some ... I collect art, incidentally, but some years ago, I live in Aspen during the summer, just full of rich stupid people, and there's this guy, he's not ... I don't know if he's a billionaire, worth hundreds of millions anyway.

I visited his house, very famous art collector, and he showed me his pièce de résistance, this was the heart of his ... it was a plastic blowup thing, I don't know about two feet by three feet, and he pushed a button, and there's a little pneumatic engine, 'ba-ba-ba-ba' that blows it up into something else, I don't know what the hell it was, and then it deflated. This thing was worth hundreds of thousands of dollars, and I would've laughed and said, "You're an idiot.", but I couldn't because I was in his house, and that would've been unseemly. All right, that's what's happened to art.

Philosophy, this is even more important. The problem with philosophy today is there isn't any. Ethics hasn't improved or changed since at least the 19th century, which was kind of the peak of Western civilization. Meanwhile, technology, as I pointed out earlier, has been going hyperbolic. Now what we've got here is people that are advancing rapidly in weaponry, but not advancing at all in ethics and philosophy, and understanding of these things. So, what we're gonna have is a bunch of chimpanzees hooting and panting at each other while they fight over a scarce resource, but with very advanced weapons, more advance than nuclear weapons. You know, philosophy ... next lifetime, should I have one, I want to come back as somebody important, like an actor, because people listen to actors. It's like they know something. Some actor or actress, I don't even know who the hell they are, they say something everybody listens. So, another sign of how degraded civilizations become.

Science. People don't study science, they study gender studies, they study diversity studies which is really stupid. People get degrees because of affirmative action, because of being a member of a race, or a gender, or a class. I'll tell you why this is serious, because eventually with things like anthropogenic global warming, a whole nother subject to talk about, is debunked. In the mind of the average non-thinking person, non-thinking because of the things that I mentioned earlier, it's gonna debunk the idea of science. Hey, they were totally wrong. They were 100% correct about AGW, doesn't work.

So, it's not just the stupid things that they're gonna do to fight it, it's the fact it'll debunk science itself, and of course a high standard of living, you're not gonna have time for literature, art, music, philosophy, science, if your standard of living collapses because Western civilization collapses, because you're gonna be too busy loading 16 tons of coal every day, or grubbing for roots and berries. So that's what's at stake.

Now, I've given 12 unique characteristics of Western civilization. Things that are responsible for almost everything of value today, but they're hated and despised, as is Western civilization, and they're being actively destroyed. Forget those 12 unique characteristics, too hard to remember 12, I can't even remember without a list. I've given you six critical fruits of Western civilization that are gonna be washed away. That's too hard to remember too. So, forget the list of 12, forget the list of six. I got a list of three things. You can probably remember three things. Primitive people, when they count, they say, "Two, three, many." They can't remember stuff past three. Okay, here's a list of three things you can remember. I can remember them.

Number one, and this is a practical conference, you want stuff you can do, right? It'll benefit your financial and economic ... okay, I'll give you three things. Number one, don't give to charities. Big mistake. I've written a lot on this. I'm just gonna give you a one paragraph summary of it. Yeah sure, if you give it to a charity you're keeping it from the government. I understand. Smart. Good. I approve of that. But, giving to almost any charity is actually actively destructive. It rarely helps or solves anything for more than a moment. It's actually a dissipation of capital. Yeah, you kill some mosquitoes, okay yeah, there's some Africans that are better for the ... but then the mosquitoes come back, but the capital's gone. That's the problem. All charity does is it assuages the guilt of people who have committed real and imagined sins, and it also makes them feel like big shots, which is very important to charitable givers.

Worse though, charity tends to cement the recipients to the bottom of the barrel. It makes them ... receivers of honor and goods. That's a very bad thing. It's immoral. It's destructive. Worse, the people in control of charities everywhere, and all these NGO's, which there are thousands, they have PC values that are antithetical to what I know most of your guys believe in the things I've listed, and you give money to these charities, idiotically, 'cause you think you're being a good guy, you're cutting your own throat. It's absolutely crazy.

I got a suggestion with what you should do. You should give to people that deserve it, not to people that need it. To hell with people that need it. They probably need it 'cause they got bad habits. Give it to people that deserve it, if you're gonna give it at all. But I got a better idea yet, there's lots of ideas, but there's no time for this. If you really are a philanthropist, you love humanity ... incidentally, I don't like humanity, I like individual people, but most people, no. But if you really like humanity what you'll do with your money is use it to create more wealth, create more money. That's how your ... but they don't believe this, okay. So, don't give to charities.

Number two, more important, don't give to colleges, and don't send your kids or grandkids to a college or university. This isn't just the height of stupidity, this is actively destructive. Actively destructive. Now, I understand if you want to learn a formal discipline, we need lab work, science, engineering, medicine, things like that, okay there's a place for that, no question. But now, it's worse than a misallocation of time and money. I wish I hadn't. I wish I'd had good counsel, I didn't. I wouldn't have gone off to college, misallocated four years of time and a bunch of money. Today it's four years of time, and $100,000, $200,000. How stupid is that? Spending that kind of time and money when you could be doing something productive with it.

You don't know what to do? It means you failed in your job as a mentor, as a parent, as a grandparent, if you're sending your kids off to be indoctrinated by neo Marxists because the entire education industry is totally captured by these PC people that I've been talking about. All of them. I mean, it's like an infestation of aliens in a nest that you send your kids there, 18 years old, they're authority figures, they'll listen to them, and once you get these ideas in your head it's hard to get them out, and it's hard to replace them with different ideas, and everybody goes to college today. It's not like in the old days when a few people did, and colleges weren't as corrupt as they are now. Colleges are much more corrupt and everybody goes there, and then when they get out of college, the movie industry, the entertainment industry in general, the news industry, government, just the general ambiance of society, these ideas are cemented. So, there's really no help for this. I'm just telling you don't send your kids to college. Do not send any money to universities.

The third thing, and this is in general, don't give aid and comfort to the enemy. That's real treason. What I mean by that is don't attribute good intentions to these glib, smarmy people that talk about the values of education, and giving, and all this kind of nonsense. It's a moral issue. I know you all want to do the right thing, the correct, the moral thing. Well, your moral ... calendar has been turned upside down by the way society is going, and Western civilization's declining, because people just don't think about these things. Don't say, when you listen to one of these idiots say something, "Yeah, I guess you're right, but maybe you're going too far, or you're going a little too fast.", makes you sound like a republican for God's sake, I mean you should be embarrassed.

So my advice to you, finally, is when you encounter these people don't apologize, don't explain ... don't rollover and wet yourself, and act like a whipped dog. That's what people do today when they're confronted by these PC people. They give them moral high ground. So all right, I've given you good news, bad news, good news, bad news, I'm gonna end up with some good news. The good news is unfortunately resistance is futile, and the battle is lost. At least for the next century or something until civilization collapses, and we'll see what reorients itself, but the good news is, is you control your own life, and I expect you to think about these things, and act this way, so you can maintain your self respect while Western civilization collapses, and you could at least do that. So that's the final bit of good news. Thank you very much.

Charles Krauthammer Retrospective Panel

Gary Alexander (MC), Jonah Goldberg, James Carville, Brien Lundin, Jason M. Smith

Gary Alexander: And now we come to an important part of our program, which is sobering, and at the same time a great celebration of a great man, Charles Krauthammer. I'd like to welcome up to our podium Brien Lundin, the director of this great conference over the last 20 years. James Carville, here from New Orleans, who was on a couple of ... or maybe three panels with Charles Krauthammer. Jonah Goldberg, whom you heard from this morning, who's been on panels with Charles in Washington, D.C., area. And Jason Smith, who was personal assistant to Charles Krauthammer for the last 18 years. Come on right up there, gentlemen.

Charles Krauthammer was not given his biblical threescore and ten, just fell short of that. I also want to honor another man in a wheelchair who made this whole program possible, that's James U. Blanchard III, who would have turned 75 next week. He had his last conference here 20 years ago in 1998 when Margaret Thatcher was invited here. Jim died the following March, and in his will he willed this conference to his intellectual air, the editor of Gold Newsletter, Brien Lundin, who has continued Jim's legacy with this conference.

So, I want to start out this tribute to Charles Krauthammer with Brien Lundin, and ask you, Brien, what did you see in Charles Krauthammer for these political debates that began about a decade ago? And you invited Charles for the conservative side of the conservative versus liberal versus libertarian debates. What did you see in Charles, and more importantly, what did Charles see in us, and why did he want to keep coming back to be with us? Brien ...

Brien Lundin: Well, what I saw in Charles, I think, is easy. Everybody saw the same thing, you saw a giant intellect, and someone who could reason and think out his words, and not speak for effect or a clang or shock value, but for that kind of intellectual ... he would translate his intellectual energy and he fed off of that. But what I discovered of Charles, and it really didn't hit me until ... it started to hit me when he announced that his disease was terminal, and it really hit me after he passed, and it's hitting me again during this conference.

I have had the pleasure to meet a lot of fairly famous people because of this event. You send them a check, and they meet you in the greenroom, and shake your hands, take a picture, and that's pretty much it. A number of those people over the many years have passed, and you say, "Darn, that's a shame. I remember meeting. They were a nice person." As I wrote after Charles passed in one of the ... or actually, right before he had passed, in one of our letters, Charles was different. A lot of people were eulogizing him before he passed and afterwards, and were really good friends of his, and I felt I had to write something about my experiences, and I did. I started writing it as if he was a friend, and I said, "You know, I really can't claim that. I saw the man once a year."

Once a year I saw him, yet every time I saw him, he greeted me as a friend. I felt a grief when he passed, a real sense of grief, and it's hitting me again today, as if he was a very close friend. And again, I met the man once a year, and in speaking to a number of you since and at this event, a number of you felt the same way. Some of you never bothered him, of course, it wasn't a bother for Charles, but a number of you didn't go up and talk to him in the hallway and take pictures with him, a number of you did, but you all felt the personal attachment to him, and you all felt the same thing.

You feel that same pang of grief as if a close friend had passed, and yet we, the vast majority of us, only saw the man once a year, interacted with them only briefly, but he had that effect on people. The shame is that so many people, only a small fraction of people who ever met Charles or saw him speak, and most of them in this room or attending this conference, got to see that side of him, got to see him relaxed, and the banter and the humor and the good-nature that Charles really exhibited in person, but didn't quite do it because of the time limitations and the particular set ups of television.

So, we were very fortunate, and because he passed, we feel a personal loss even, again, if we only had a superficial interaction with him. We all feel a personal loss, but to me that loss is ... it's great for us, but there is a greater loss, and that's the loss for intelligent discourse in modern humanity. It's a loss to the world, and it's a crying shame. I tell you, we will not ... the analysis, the intelligence, that we will not hear from now on, it's a loss to the world. It really is.

Gary Alexander: The way we began using Charles was in a three-way debate politically. Later on, we used Charles in something called the Summit for America's Future, but early on we tried to pit a liberal and a conservative and a libertarian. The libertarians were usually Doug Casey or P.J. O'Rourke, and it was easy to find conservatives. This is a basically conservative crowd, but it was ... the courageous person was always the liberal. I remember one debate between Susan Estrich and Ann Coulter, but the most memorable was Charles Krauthammer versus James Carville, and could be run clip number one here? We have three film clips to run. Clip number one ...

Male: James.

James Carville: Well, first of all, I appreciate my role here as the fireplug at the dog show. (laughs)

Charles Krauthammer: Allow me to lift my leg. (laughs)

Gary Alexander: If you didn't catch that, Charles Krauthammer interrupted, after he said fireplug, Charles said, "Then allow me to lift my leg." James, tell us about your experiences with Charles.

James Carville: Well, first of all, I'm walking in the hotel and this woman comes up to me and says, "Well, James, we're going to have a parade of Democrats in your honor, but my husband got sick and I didn't want to march by myself," so here we are. I think the real telling thing about Charles is this, the world is full of people that tell you how to live. Charles Krauthammer actually showed you how to die, which is a real, real, real show of strength, of character, of everything else. To be honest with you, one of the things that he was really well known for was his handicap, but the thing about him was as soon as you sat at the table, you didn't even notice it. You were just having a debate.

You were having a debate with a really sharp, clever, well-read, well thought out guy, and you just never ... anybody else, you would have said, "I gotta take something off my pitch," but with Charles you said, "I got to load up here." That's a unique ... and you have that kind of characteristic, where you have the kind of life that Charles had, a very public life, and you never had a iota of sympathy for him. He never wanted you to have it, and the fact that his death was public, and he wrote about it, and he dealt with it, which is just the ultimate kind of Charles Krauthammer thing. There's just not very many people that you run across the have that kind of dignity, that kind of class, and that kind of ... he was a physician, so he was very familiar with lifecycles.

I just thought in many ways he was maybe one of the ... I mean, he was clearly one of most remarkable people I've known in these ... one of the great public intellectuals of modern American history, honestly. I could think of a couple I would throw in with him, but not very many, and that's quite a role. You're talking about honoring a guy who was extraordinary, did extraordinary things, and had an extraordinary life, and I'm just delighted that you would ask me to participate in it.

Jason M. Smith: I'd like to piggyback off of what James said. I was Charles' personal assistant, helped him with all of his travels for the last 18, 19 years of his life. I met him my freshman year in college, and continued on until the end. There's a story that captures what you're saying about his handicap, is one day Charles and I were at a hotel, The Breakers, down in Florida, and we're about to go to a speech, and the mirror was from the floor to the ceiling where we were waiting for the elevator.

Charles stops and he looks at himself, and he goes, “Jason, I’m so busy and so focused on my life, I sometimes forget this is how I look,” and that is what James captured right there is you didn’t throw Charles that pitch because he didn’t throw the pitch to himself. He never looked at his paralysis as anything more than an afterthought. It didn’t consume his thoughts throughout the day. It was just something that he was dealt in life, and he said, “Okay,” and he kept doing what he wanted to do, and his passions in life, but he didn’t allow that to overcome him.

Like James said, that’s so fascinating because of the level that he went and took things, and to not allow that at all to become part of the conversation after he made a credible thought. The conversation after Charles spoke was what Charles spoke about. It wasn’t about Charles Krauthammer. I just want to quickly say as to how we got James here today, and then I’ll let Mr. Goldberg say some thoughts. About seven years ago, I come into the greenroom backstage with Brien Lundin, and I said,

“Man, I had one of the best plane rides of my entire life last night.” I said, “Charles debated James Carville yesterday in Virginia, and after the debate, because James could not get a direct flight to New Orleans, and Charles had had private aircraft arranged for him so he could get here for the event the next day, offered James a flight home because, as you know, Charles is good friends with James’ wife as you can imagine. So, we get on the plane that night, and it was just absolutely fascinating, the conversation that they had, the fine things that they had, but also what it really came down to.

When they got on the plane, Charles asked James, “Why did you choose to go to New Orleans? Why’d you choose to go back home instead of staying in Washington where you had it made in the shade, could send your kids to the best schools, so on, so forth?” James replied, “There is no civic duty in Washington.” This was shortly after Katrina.

James thought it was better to be in New Orleans, and James and Charles just talked about life, raising their family, raising their kids, and that’s the one thing that not many people got to see about Charles was how complete of a person he was. Like Brien said, he really, genuinely, wanted to be your friend, and if he did not respect you, he would not shake your hand, and he would not be your friend. So, I think there’s a lot to be said about Charles Krauthammer outside of his political views, and just the total character of who he was as a man.

Gary Alexander: In James’ opening statement about Charles’ death, I want to share with you that I did not know that he was so sick, and when Brien said he might be coming to the 2017 conference and did not, I didn’t know until Charles wrote this letter just a few days before he died of how sick he was. When I read that letter, the immediate vision I got was Lou Gehrig standing in Yankee Stadium saying, “I’m the luckiest man alive,” because he was the iron man, Lou Gehrig, and Charles’ letter was so profound. It was just like Lou Gehrig’s speech about his beautiful family, and I lived the life I intended. It’s such a beautiful letter. I hope you all read it.

Jason M. Smith: I have one more thing to inform you, just so you are all aware of what the result was of the debate when Charles debated James. So, Charles debates James that day. That night there was a dinner, and at the dinner the MC stands up and says at the mic, I'm in the back corner of the room, nowhere near Charles, and he said, "Charles will not be joining us for dinner today. He ate James for lunch." So, that will give you an idea as to how it went.

Gary Alexander: Now, before I introduce-

James Carville: I would hesitate that that was at Liberty Univer... no, at Pat Robertson's thing. I always gave child's home-field advantage.

Gary Alexander: Now, before I introduce Jonah, I'm going to introduce the second clip, but with a little bit of an introduction. We had a debate, I think it was 2013, the conservative was Wayne Allen Root, slicked-back hair, evangelist for the right, and the left-winger was Fred Kaplan from Slate, professorial looking, tousled hair. They got into such a debate I had to, like, separate them like in a wrestling ring, and Charles was kind of the outsider. So, listen to Charles retort in one of these clips. Clip number two:

Speaker 7: I'm kind of stunned. I'd say I agree with about 80% of what Charles said.

Charles Krauthammer: Well, then I retract all of it.

Male: Next question.

Charles Krauthammer: Is this a private fight, or can anybody join in.

Male: Join in.

Charles Krauthammer: Well, I'm sorely tempted to refute what Fred said, and that I will exercise tremendous restraint because I really want to do Wayne instead, if you'll permit me?

Stephen Moore: Well, I think you hit all the buttons, and you're exactly right of all the flaws of this candidate.

Charles Krauthammer: You can stop right there.

Gary Alexander: So, Charles is a master of one-liners, as well as great paragraphs of thought. Jonah, tell us about your experiences with Charles.

Jonah Goldberg: Oh, sure, so I've lived in Washington since 1991 or '92, and I knew his research assistant back then. I actually knew a couple of his research assistants, but I never really knew the man, himself, and I never really realized how handicapped he was until we started being on ... I started being in Special Report with him on Bret Baier's show, and you really realized just how ... lots of people knew he was in a wheelchair, but he was truly, truly disabled, and you never could really appreciate it until you saw how the production assistant on the set would have to bring him a glass with a straw because he couldn't hold one up to drink for himself.

And the thing about Charles, who I got to be very good friends with for the last 10 years or so, is that he's sort of a weird study in contrasts. On the one hand, you can't ... he had said many times that the only way he could have survived what happened to him was to be absolutely honest with himself, that there was no going back. His life was going to be in this chair for the rest of his life, and he couldn't feel sorry for himself. I always felt there was a certain analog to that in the way he thought about everything else.

He was fiercely realistic about how the world works, about how life works, about politics and international relations, and that's the part that we usually saw on television or in print was this sort of piercing, cutting through the BS kind of intellect. But the thing that you saw when he was off-camera was he was a mensch. I'm not a big baseball guy, but I always knew that the Nationals were playing because when Charles showed up at Fox, and he was chewing gum and he had a grin from one ear to the other, it meant he was leaving immediately from the show to go see a Nationals' game.

One of the things I always try to impress on interns when I give these little talks about Washington and whatnot, there is this distinction that people make between living your life so at the end of your life you have a great resume, or living your life so at the end of your life you have a great eulogy. Resume is a bunch of positions and accomplishments and awards, a eulogy are the stories that people tell about you that say how much you meant to them and how much you'll miss them. And Charles amazingly lived his life to the fullest on both fronts.

I've got funny stories about what a sweet guy he was, but the one that sort of moved to be the most, because I didn't know it at all until after he died, was General Keane, who's a great guy, you see him on Fox a lot, he tells the story about how he asked Charles to speak to a young soldier who was horribly wounded in Afghanistan. Basically had the same kind of injuries that Charles did, and he said, "I don't know if you do this kind of thing"

And Charles said, "I don't think a month has gone by in the last 30 years where I haven't counseled people in these kinds of situations," and he says, "The thing you always have to tell them is you have to own this. Maybe there'll be some miracle breakthrough, but you cannot get to that point in your life unless you own who you are, and move forward as if this is who you're going to be for all time. You can not have self-pity." That was the thing that always struck me about Charles is that of all of the people you meet in Washington, all the people on this panel, we can all have our moments of self-pity, he deserved his moments of self-pity more than anybody I can think, and he never indulged in it. He just saw the world as clearly as he could, and he was happy for what he had. He brimmed with gratitude.

So, when you watch Charles on TV, you would think he's this incredibly intimidating guy. Turns out, that guy's actually George Will because Charles was actually this very gregarious, fun guy. He was also, one last sort of point I'll make, is ... and I used to joke with him about this all the time, when I used to watch Special Report all the time, the natural reaction is, "Gosh, I wish they gave Krauthammer more time. Then you actually would get on the panel with him, be like, "Man, this bastard filibusters." We used to joke about that all the time. My mom, her proudest things about me as a pundit, were always whether or not I would make Krauthammer laugh, and I always tried to do it right before he went up.

I remember at one point, we were talking about the Obamacare website failures, and I said some line about how no one could have predicted that the Obama Administration would have hired the best Amish computer programmers their community could provide, and he lost it. Afterwards, during commercial break, goes, "You got me." So, I thought he was just a remarkable, remarkable guy, and it's one of the things I'm most grateful for, that I got to be friends with him.

Gary Alexander: Jonah, I'm sure everybody's curious of how you met Charles Krauthammer, and what he's done for your career over the years, how he mentored you?

Jonah Goldberg: Well, I met him around Washington because it was hard to avoid, but I first started seeing him on a regular basis at Fox in the greenroom, and we would talk, we would conspire, and we would gossip. He loved the gossip, not in a mean way. He just always was interested and what was going on. For me, by the time I got to know him my career was pretty well established, but what he was incredibly useful for was bucking up.

You know, the 2016, 2015 period, for people who were not getting on board the Trump Train, was a very difficult time, and to have Charles as sort of this guy who called 'em like he saw them, he praised Trump when he thought it was worthwhile, but he never ... Charles was constitutionally and intellectually immune from undue enthusiasm about anything, and that was incredibly reassuring, and it was a huge loss I think because I think conservatism these days is being corrupted from a whole bunch of pressures, and particularly intellectual conservatism, and we could use Charles Krauthammer now, whether you agreed with him or not, just for the manner and seriousness of the way he thought about things. We could use him a great deal now, and other than that, we just argued about history stuff whenever we saw each other.

James Carville: Can I make a point here?

Gary Alexander: Sure.

James Carville: It'll be a little bit crude, I can't think of another way to say it. I can't tell you Charles was the smartest person I knew. I can certainly tell you he was one of them. I can't tell you that he's the best debater I've ever seen or been against, but I can clearly tell you that he's one of them. There's one superlative about Charles that I will say and it's this, he is the most un-full of shit person I ever knew, okay? He didn't bullshit himself, or you, or anybody else. I know it's crude, but I just cannot think of a better way to put it.

Like you said, if he didn't like you, you kind of knew it, and if he liked you, then you were his friend. To be honest, it was a level, I wouldn't say of arrogance about Charles, but he wasn't going to be friendly with you unless you had something to say, or you had something to bring to the table, which is understandable. I tell my students that, "Your goal in life is to always be the dumbest person in the room. If you're in a room and you're the smartest person, get out because you're not going to learn anything."

But Charles was just ... I'm telling you, he never ... and he had no ... in a city that floats on shit, okay, he was the ... and I was thinking, I could think of some people I think are as smart as Charles, I can think of some people I think has got ... but I cannot think of anybody more straightforward. I could have said straightforward, but I wouldn't have gotten [crosstalk 00:24:03]. I just really think that's something that-

Jason M. Smith: And you're right about that. His son, Daniel, his eulogy, and Charles is a very private person so I don't want to speak too much about this, but Charles loved movies, he loved cinema, and in the last month of his life, one of the movies that he watched more often than others was the movie Lawrence of Arabia. There's a line in Lawrence of Arabia in which he says, "My friends know my name," and that's what Daniel talked about, and James is talking about now, after Charles passed, was even if you only saw him once a year, you knew you were Charles's friend.

He put it out there, and you actually felt that. So, James, you're exactly right. He didn't care about being with the Who's Who of Washington, and being invited to all the different dinners. Years ago, he went to the press club dinner, and he gets home that night, and he goes, I'm never going to a press club dinner again. It's really big in Washington. All the celebrities show up, so on so forth. He goes, "It will not get any better than it got for me tonight."

I said, "What do you mean?" He goes, "Kim Kardashian shows up, and all of the paparazzi start chasing her down to get a picture of her, and they end up accidentally stampeding Arianna Huffington. It's never getting any better for me. I'm not going again," and that was Charles. I mean, it was so simple but so funny, and the whole entire night, all I'm envisioning is Kim Kardashian at the Kennedy Center, Arianna Huffington just getting ran… by paparazzi, and it was simple, but it was funny. You know what? He never went to another one of those events again. He really didn't.

Gary Alexander: Been to the mountaintop, right.

Jason M. Smith: But I would also like to ... he asked me how I met Charles and discuss my introduction, and when I started working for Charles, and it sort of supports everything we're talking about. He did not throw his weight around. I was a freshman, and I was partying a lot my freshman year of college like most of us do, and I literally suffer from Catholic guilt. I said, "I better start doing something to even this out, or I'm going to fail out of college." So, I see in the newspaper a job to go help a disabled man with his evening duties Monday through Friday, 10 o'clock at night.

I said, "That's perfect. I go out to the bars around 11:30. I work for him from 10 to 11, and that's it." So, I get on the Metro, go to downtown D.C., and show up for this job, and there is a line of people outside the door and down the hallway. When I walk into his office, this is how much I knew about Charles, I walked into his office and I see Charles and I said, "Man, whatever this guy does for a living, he must be pretty good at it because he has a huge office." I didn't even know who Charles was. I ended up giving him the priest of my local parish as a recommendation, so he knew I had no clue who he was, and he ended up offering me the job.

The way that I found out who Charles was, was it was two weeks later in the dead of winter and there was a snowstorm in Washington D.C., he calls me up at 6 o'clock in the morning and says, "Jason, I need you to come to my house and help me right now." I said, "Charles, I got class at 8 o'clock in the morning, I can't come right now." He goes, "I'll write you a note. I have to be at the White House for a meeting." I'm like, "What?" So, I go to his house, help Charles out, and I get back, and I google Charles Krauthammer, and I'm like, "Oh my gosh." I called up my dad and said, "Dad, have you ever heard of Charles Krauthammer?"

He goes, "Get out of here." I said, "Well, that's the man I'm helping." My dad jokes around that he hasn't had to pay for a drink at the VFW since. That's Charles Krauthammer. He didn't say, "This is who I am, and this is who you're working for." It was more, "Can you serve me, and do I think you're going to fit" I just always loved that about him. He didn't make it about what he had done, it was about what we're going to do, and that's one of the most important things in life.

Gary Alexander: All I'll say as as an MC, I had to listen to what he had to say, and I know he couldn't burst in like many debaters can. He took time to brief, and I had to ... because most people, when you breathe in a debate, that means that's your chance to interrupt, but he thought in terms of paragraphs, and I had to give him time. I think Charles and I, by the end, worked out some winking system, and he let me know when he was about ready to finish.

But the most dramatic thing besides the lifting his leg there in a debate was when he proposed the entitlement solution: raise the age of retirement, TORT reform, and means testing for Social Security. Boy, Dick Army stood up with his cowboy boots to his 6' 3" frame and said, "That's fraud. If a private pension firm did that they will go to jail for that." Charles said, "That's the solution. It's a tax like any other tax. We got to do it." Those are the kinds of ideas Charles had that would probably work. It would raise hackles in Washington as the third rail, but it would probably work.

Charles had those ideas. They were wonderful ideas. They were worth entertaining, but Washington won't do it. That was my experience. We're going to run a final tape in a minute, but before we do, because I think Charles' final tape should be our final word, so any final words anyone else wants to say before we close the panel about working with Charles over the last few years?

Brien Lundin: I'd like to say one thing, and we covered, I think, the most significant aspects of Charles's personality. What a kind and genuine person he was, but just one thought on his intellect. I disagreed on a number of issues with Charles, but in talking these things over or hearing Charles on these various issues, talking it over with Charles, the man had such a way of presenting a sound, coherent argument. Like you say, he thought in paragraphs. He didn't have the luxury, which I think is a handicap for most of us, of being able to type something out and then delete it, and then say, "How else can I express this?" And edit and re-edit.

He had to get it out pretty much right, correct, what he meant to say, the first time. I think mental gymnastics were his exercise, and I think he mastered that, but he could present such a sound argument, not only using logic and persuasion, but just the tone of his voice, and he carried such authority that even if you vehemently disagreed with something he said, he made you rethink your premises. You'd have to go back and say, "Well, if Charles Krauthammer thinks I'm wrong, there's a pretty good chance I am, so let's go take another look at this." It was just that weight of his intellect, which I don't think was the most important thing. It made his career, obviously, it wasn't the most important and lasting aspect or impactful aspect of his personality.

Gary Alexander: James or Jonah?

James Carville: I am a baseball fan, and I'd see Charles at the Nationals' games all the time, and Charles is a wordsmith, and it reminds me of something that Mark Twain said. He said, "The difference between the right word and a nearly right word is the difference between lightning in a lightning bug." When it came to picking the right word, I think Charles is a 400 lifetime hitter. That's what I'd say.

Gary Alexander: Yeah, that's good. Jonah, any more?

Jonah Goldberg: Oh, yeah, just a word about probably the reason he could speak in these perfect, crystalline paragraphs is that he had kind of a superpower. He'd been dictating his column for 40 years, and that's a muscle memory thing, and you learn how to speak in ways that most writers can only figure out with their fingertips. He had to do it with his mouth, and it made him ... that's one of the things that made him so formidable. My favorite image of Charles was I was coming back from a friend's hotel room that I crashed at at the 2012 Republican Convention. Some bartender outrageously over-served me the night before, and it was about 6 AM, and I'm horribly hung over.

I'm walking over this land pedestrian bridge thing, and I hear this whizzing sound. I turn around, and coming out like a Japanese fighter pilot with the rising sun behind him is Charles Krauthammer. Had to be clocking 20 miles an hour in that wheelchair, and he loved to zip around in that thing. The only problem was, I joke with him, is like, "You really should have an external speaker playing like the Flight of the Valkyrie out of it," which he really liked that idea. He was a man in full. He could barely use any of his body except for one hand, and he was one of the most fully realized human beings I've ever known, and that's true whether you disagree with him or agree with him. He was just a completely well-rounded, grateful person, and I'll miss him terribly.

Gary Alexander: Now, Jason has a workshop at 5 o'clock for 40 minutes going against Peter Schiff and all the investment guys, so you want to just tease that workshop? What are you going to talk about?

Jason M. Smith: Just some personal experiences and life lessons that Charles gave me along the way, if that's something you're interested in hearing about. Also, giving me some questions that I can answer for you, and some things you would maybe want me to talk about, I'm willing to do that as well.

Gary Alexander: Okay, I'll set up this last minute with Charles. It's the 2016 conference. The other two panelists had already talked about the election. P.J. O'Rourke was voting for none of the above, not even the libertarian. Steve Moore was going to vote for Trump, and Charles Krauthammer was not voting for any of them, not even Trump or Clinton nor the libertarian, but Charles had great hope for America in this closing minute of his last message to this conference. Please run the tape.

Charles Krauthammer: In the 19th century we needed a Lincoln and we got a Lincoln. In the 20th, we needed FDR to get us through the depression and the second world war. In the second half of the 20 century, we needed Reagan to revive the country when it was deeply depressed and in retreat, and also in which there was great post-Vietnam self-doubt, and he succeeded in doing that. Now, I don't stay awake at night praying for miracles and for a new Ronald Reagan, we're not going to get one, but I remain impressed by the fact that in American history things generally turn.

To me, whether you believe it's the hand of God, to me it's the bedrock decency, common sense, wisdom, and generosity, and love of liberty of the American people. Churchill once said, "Americans always do the right thing, after having tried everything else first." Well, we have just spent eight years trying everything else, and we may spend the next four years trying everything else, but I do believe that eventually we're going to get it right. Thank you very much.

Gary Alexander: And thank you, Charles Krauthammer. And thank you to our panelists.

Adrian Day

"How To Minimize Risk In A High-Risk World"

Robert Helms: Adrian Day is an amazing gentleman, he's about to talk to us about how to minimize risk in a high-risk world. Adrian is a British born writer and money manager which will be very obvious if you haven't heard him speak before. And he's a graduate at the London School of Economics and president of his own money management firm, Adrian Day Asset Management, where Adrian specializes in Global diversification and Resource Equities. His firm is also the sub advisor to the Euro Pact Gold Fund. He's been a frequent guest on CNBC in the Wall Street Journal Radio and his latest book is called "Investing in Resources, How to Profit From the Outsized Potential and Avoid the Risks", published by Wiley & Sons. Please welcome back, to the New Orleans Investment Conference, Mr. Adrian Day!

Adrian Day: Well, thank you ladies and gentlemen for that warm welcome and thank you Robert for the kind words. I guess I've been doing this long enough, I should know by now that when you change the topic of, and title of your speech, you're supposed to tell the MC before he introduces you. So I apologize for that.

You know as we know it's now 10 years on from the bust of Lehman Brothers and the Credit Crisis. And 10 years on I think it's time to take a stand back and look at the results of policies of the world's Central Bankers. What they did, what they didn't do. What the future of their policies is likely to be. And you know, when you look back 10 years, it seems pretty clear, and I'm trying to put this diplomatically and not snidely. But it's pretty clear that most of the world's Central Bankers didn't really know what they were doing. And that is because they didn't understand what would cause a crisis. There was something going wrong, they felt they had to do something. And they were basically experimenting as they went along.

And in fact they've, many of the Central Bankers have actually more or less admitted this. They talk about trying this and trying that. I will, my thesis, my argument here, will be that the Central Bankers, in 2009 and subsequently, did more harm than good. In the end, although they talked about trying every tool in the tool chest and all of that, but in the end they did the things that Central Bankers know how to do. That is print money, lower interest rates, and assume more power.

As we know they took unprecedented measures, hoping they would work, the Fed's balance sheet, quintupled to almost 4.5 trillion dollars by the end of May 2017, representing 24% of U.S. GDP, that's astonishing. And as we know they drove interest rates down to historic, and I mean historic lows of virtually 0%. It wasn't just in the U.S., of course, many countries around the world went far, farther than the U.S. did. The Bank of Japan's balance sheet is increased to 88% of GDP, and the Swiss National Bank has increased its balance sheet to 115% of GDP. And in many parts of the world, Japan, much of Europe, rates actually fell below 0 to negative. Last year, as I mentioned last year, some 40% of all government bonds issued around the world were issued at negative returns. Now, Central Bankers will say that by taking these extraordinary measures, they saved the world from a depression. That's a depression at best. Many of them will say they saved the world from Apocalypse, but did they?

Well the main actors, of course, say, "Yes, they did." But then they would, wouldn't they? Bernanke once said he sleuth the dragon. But in words of Stanley Druckenmiller, if it was an imaginary dragon, Bernanke would say, "Well if not for me, you would have had the dragon." And this reminds of me of the old joke, it's a pretty feeble joke, about the man in Piccadilly circus standing on one foot and tapping his head. He's asked, "What do you do? Why are you doing that?", and he said "Well it's to keep the elephants away.", "But there are no elephants in Piccadilly Circus," "see?" The man replies, "It works, doesn't it?" And I think that's similar to the Central Bankers and the depression that we didn't have in 2009.

They might have done better simply staying out of the way. Allowing some companies to go bankrupt and after a short and sharp recession, the economy would likely have recovered far quicker, and far stronger than it did. You know, we don't remember the depressions that resulted when the government perused this policy. And the reason is because the recessions tended to be short, and the recoveries were strong. That's unlike the recovery of 2008. And I'm, there are historic precedents for this, one of the speakers later in the week, James Grant, who I think competes with Mark Skousen for the number of books written. But anyway, one of his books is on the Forgotten Depression of 1921. Well it didn't exist because the government stayed out the way.

So, I'm going to discuss some of the negative consequences, of QE and the Central Bank policies. But let's also look, to be fair, let's start by looking at, was QE Successful On the federal reserves' own terms? Forget about other consequences, but was it successful on their own terms? Well, QE was intended to increase inflation, which was, quote, "Worryingly low", which is a perverse phrase from a Central Banker, in my mind. And to boost GDP. Well, let's look at inflation. A decade after the fed took these unprecedented steps of QE, the fed is still worrying that inflation is too low. And let's look at the Bank of Japan, which instituted QE on steroids. And you can see that this graph here, that money supply shut up dramatically. And the rate of inflation fell, and it fell into negative territories.

So, I don't think it's at all clear, and I'm using British understatement, I don't think it's at all clear that QE has boosted inflation. Well, how about GDP? Recovery, from 2009, with all of the massive QE that was instituted, was, as we know, the worst recovery of the post-war years and for a man my age post-war means post-second world war so that's the post 75 years. I'm showing from 2009-2016, and I'm showing that for a reason that we'll come to later. So, it was the worst in 3/4 of a century.

Now, let's look at a real, live experiment, QE vs No QE. Because, a game, like the dragon, what would have happened if Bernanke hadn't slew this dragon, what would have happened? Let's look at a real life comparison. And we'll look at Canada and the United States. Two economies, obviously in close proximity, two economies with broadly similar stages of economic development. Both exposed to similar economic sharks. They should have broadly similar experiences. The Bank of Canada did not engage in QE, not much anyway, while the fed did. Now, at the end of 2016, the Bank of Canada's balance sheet was at about 5% of GDP, which is broadly where it was in 2007. That compares to a 24% of GDP for the fed, which had increased five-fold over those previous 8 years.

From 2007 to 2016, Canadian GDP actually grew stronger than the U.S. because of the QE instituted in the fed, by the fed. This is also true globally, and this is all counterintuitive. And when you say this initially to people they think you're a little bit of, I don't know, maybe an alt-right nut of something, because it's counterintuitive. But the facts are the facts, let's look globally. You look at the countries with the strongest growth over the last 10 years. Countries like Germany and Sweden, actually had QE that was a quarter as much as other countries in Europe even though, as I say, their growth rate was 4 or 5 times as much as countries like Belgium, Spain and Italy, which had 5 times as much QE.

So, did QE result in higher GDP growth? Clearly the answer to that is no. A senior economist at the federal reserve Bank of Saint Louis recently, actually just last month, published a study on QE. And he concludes this rather long study by saying, "There appears to be no evidence that QE works, either to increase inflation, or to increase real GDP." Now let's repeat that, this is not some right-wing nut saying this. "There appears to be no evidence that QE works to increase real GDP." That's pretty astonishing.

Another study by an economist at Federal Reserve Bank of San Francisco looked at Japan. And he concluded similarly, "The QE in Japan had worked to keep alive zombie banks with their zombie loans to zombie companies and had prevented real structure reform that was necessary in Japan." And, of course, as we know Japan, as I said, did QE on steroids. And yet, over the last decade, Japan has had some of the lowest growth rates in the entire world including whole years of negative growth, otherwise known as recessions.

So, if it didn't work on the Federal Reserve's own terms, we have to say what was it all for? Now, as I've said, we can never know with absolute certainty what the result of a different government policy may have been. We can look at historical precedents, like the depression of 1921 that didn't happen. But what we do know, with certainty, is that there are real results from the extraordinary measures. Including the extreme money printing and the ultra-low rates. QE made the recovery abnormally low. Again, I'm not saying that the recovery was slow in spite of or despite of, I'm saying it was slow because of, because of, QE, we've already seen that.

If heard savers, that's pretty obvious, ultra-low interest rates. It moved debt up to new highs, even though after 2007, that's the second graph from the left, after 2007 we were supposed to have austerity, some austerity. It reinforced deflationary tendencies. I mentioned earlier that the fed did the only things they know how to do, print money, lower interest rates and increase power. Certainly, the role of the Federal Reserve in the economy has grown tremendously over the last 10 years. And one of the things that they did, of course, after 2007 - 2008, was target certain sectors. One of the sectors they targeted was housing, the other sector, of course, was the big banks. So the fed was deciding who gets some money and who doesn't get the money. And that has consequences that we'll come to later.

Some of you, I think, will know Felix Zulauf, the Swiss money manager. He actually went further than I did, he said, "We have left the world of free markets, and entered the word of managed economies. Central Banks have taken over the running of economic policy after the financial crisis." The low interest rates also helped accelerate the decline in public companies. Because it meant small growth companies can obtain private equity funding much easier and bypass public markets. Now, that has consequences because it means that ordinary investors are not able to invest, either directly or through mutual funds, are not able to invest in some of the really high growth private companies. Which go straight from private equity funding to simply being acquired. And they never actually become public and so smaller investors miss out on some of these. And again, low interest rates, as I mentioned, keep alive zombie companies. We will see the results of that when interest rates start moving up significantly. As Warren Buffett famously puts it, I didn't want to put a graph, a picture of this. But as Warren Buffett famously said, "When the tide goes out, we'll see who's been swimming naked." So, no pictures.

The other thing that QE did, it compressed bank profits, constraining banks from lending. I had a conversation just a couple of weeks ago actually, with a federal reserve policy official. We met accidentally in a restaurant, and I had a conversation with him and I was feeling a little bit mischievous, I guess, so as my opening gambit, I said that the federal reserve was actually responsible for the election of Donald Trump. And after having just told me that people are wrong when they think the federal reserve is full of Democrats, he obviously showed that, in his case at any rate that wasn't farther from the truth, he looked at me and thought I was a bit crazy, I think he actually said as much.

But anyway, I said, "Let me explain. The massive monetary expansion went to banks who largely did not lend to small businesses because of the feds' idiotic policy of paying interest on excess reserves. The result was that money sent to banks were able to borrow money from the federal reserve at 0 interest, and turn around and put the same money, back on deposit, with the same institution, the fed, and earn a quarter of a percent." Now, I don't know about you, but I know about me, if someone said, "You can borrow all the money you want at 0% and give it back to me and I'll pay you a quarter of a percent, I would do that. And the result was, if you're a bank, you're doing that instead of lending money to small businesses, which then go out and hire people."

So, money flowed to, let me skip over these next two, they show how the amount of loans has declined, and even though there's been a falloff in the last couple of years, the amount of excess reserves that banks hold because of this idiotic policy is still significantly higher, I can't see the numbers from here, but significantly higher than it was in 2007. And so money flowed instead to investment banks and already wealthy people with collateral, the so called 1%. Who could now borrow at ultra-low rates, buying more assets including financial assets, at the same time that the middle class and the working class people, the middle class with savings but without the ability to borrow, couldn't borrow money and thus widened the wealth gap.

That shows the velocity of money not moving, and this shows, if you look at the end of that slide on the right, how the top 1% has stayed more or less static but the bottom 50% and the bottom 10%, this is net income, but it's the same for their wealth, has actually declined since QE was instituted. And because of that, we had the rise of popularism and therefore the election of Trump.

So, the federal reserve's QE policy was directly responsible for better or worse for the election of president Trump. And the, remember I was having this conversation with a federal reserve policy official, and he somewhat sheepishly said to me, "Oh, well, we actually had a member of a fed research department give us a briefing last week, and he made the same points you did," although he didn't say that the fed was responsible for the election of president Trump.

So, this has happened before, a previous finance minister who, like the fed, thought that gold had no intrinsic value, printed money like crazy, lowered interest rates to abnormally low levels, destroyed the value of the currency, increased debt and created a bubble. This was John Law, a Scottish adventurer, who became in an amazing story the finance minister of France in the mid 18th century. At the time he was called the, "Second most Powerful Man in Europe", Alan Greenspan, remember, was referred to as the, "Second most Powerful Man in the World."

Well, Law created the Mississippi bubble, some of you will know about that, I'm sure. And what his policies did would destroy the purchasing power of the French Livre, create the Mississippi bubble. When the bubble burst, the people with a near-worthless currency and increased debt, and later, subsequently, massive inflation, we had the rise of the mob. We had fighting in the streets, between opposing factions. Aristocrats, like this husband and wife, assaulted on their way to their favorite restaurant. I don't think I need to put up a picture of Mitch McConnell, and that led ultimately to a French revolution, to the terror and finally to the dictatorship. Now, I should say ultimately, it caused France to lose their dominant global role to England. And this was all the direct result of easy money, which destroyed the currency.

Now, I'm not actually sure they say that history rhymes, it doesn't repeat. So, I'm not sure whether president Trump is Jean-Paul Marat, who was assassinated or George Danton was guillotined, or Robespierre, who introduced the terror. Or was he Napoleon, who brought in the dictatorship. I'm not making assessment on that, but I think we can see that the first part of this story, already sounds very, very similar to what is happening in the United States today. And let's just hope that it doesn't end the same way. John Law has been called, "The Father of QE", and the author of a recent biography, a very good biography by the way, notes that Law's policies are now the plainest orthodoxy. Again, the plainest orthodoxy, which most people do not question, can lead, can lead, to the most devastating consequences. And with that, I thank you very much.

Dennis Gartman

"Money Flows, Monetary Policy, And The Midterms: A Trader's Perspective On The Capital Markets"

Albert Lu: Dennis Gartman has been directly involved in the capital markets since August of 1974, after his graduate work at North Carolina State University. He was an economist for Cotton Inc. in the early 1970s, analyzing cotton supply demand in the US. In the late 70s, Mr. Gartman became chief financial futures analyst for AG Becker & Company in Chicago. Mr. Gartman was an independent member of the Chicago Board of Trade until 1984. In 1984, Mr. Gartman moved to Virginia to run the futures brokerage operation for Sovereign Bank, and in 1987, Mr. Gartman began producing the Gartman Letter on a full time basis. He continues to do so today.

The Gartman Letter is a daily commentary on the global capital markets, distributed to subscribers by 6:00 AM Eastern Time each business day. The letter addresses political, economic, and technical trends from both long term and short term perspectives. Clients of the Gartman Letter include many of the leading banks, brokering firms, mutual funds, hedge funds, energy trading companies, and grain trading companies.

Mr. Gartman has lectured on capital market creation to central banks and finance ministries around the world, and has taught classes for the Federal Reserve Bank's School of Bank Examiners on derivatives. Mr. Gartman served a two year term as an outside director of the Kansas City Board of Trade from 2006-2008. He now serves on the investment committee of both the University of Akron, and the North Carolina State University.

Mr. Gartman appears often on financial news outlets including Fox Business, Bloomberg, and BNN, discussing commodities and capital markets. His talk today: Money Flows, Monetary Policy, and the Midterms, a trader's perspective on the capital markets. Please welcome Dennis Gartman.

Dennis Gartman: So an 85 year old man celebrating his birthday, and his friends decide to throw him a party, and they send him a prostitute. And she shows up at the door, opens her skirt, and says, "I'm here for super sex." He says, "I'm 85. I'll take the soup."

That was funnier than that. My job is to bring you a little bit of soup this morning. I won't bring you much in terms of sexy presentation. I'll give you some decent ideas on what I think is going on.

Before I got here this morning, I had done TV for Fox Business a couple times this week. Did Canadian television, got interviewed by the Wall

Street Journal, and before I left this morning, my lovely bride of 28 years. I said, "Can you believe in your wildest dreams that this has happened to us?" And she looked, took my face in her hands and said, "Hey, buddy. We've been married 28 years. It's been 29 since you've been in my wildest dreams."

And with that start, I'll talk about what's going on in the capital markets generally. And I have to tell you that, to begin with, I am somewhat to the right of Genghis Khan in political circumstances, and I'm very much a free market oriented trader. And what I talk about every morning in my newsletter, and I get up at 1:00 AM to start writing that newsletter. In 30 some years, I've missed two days. Both of them happened to be this year. One with a kidney stone. If you can avoid kidney stones, avoid them at all costs. Believe me, they are not worthy of discussion. And I lost electricity one morning with Florence, with the hurricane. So in all these 30 some years, I've missed two days.

I get up every morning, and try to piece together what's happening around the world geopolitically. What's happening around the world as far as central banks are concerned. I take a look at what's happening in the energy market, what's happening in the grain market, what's happening in the equities markets, what's happening in the commodities markets. And if I start from one circumstance, it is that commodity prices are so unbelievably inexpensive. If you take a look at commodities relative to equities prices, we are at a ratio that has been unprecedented in the last 40 years. Commodities start from that premise that commodities are unbelievable inexpensive.

And as the chairman of the University of Akron's endowment committee, and as a member of NC State's endowment committee, with the longest tenure, for at least, now 12 years, I'm pushing both universities to reduce the size of their exposure to equities, and to quietly, at the margin, increase their exposure to commodities. We start from that premise.

Let's first of all look at monetary policy. And for the first time in quite some period of time, I'm actually overtly bearish of stock prices in and of themselves, whether looking at stocks, themselves against themselves, or looking at stocks relative to commodities. I think we have entered a bear market, and I don't like being bearish of stock prices. Let's start from that premise. I do not like being bearish of stock prices, and I am not a permabear. I'm not one of those people. There are periods of time when you are to be bullish of stocks. There are periods of time when you are to be bearish of stocks, and we have to understand that bear markets begin at the peak of economic activity. In fact, bear markets begin 6, 7, 8, 9, 10 months before the peak of economic activity. Just as bull markets begin in stock prices 6, 7, 8, 9, 10 months or a year before economics begin to peak up. That's just historically precedented. That's just what happens.

It happens because the monetary authorities at the depths of recession do properly the right thing, and many of you in the room may take issue with my stance on what the Federal Reserve Bank has done, but in the depths of 2007, 2008, and 2009, Dr. Bernanke stood up and said, "I am the adult in the room. This entire circumstance is coming apart. I'm fearful," and I was, for the first time in my life, absolutely fearful of the economies or the global circumstance imploding in and upon themselves.

And he said, “I’m the adult in the room, and I’m going to force feed reserves into the system as aggressively as I must in order to stop this.

When that happened, what happened? The economy continued to go down for another year or so, but stock prices began to rally dramatically beginning in March of 2009, because the monetary authorities were force feeding reserves into the system that didn’t need to go into the economy yet, and found their way into the capital markets, found their way into stocks. Hence, stock prices took off, even as the news media was promoting how seriously corrupt, how seriously detrimental, how seriously implosive was the domestic economy, and how seriously implosive was the global economy. Stock prices began to rise long before the economy turned higher.

Then, for the next seven, eight, nine years, we saw that wonderful period of time when the economies were beginning to strengthen, and stock prices rose in tandem. And beginning this year, in January. Somewhere between January 26, and January 29, and I keep a very simple indicator of global stock prices. I just call it my international index. It’s just the 10 largest stock markets in the world, and I don’t adjust them for the size or duration or capital involvement. I just average the stock markets together. It peaked on January 29th, and it has not made a new high since, and we’re down about 12% from that high. That, to me, and I find it amusing, that on television, you listen to the promoters. You listen to the announcers. You listen to the anchors who say you’re not in a bear market until you’re down 20%. I tell you, if you go down more than 7%, you better pay attention to what’s going on, because if you do go down 20%, if that’s only the start of the bear market when you’re down 20%, in order to get back to even, you have to go up 35% just to get back to even. 20% is far, far too much to give away before you agree, or announce, or decide that you have entered a bear market.

We are in a bear market. We’re down about 12% right now in global terms even after the last three or four days which have been spectacular bear market rallies. But I believe that there’s no question in my mind that we’ve begun to enter, or that we’re now well into, and it’s going to be developing for the next six months, a year, or longer, in a real protracted bear market. And strength is to be sold into, weakness is not to be bought.

Notice, technically what’s happening in the stock markets. As we rally, volume in the futures markets and volume on the exchanges themselves is declining. As we break, volume on the futures markets and volume on the exchanges itself increases. It’s been happening consistently for the past several months. If volume is to follow the trend, or if trend is to follow volume, what we are seeing now is volume coming in on the downside and waning on the upside. That’s evidence as far as I’m concerned of a real protracted bear market. So be careful in stock prices out there.

The economy, however, in the United States, is doing rather well. The economy will continue to do rather well. I may disagree with my president on a rather frequent basis because his ideas on trade are absolutely wrong, utterly and completely, and we will get into that in a few minutes when we discuss the US dollar. But he has done two things right. He did force through a tax cut, and tax cuts are always and everywhere beneficial to stock prices. Always and everywhere beneficial to stock prices. He put that through, and he's cut down regulations. Those two things are much needed. Those two things are long overdue, and the fact that he has done those, he should be applauded for that. The fact that Congress followed through on it, should be applauded for that. Let us give them our applause for having affected those two trades.

Even so, be careful with stocks. Be very careful with stocks. Commodity prices on the other hand- oh and one last thing. If you have only one economic data point that you can look at and pay great attention to, pay attention to what comes out on Thursday afternoons from the Federal Reserve Bank of St. Louis, which is still the bastion of monetarism. Watch the adjusted monetary base. Without getting too esoteric, the adjusted monetary base is simply the stock from which the other soups of monetary expansion or contraction are derived from. The adjusted monetary base is, for lack of a better term, comprised primarily of the Fed's holdings of treasury securities, a small adjustment for reserve requirements, and a small adjustment for the amount of cash that's held on hand. Those two latter ones are very small relative to the overall change in the adjusted monetary base.

Beginning in 2008, the adjusted monetary base was $800 billion. By April of 2015, after the Fed had gone through quantitative easing, a terminology we've all become comfortable with, and now understand as part of the lexicon, by April of 2015, the adjusted monetary base had expanded, some will say had exploded to $4.3 trillion from $800 billion to $4.3 trillion. That increase of $3.5 trillion is what sponsored economic growth, and it's what sponsored the strong stock market. That money was finding its way into the capital markets, finding its way into stocks.

Since April of 2015, the adjusted monetary base has begun to decline. Hasn't declined dramatically. It's only declined modestly, from $4.3 trillion, it's down to about $3.7 trillion, which is still a massive multiple over where it was in 2009, but it's declining. It's rather like, to keep it in a very simple metaphor, it's like taking the gas off your automobile. Taking your foot off the gas pedal. The car will slow down. It won't stop, but it will slow down. Eventually it will stop, but it doesn't stop dramatically. It doesn't stop quickly. It's not like hitting the brake. The Fed has not hit the brake. It has simply said, "We are allowing our holdings of treasury securities to mature and roll off." That is the money that the Fed created literally out of thin air, and that is what central banks do. They do create money out of thin air, and there's nothing wrong with creating money out of thin air because if you want the economy to grow by 3% per year, and if population is growing by 1% per year, you need 4% more money in the system every year to accommodate that simple amount of growth. So there's nothing at all wrong with an expansion of the reserves, as long as it's equal to population and hope for GDP.

It's when you expand it beyond that that you get inflationary pressures. But the Fed is now beginning the process of allowing its treasury security holdings to roll off slowly, almost measurably, not markedly, but consistently. This, I think, is quality federal reserve bank policy. I think they are now doing exactly the right thing. But if the fuel that had fueled both economic expansion, and stock price evaluation, if the fuel is now being slowly, laboriously tipped over. If the foot is being taken off the gas pedal slowly and laboriously, either economic activity has to continue higher and money has to come out of stock prices, or eventually, both shall tip over. And that's what's going to happen.

We will have a recession sometime in the next two years, probably before then. As that slower decline in the adjusted monetary base does in fact take hold, and as economic activity, remember recessions begin at the peak of economic activity. We tend to forget that. Everybody gets frothy. Everybody gets excited. Everybody gets joyous as housing prices are rising. As home prices continue to move upward. As industrial production numbers make new highs. That's when recessions begin. And the monetary authorities in the United States have begun the process of slowly and laboriously removing those reserves from the system.

That's why you're going to have continued economic strength for another couple of months, perhaps another year, but stock prices have no choice but to begin to decline.

Which brings me to an evaluation of the US dollar. If the monetary authorities in the United States are allowing the supply of reserves in the system, are allowing the adjusted monetary base to roll off on a quiet and consistent basis, all other things being equal, and given the fact that the ECB continues its policies of quantitative easing, and given the fact that the Bank of Japan has made it absolutely and abundantly clear that it has no intention whatsoever of allowing its reserves to decline. All things being otherwise equal, what has to happen to the US dollar? It has to get stronger. It can't be otherwise. All things being otherwise equal, as long as our monetary authorities are letting the adjusted monetary base to decline, the ECB has said, "We have no intention at this point. We may in the near future allow our to decline," but they're not right now. And the Bank of Japan has made it abundantly clear that they have no intention whatsoever of allowing theirs to decline. The US dollar has to rise.

Which brings me to the question of trade. Let's think about trade with China. I would imagine that most of you in this audience get upset about the fact that we run trade imbalances with China that simply continue to grow. I applaud those trade imbalances with China. Let's think about it. We have a president who decries this imbalance of trade as if it is something deleterious to the US economy. There aren't many things in this world that I know, but I know this, in 1972, we were running imbalances of trade with the world, and those on the far right, the gold bugs among us were saying this cannot continue, and it has to be detrimental, and the dollar will decline. They told me that in '72. They told me that in '77. They told me that in '82. They told me that in '97. They told me that in '02. They told me the same thing in '07. They told me exactly the same thing in '12. They told me the same thing in '17. Every single year with the exception of 2007, 2008, and 2009, the US imbalance of trade got worse, and worse, and worse, and yet the US economy continued to get better, and better, and better.

I don't know about you, but we are healthier. We are wiser. We all have more money. The economy is stronger than it was 50 years ago, 40 years ago, 30 years ago, 20 years ago, 10 years ago, 5 years ago, yesterday, and it will be 10 years from now, 15 years from now, and 20 years from now, and the United States will continue to run ever larger imbalances of trade deficits with the world. It has been that way for 50 years. It will continue to be that way.

When we get concerned about the imbalance of trade with China, which I find amusing, let's think of it in proper terms. We get stuff from China, and we give them paper in return. Think about that. We get stuff from China, and we give them paper in return. I think that's one hell of a deal. I think that's a great bargain. And yet, the president of the United States wants to do something to stem that. That's nonsense on his part.

Today, the imbalance of trade, we had a trade number that came out again this morning, and the imbalance of trade deficit was larger this month than it was last month, and larger this month than it was a year ago. And what was good about it was both the amount of export trade, and the amount of import trade was higher. That tells me the economy is doing well, thank you very much, not doing poorly. So remember, when you hear the president decrying the imbalance of trade with China, and China, let's not forget, China does cheat. No question about it. They do steal all of our intellectual properties, and I choose not to sell my newsletter to the Chinese. That is my decision. Why? I sold it to a couple of Chinese companies, and they ended up sending it out and selling it on their own without anybody telling me. So they cheat. But it's my decision not to deal with them.

I abhor the fact that my own government might tell me that I cannot deal with the Chinese. That should be our own decision, not the government's decision. And when you get concerned about the imbalance of trade numbers, when you lie awake at night thinking, "Oh my Lord, the United States is running a $57 billion, $58 billion, $59 billion, $60 billion, $61 billion imbalance of trade on a consistent basis," remember, we get stuff from China. We give them paper in return. It's a bargain that is a great deal for the United States.

Secondly, how dare the government. How stupid could our government be that we were imposing trade sanctions against Canada for national security purposes? What nonsense is it that you're putting into effect trade sanctions against the country with which we have our largest trade on a consistent basis every single day? Billions go across the border every single day unimpeded, always our best ally, has been our best friend, the longest unprotected border in the history of mankind, and yet we are going to put trade restrictions against our Canadian allies? How silly was that?

So I stand in front of you and say I look forward to an imbalance of trade deficit because for every dollar that we have a trade deficit, we have to, by definition, have a capital inflow, and the president never seems to speak to that issue. In that circumstance, I tell you, given the political circumstances that prevail in Europe, and they have real problems. Italy wants to have a much larger budget deficit than Brussels will allow. There's a new, almost a very strange government in place in Italy. You have a far right winger, and a far left winger who have allied one with the other. That can't be consistent, but they're going to consistently force the idea of having ever larger expenditures far beyond what Brussels will allow. You have a German government that is now in dissolution, for all intents and purposes, with Mrs. Merkel standing down from her position of authority. And that's just what's happening in Italy and Germany.

Europe is in transition, for lack of a better term. In that environment, you can only, I think it's a matter of time until the Euro trades back to parity and even below, and eventually dissolves. Japan, you've heard me say this before, and I shall say it forever, Japan's real problem is its population. Japan's own government tells you that in another 20 years, the population in Japan must fall by half. Think about that. Japan's population in another 15-20 years shall fall by half of what it is right now, and not only shall its population fall in half, but it's population will grow demonstrably older at the same time. That is not the hallmark. That is not the progenitor of economic growth. That is the progenitor of economic weakness.

Japan has no choice but to continue to weaken its Yen as best it can. The only reasons, the only times that the Japanese Yen strengthens against the US dollar is when we have periods of strong stock market declines. As they refer to them, Mr. and Mrs. Watanabe fearfully take their money home to Japan. So for a day or two, you get a strong Japanese Yen. But on balance, in an environment where the population has no choice but to continue to decline, can't change that. It's a demographic tidal wave that won't be stopped, and it's population continues to get older. In that environment, the only thing Japan can hold to is export trade. It has to continue to export as aggressively as it can. It will continue to roboticize its economy as best it can, and it has to allow for a continuously weaker Japanese Yen over the next two years, five years, 10 years, 15 years.

When I first got into the business of trading foreign exchange in the early 1970s, I can remember trading the Japanese Yen at 365 yen to the dollar. I can remember trading it at 265 yen to the dollar. I can remember trading it at 215 yen to the dollar. For me to think that the Japanese yen currently trading around 115 yen, can go to 125 or 150, or 175 yen to the dollar over the course of the next two, three, four, five years perhaps a decade, makes eminent sense.

Which brings me to the commodity markets. I know that most of you here are gold bugs, or tend to be gold bugs. The gold bugs don't like me. If I'm bullish of gold, they find fault with me. If I'm bearish of gold, they find very real fault with me, and if I'm neutral of gold, they find fault with me. I'm okay with that. There are times when one is to be bullish of gold. There are times when one is to be bearish of gold, and as I began this conversation, I said that I think commodity prices on balance are unbelievably inexpensive relative to equities values.

I think gold is probably, for the first time in a long period of time, in what looks to be a gentle, quiet bull market. If that's true, I want to own gold in the currency that I think is going to devalue in price rather than the currency that is going to evalue in price. Indeed, the major barrier that commodity prices in general, and gold in particular, has to overcome, is that I think the dollar is going to get stronger, and that, under most circumstances, all things being otherwise equal, would be deleterious to the gold market.

If that's true, I don't wish to own gold in dollar terms, which is what most of us think of. We think of gold as going from $1200 to $1250, to $1300, to $1350, to $1400. I want you to start thinking of gold in terms of the euro, and in terms of the Japanese yen. I want you to own gold in those terms. Because I think the dollar's going to get stronger. I think the euro is going to get weaker. I think gold in dollar terms is going to get stronger, and I think in those terms, gold in euro terms, and gold in yen terms is going to get stronger still.

Take a look at a chart. Just go to finviz.com, which if you have not discovered finviz.com, it's one of the best websites. It's free as is most things on the internet nowadays anyway. But it's a wonderful charting service finviz.com. And just take a look at a chart of gold in dollar terms, which we've had a little rally in the past 24 hours. Not a predominant one, but a rally nonetheless up 20 some dollars. But if you take a look at gold in dollar terms, it's actually sideways for the past six months. The euro is weaker for the past six months. Gold in dollar terms is up for the past six months. Gold in yen terms is up even more over the course of the past six months.

I also want to be bullish of the grains. I think something happened yesterday that has turned the grain market, and I really think that this happened in the last 24 hours. Mr. Xi, the president of China, and President Trump of the United States, said they had a talk yesterday, which was rumored to begin with, but the Chinese have now indicated that indeed there was a talk, and that it was beneficial on balance, which means that the sherpas in the background are having conversations to probably end this animosity between the United States and China. And if that's true, you can take a look at what has happened to soybean prices since this trade problem erupted early in the summer. Soybean prices have fallen almost $2 per bushel. That's a preposterous decline, and if we're putting that behind us. If this talk did in fact take place, which I think it did, and if it was in fact beneficial, which I think it was, and if the sherpas do what I think they can do to emilurate the trade relations between the United States and China, can soybean prices rally to $2.50, $3 per bushel? Yeah, absolutely.

Wheat prices, corn prices, they've stopped going down. They've started quietly to go up, and I think that's going to be a process that evolves over the course of the next several months. If I'm bullish of anything, I'm very bullish of the grain markets.

If I'm bearish of anything, I'm bearish of energy. And if I'm bearish of energy, I'm bearish of crude oil. Why? Fracking. Think about this. Fracking and seismic technologies. Technology has changed the demeanor with which the entire energy market has evolved. 15 years ago, our hit rates before seismic technologies took place, our hit rates, as we drilled, as we sent a soda straw down into the ground were about 10, 15, 20, 30%. Now, with better understanding, and we used to think that those reserves in the ground had a very finite shape. They looked like your fist, and if we were lucky enough, on those 10 or 15 or 20%, to hit the top of that structure and we got a gusher or well, it was wonderful. But if you missed it by a quarter of a mile, you came up dry.

Now, we understand that not only do those structures look like your fist, but they look like your hand with fingers extending out, and because now, with seismic technology, we can map those structures and now, with horizontal drilling, we can send one soda straw down and bend it, and bend it, and bend it, and bend it again, and we're able to suck crude oil and natural gas out of structures that a mere 5 and 10 years ago were utterly uneconomic. And we've driven the price of fracking wells and drilling wells from $85 a barrel to the good ones out in the Permian Basin and up in the Bakken, probably the good ones can now get crude oil out of the ground for $25 and $30 a barrel. Those are the good ones. Even the bad ones can get crude oil out of the ground via fracking operations at $50 and $55 a barrel. And remember this, we are the only country that is consequentially drilling and fracking.

Saudi Arabia has not fracked a well yet. Russia has fracked a handful of wells. Canada has barely begun the process of learning how to use fracking operations. I guarantee you but one thing, Canada, Saudi Arabia, Russia, Angola, Venezuela are all going to learn how to use fracking for the next several years. If we have been able to increase production in the United States from four or five million barrels of crude five years ago to 11 million barrels of crude on a consistent basis now. To the point where the United States now vies with Russia, Saudi Arabia, and we, on any one day basis as the number one producer of crude oil in the world. If we have gone from four to five million barrels of crude a day to 11 million barrels of crude a day, and the trend is from the lower left to the upper right, and in another three years, we'll be producing 13 million barrels of crude a day, and we're the only ones that had begun fracking, and everybody else is seeing what we've done, do you really, honestly believe that the rest of the world is going to avoid fracking? Of course they won't, and of course they will produce.

Crude oil, if you only can watch one thing to tell you what the direction of crude oil is going to be, and without getting too terrible esoteric, watch what's known as the term structures. Watch how the front months trade relative to the back months. In great bull markets, the front months in oil, and in other commodities too, but predominantly in oil, in real bull markets, the front month trades at one price. The next month trades lower. The next month trades lower. The next month trades lower. The next month trades lower. That's called a backwardation.

At that point, the market is saying to crude oil, "We're not going to pay you to go into storage. We need you to come to the market right now. We will pay you to come out of storage immediately. In fact we will penalize you if you go into storage." Backwardations do that.

In bear markets, you go to the point where the front month is here. The next month is higher. The next month is higher. The next month is higher. The next month is higher than that. It's called a contango, and when crude oil goes into contango, the futures markets are saying to crude oil, "Go into storage. We'll pay you not to come because supplies are high. Demand is low." We have gone from a backwardation a month and a half ago, to a contango in both Brent and WTI, and the contango is widening. And that tells you all you need to know about crude oil prices. They're going lower.

We're fracking. We're going to teach the world how to frack. They will steal our technologies from us. That's just the standard operating procedure. And given that, the supplies of crude oil are going to be abundant in the coming years.

In 1968, when I was in undergraduate school, they told me we were absolutely told we would run out of crude oil by 1984. If you didn't run out of it by 1984, they told us we'd be out of crude oil by 1994. If you didn't run out of it by 1994, they told us by 2004, no question, we would be out of crude oil. Here we are in 2018. I don't know about you. I've driven my car. I've cooled my house. I've flown in airplanes. We have used and still use, and will continue to use more crude oil on a daily basis every single day than we did last year. We'll use more two years from now than we're using now. We'll use more five years from now than we use two years from now. They told me then, in '68 we'd be out of it by 1984. We now have four times more proven reserves in the ground than we had five years ago.

I can't guarantee many things, but I guarantee you this, in 10 years from now, even as we continue to use more and more crude oil everyday, more and more will be found, and we'll have 4 years, 10 years, 15 years from now, four times more proven reserves in the ground then than we do now.

So I may be bullish of the grains. I may be bullish of the metals. I may be bullish of cotton. I may be bullish of commodities generally, but the crude oil market is telling me that prices are going lower, not higher. Buy wheat. Buy beans. Buy cotton. Buy corn. Sell crude oil. Buy gold. Sell crude oil. Those are my thoughts.

Avoid stocks. Be prepared for a recession. The monetary authorities are slowing the growth of the monetary aggregates. We're taking the fuel away from the economies, which is going to be detrimental to stock prices generally, and remember this, what I tell you is what I do for my own account. I don't trade money for anybody else. I have my own. I have a retirement account that is my few several millions of dollars, and what I put in my newsletter is what I do. I have my own net worth on the line every single day. I think that's important. Most people don't.

So to reiterate, the most important technology to be concerned about or the most important fact to be concerned about is that the monetary aggregates in the United States are beginning to slow. From $800 billion, to $4.3 trillion in the adjusted monetary base by April of 2015, down to $3.8 trillion now. The foot has been taken off the monetary aggregate gas pedal. That can only be detrimental to either stock prices or the economy. The economy, however, I think continues to expand. And if that's true, capital has no choice but to come out of stocks to continue to allow plant and equipment and labor to rise in value.

Interest rates are probably going to go higher. The Fed is probably going to continue to tighten monetary policy. Within the next year or two, we'll probably see the overnight Fed funds rate another 100 basis points higher than where it is. The great bull market in bonds has ended. The bull market is stocks probably has already begun to decline. As I said, it reached its peak in January of this year. Buy commodities, sell stocks.

That's my story. I'm sticking with it, as my old friend Paul Tudor Jones says, "Trading and investing, it's like falling in love. Put your arms around that girlfriend and you 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. Are we allowed to have questions? No? Thank you. Good luck.

Oh one last thing. If I leave you with one piece of advice, this is what separates pros from amateurs in the business of trading. Whatever you do, don't average down. Whatever you do, don't average down. If you buy a stock at $20 and it goes to $15, you're wrong. Don't buy more. If you buy a stock at $20 and it goes to $25, you're right. Buy more. That's what separates pros from amateurs. The pros in the business are probably right 30% of the time and make money on balance. The public is probably right 90% of the time, and loses money on balance. Why? Because the public buys something at $20, and buys more at $15, and buys more at $10, and buys more at $5, and pukes at $2. Don't do that. That's my story and I'm sticking with it. Thank you for your time. Good luck. Good trading, and enjoy New Orleans. Enjoy the food here. Enjoy the rest of the speakers. Thank you for your time.

Economic Panel

Mark Skousen (MC), James Grant, Dennis Gartman, Peter Boockvar

Speaker 1: All right, let's introduce our panelists and I'll introduce you to the moderator of Economic Panel this year. First of all, he's the CEO of Bleakley Advisory and the Editor of The Boock Report, please welcome Peter Boockvar. There he goes, new to the stage. Now, you've heard from this gentleman already this morning. From The Gartman Letter, welcome back please Dennis Gartman. And we just heard from this gentleman, but we can't get enough. The editor of Grant's Interest Rate Observer, please welcome back James Grant. And to moderate this session, please welcome a gentleman who probably needs no introduction here, named one of the Top 20 Living Economists, Mark Skousen, ladies and gentlemen.

Mark Skousen: Okay, you're all getting settled. This is gonna be a fun rock and roll session. Lots happening in the markets, the market's up 350 points and now down 200 and some points just because Larry Kudlow said there's no trade deal with China. That's a very jittery market. A lot of technical traders would say, you know it was just an excuse, the market was headed lower. A lot of people are saying that. I do wanna start off, one of the things that I did in preparation for this panel was to listen in on our panel last year, our Economy Panel. And of course, not everyone was on the panel, but Peter and Dennis you were on the panel, along with Judy Sheldon and with Peter Schiff. So, now we have Jim Grant taking the place of a woman and a man. So that's ...

Speaker 1: I think that's not allowed these days.

Mark Skousen: I think anything goes today. From what I've heard. So we're delighted to have you together. In listening to what we talked about last year, Dennis, you actually mentioned the new crown Prince Mohammed Bin Salman by name. And that his name has come up in the news very big time lately and I know, Dennis, you have some inside information there in what happened and to what extent this crown prince engineered the gruesome murder of the Washington Post reporter Jamal Khashoggi. And before you tell us something about it, I wanna tell you all an exchange I had with Tucker Carlson, who's a friend of mine, Fox News, and he spoke recently here at the New Orleans conference. So I e-mailed him and I said "Tucker, what is it? Why are you not covering this?" It was front page everywhere in CNN and MSNBC and even lots of Fox News had it as the major story that was happening and what impact that would have in the United States.

But Tucker didn't have hardly anything on it and I asked him "why do you do this?" And here's what he said. "No, I don't think the death of a Saudi National at the hands of the Saudi government is a huge story." Now is sometimes the press just out of it? Don't really know what's going on? I mean isn't this really, Dennis, a huge story? Isn't it true that the oil price fell sharply after this occurred? Now maybe it had nothing to do with it, but I suspect it had a lot to do with it. So tell me, what do you know about this Khashoggi affair, and is it going to bring down the crown prince? He got a standing ovation at his investment conference after murdering this guy, so what's your take?

Dennis Gartman: Well first of all what amuses me and amazes me about the press coverage of what has happened was that Khashoggi was made out to be this icon of freedom of the press. He's anything other than that. You have to remember that this fellow has been involved with the Muslim Brotherhood. A very arch Islamic organization for the past decade or longer and clearly the Muslim Brotherhood is troublesome to the Saudi Royal Family. We shouldn't be surprised that Khashoggi was ... I was surprised it took this long to have him disappeared of some sort.

The manner in which it was done clearly was, how do I want to say this? Ugly. He was tortured. His fingers were pulled off. His eyeballs were cut out. Then he was chopped up into little pieces. It's just unbelievably, utterly uncivilized. Whether the crown prince gave the order to do that or not, in those instances it's usually something along the lines of "this man has been bothersome to me. Take care of it." And the Major General [inaudible 00:05:20] appears to have been the fella who has been responsible and will take the blame for it.

Will this bring down the crown prince? I have my doubts. There are some interesting circumstances where the gentleman who had been passed over as the crown prince, the king's brother, who was the last of the what's known as the Sudairi Seven, has returned from exile in London and has returned to Rihad. Now that's either going to be that he will bow down and pledge allegiance to the crown prince, or he may actually have been called back by others with his safety having been assured, probably by the United States government and by the Saudi Royal Family itself, to perhaps replace the crown prince. I hope that the Crown Prince is not replaced. Quite honestly I think he's going to be an important and seminal figure for the next 50 years or so.

He is not bullish of crude oil no matter what happens. In fact he's one of the few people who understands that probably 50 years from now crude oil sells at 0, not at some astronomic price, and has gone out of his way to modernize the company, or the country. But the fact that our news media played up Khashoggi as being an iconic figure of freedom of the press and liberation, they missed it completely. And you have to give Khashoggi, you have to think what an idiotic move it was for him to have visited the Saudi embassy in Turkey. I suspect that the Turks understood who he was and agreed to this capture and kill. Uncivilized though it might have been but, we shouldn't have been surprised by this fact.

Mark Skousen: Yeah and listen, this decision, maybe they miscalculated what the impact would be of this gruesome, barbaric act, and it's one way to just shoot the guy and another thing to torture him the way they did. And this is the 21st century. Is anybody acknowledging the fact that barbarism should be out? Beheadings and so on.

Dennis Gartman: This was medieval.

Mark Skousen: This was medieval. Exactly. And the Crown Prince is responsible for Saudi Arabia losing billions and billions of dollars in revenue, is he not? So surely there must be ...

Dennis Gartman: Well he's also waged wars against Yemen which the Saudis should have been able to win that war in 2 weeks and here we are 5 years on into the war. It's costing a fortune for the Saudi government to continue to wage it. Plus, let's be honest. He jailed several hundred of his own relatives in the Ritz-Carlton last November and didn't let them out until they paid back several hundred billion dollars to the Saudi treasury. So the guy is not above doing the unusual.

Do I think that he actually gave the acknowledgement "go kill Khashoggi?" I doubt that but one knows how these sorts of things play out.

Mark Skousen: But they do allow women to drive now so they have made progress.

Dennis Gartman: Isn't that nice?

Mark Skousen: They've made progress. This is an incident but where is this going? In other words it's gonna be business as usual? Oil prices continue to decline?

Dennis Gartman: If the barbaric nature of the killing had not been public it probably would have been business as usual. But now that it's public knowledge of how barbaric this circumstance had prevailed, had existed, it probably won't be business as usual. It's gonna be very hard for the United States to continue to sell several hundred billion dollars worth of military equipment to the Saudis on a consistent basis going forward. That's where the problems shall lie.

Mark Skousen: So it could have a good outcome ultimately in civilizing the Middle East.

Dennis Gartman: Let us hope that it civilizes the Middle East. I'm not gonna hold my breath awaiting that fact.

Mark Skousen: All right, so next, question, Peter Boockvar, by the way, I loved your newsletter title the Boock Report. It's a pretty good title. Is that for general consumption or is this for institutions or what's the purpose of your newsletter?

Peter Boockvar: A combination. Anybody who's interested in reading about the daily goings on in the economy and the markets.

Mark Skousen: So, your point that you made last year for those who were not here, just by show of hands, how many were here last year? Quite a few. Maybe half. So you made a prediction which turned out to be accurate. You said the big news, just to refresh your memory. The big news for this year for a year from last year's conference would be the tightening of monetary policy. And the reduction in the assets that the federal reserve has. That they build up QE and now it's coming back down and as a result we're seeing higher interest rates as well as monetary policy that seems to be tightening. Even M2 is not growing as fast as it used to be. That's more or less a summary of what you were saying.

So that's been an accurate prediction. However, right at the end you said "and this will cause gold to soar." Which obviously never happened. So tell me why would you think that a monetary policy that's tightening would cause gold to soar? What was your thinking on that?

Peter Boockvar: Well two things. When you look at previous bull markets in gold, it was in a time of rising interest rates in the late 70's and through the mid 2000's. Alan Greenspan raised rates from 1 percent. By the time he got it to around 4 and change, gold had almost doubled. So my estimation a year ago was "yeah, we're gonna see this tightening, we'll see a rise in rates." But I know where this will eventually lead. And it will lead to a stock market sell-off, it will lead to an eventual recession which would then end the tightening cycle, and eventually lead to an easing and a rising gold prices.

I still believe that December 2015 was the bottom in gold which did coincide with the fed raising interest rates. So if you stretch out your time horizen in a couple years, gold is up 20 percent, and the fed funds rate has gone from 0 to a quarter to possibly next month 2 and a quarter 2 and a half. So I would consider that a pretty good performance. And I expect the next leg up in gold will be at some point next year when the fed blinks and the dollar sells off and that'll be the next catalyst for the metals.

Mark Skousen: Blinking you mean that they will decide not to raise rates? Or may even cut rates?

Peter Boockvar: Even just saying we're gonna take a pause will be enough to cause a selloff and in dollar which would then help the metals. It's inevitable that we get to that. It's inevitable typically where rate hike cycles go. A soft landing is a very rare occurrence. And the fed is getting deeper into this tightening cycle.

Mark Skousen: So let me test you a little bit on your statement that the fed raised rates in the 70's. Actually in real terms they were still negative. Inflation was worse than interest rates. Interest rates were kind of catching up. So you had negative real interest rates and that's why gold went up. In the 80's you had just the opposite. You had real positive interest rates. Interest rates higher than inflation. And what happened to gold? It fell down. So I would argue that this should be a case for gold declining because the fed is raising rates pretty aggressively.

Peter Boockvar: The mid 2000's also real rates were positive. So the fed was ... I see that situation somewhat similar to now.

Mark Skousen: And that was the bottom of gold, that's true. So Jim, you were not here last year but I've been reading up on your views on CNBC and Fox News perhaps, both?

James Grant: No.

Mark Skousen: No? I thought it was CBNC you were on, maybe it was another network.

James Grant: I'm a literary fellow.

Mark Skousen: This is where you said "treasuries are not safe." I thought that was just this last couple of days.

James Grant: Right well ...

Mark Skousen: That was on CNBC right?

James Grant: Right that was the headline. So the question was "what's a safe investment?" The moderator said "even safe investments like treasuries aren't appreciating." And I said "that there ain't no inherent in anything." Nothing in inherently safe or inherently risky. It's a matter of price and value. And that when treasuries seem riskiest, when they're yielding the most in retrospect, that was when they were most valued and most desirable.

And muscle memory is a very potent thing in markets. And 3 and a half decades of falling rates and appreciating bond prices have impressed the world with the idea that this particular asset goes up. Bonds go up. Hence the idea they are safe by nature. And I challenged that and I think they ... at these levels it seems to me, if anything they're inherently unsafe. Not inherently, but I think they're rather unsafe.

Mark Skousen: Yeah, so ...

James Grant: At this point in the cycle we have a respectably growing, relatively growing GDP with the federal budget deficit in excess of a trillion and with a negative yielding federal funds rate. So that's something you don't see every cycle.

Mark Skousen: So the question is ... treasuries have often been a safe haven during a crash, bear market. People go to either gold or cash and they've been going to treasuries. More than they've been going to gold.

James Grant: Correct.

Mark Skousen: And you had this massive sell off in October but this time were treasuries a safe haven? Maybe not this time. Maybe cash, pure cash was. It didn't seem like you saw a rally in treasury securities like you normally do during this October period. Do you agree with that?

James Grant: That's true. Yeah.

Peter Boockar: That's certainly true. You actually saw a sell off. Yields were higher in October both in the short end and in the long end. There was some buying late in the month but treasuries were down on the month.

Mark Skousen: Right, so it was not a safe haven as it normally is and now we're looking and maybe gold you said gold has gone up a little bit. The gold stocks have not, however, so that almost suggests that the miners, the gold bugs think that maybe this is just temporary or something. There doesn't seem to be a huge rush into gold mining stocks even though they're going into gold as a haven.

And they didn't go into Bitcoin either I noticed. Bitcoin really didn't do anything. And that has been viewed as an alternative to gold. Dennis is shaking his head saying "no."

Dennis Gartman: No. Bitcoin is an alternative to nothing. I'm a great proponent of the block chain. I think the block chain is a brilliant idea. It will change the manner in which we trade everything. It'll change the manner in which we trade container ships of goods and services. It'll change the manner in which we trade stocks. It'll change the manner in which we trade houses. But Bitcoin and we have to differentiate between Bitcoin and the block chain. They tend to become synonymous and they are absolutely not synonymous. They are utterly and completely different circumstances completely.

There may become a time, probably not in my lifetime, when Bitcoin is transactionable where you can buy a house with Bitcoin but it's not gonna happen until Bitcoin absolutely falls in value demonstrably longer and goes quiet and [inaudible 00:17:26] and doesn't change price for months and months. Then perhaps I shall be interested in Bitcoin.

Mark Skousen: Either one of you wanna comment? Either one of you agree with this nihilistic view that Dennis has regarding Bitcoing?

By the way without Bitcoin you would not have had the block chain. Bitcoin created the block chain. In order to have Bitcoin, you had the block chain. So they are very much a part of each other.

Dennis Gartman: They will differentiate.

Mark Skousen: But one can differentiate. And I'm looking forward to the day when we can put everything on the block chain, transactions and stock transactions and Patrick Burn of Overstock who's trying to do that, others are involved. I mean this is a very real thing that most financial institutions are now getting into. And I can't wait for the day when in real estate, lotta real estate investors here, when the title insurance companies go under, because we don't need them anymore ...

Dennis Gartman: The only reason you have a title insurance company to begin with is to pass on the legality of the past history of the piece of property that you're owning. Block chain will give you that past history. The mortgage insurers will disappear. The mortgage industry itself will be utterly transformed. I am a great proponent of the block chain.

James Grant: Why will the mortgage insurance business disappear?

Dennis Gartman: Well maybe not the mortgage ...

Mark Skousen: No, title insurance.

Dennis Gartman: The title insurance. Excuse me.

Mark Skousen: Title insurance. Mortgage insurance will probably still be around.

Dennis Gartman: Will probably still be around, yes. [crosstalk 00:18:54]

Mark Skousen: But title insurance, these title insurance people drive me crazy. So it's great to see that but maybe and hopefully it'll happen, it'll probably happen before we get rid of the Jones Act, which has gotta be the stupidest act that Congress ever passed. So I wanna bring up the issue of the stock market and I know some of you are bears. I know Dennis, you've made the case that the market's headed lower, commodities are headed higher. By the way you made that same prediction last year, I just wanted to point that out.

So timing is everything and you're a little bit off on your timing.

Dennis Gartman: Well actually if you take a look at it from a year ago or from January first of this year, stock prices are actually down and down rather substantively. Doesn't matter which index you look at, they are down. And if you look at commodity prices, they are up for the year. So actually over the course of the past year and much of that has occurred in the course of the past two and a half months, but nonetheless, year on year, stocks are lower, commodities are higher, I've been right. Sometimes you get lucky.

Mark Skousen: Are you sure commodities are all higher? There's a lot of them that have had lower too?

Dennis Gartman: If you take a look at the average, and the only way to take a look at the commodity markets is in broad terms. The averages are higher here to date.

Mark Skousen: Right but there's no real bull market.

Dennis Gartman: There's no real bull market going on. Soy beans have not gone ... as a Chicago boy having grown up on the board of trade, nothing made Chicago feel better than a bull market in soy beans. It was just the whole city became ecstatic when beans and the teens was a great chant. You don’t have beans and the teens, you don’t have [inaudible 00:20:24] rising dramatically.

James Grant: We have the Cubs now though.

Dennis Gartman: Yeah, we got the Cubs now.

Mark Skousen: You and I remember when soy beans were like 13 dollars.

Dennis Gartman: Oh I remember 15 dollar beans.

Mark Skousen: 15 dollar beans. And what are they now?

Dennis Gartman: 9 dollars.

Mark Skousen: Well, they’re moving back up. Cause they got down to like 4 bucks I think.

Dennis Gartman: No, beans never got that ...

Mark Skousen: Never got down that low.

Dennis Gartman: Never got that low. Yeah.

Mark Skousen: So I wanna talk about the investment grade ratio with the treasury. Kind of the investment grade, the BAA versus the AAA grading that Moody’s does and others. St. Louis Fed has a chart on this and so forth. And in every recession, in every bear market, you had a flight to safety. And the relationship between junk bond yields and triple A yields, the spread got monstrously larger. This did not happen in October. So is this an indication that this mother of all bull markets, which I’m sure all three of you predicted in the last few years, Dennis, you’re honest to admit ...

Dennis Gartman: No I did not.

Mark Skousen: You were surprised. You were surprised.

Dennis Gartman: There were times when I was bullish but on balance was I, did I think we’d see what we saw in the past several years? No I did not, really.

Mark Skousen: See now I do have my newsletter here. October issue, the mother of all bull markets, but I didn’t put it on the title until it actually happened. A lot of our friends predicted the mother of all bear markets. I remember Dick Russell, rest his soul, the last prediction he made before he passed away was we were gonna see the mother of all bear markets and instead we got the mother of all bull markets. Are we going to see ... a lot of people are predicting this, bears make headlines, bulls make money. Do you fall into the category that we are headed for an absolute, catastrophic disaster that is going to send gold through the roof but the dollar’s gonna collapse?

All of these predictions that are apocalyptic. Are we going to see that, Jim Grant?

James Grant: Who would answer that "yes?"

Mark Skousen: Well, no, I mean I don't wanna name specifically, I did mention Dick Russell as an example but you know he's 90 years of age and he had a great career.

James Grant: 90 years is not that old.

Mark Skousen: Yeah well you know how to play to the audience don't you?

James Grant: May I help you by asking myself a question.

Mark Skousen: Ron Paul has made this prediction. Our favorite Congressman.

James Grant: So what exactly is your question, Mark?

Mark Skousen: Let me repeat it, I'm asking you, Jim. Jim Grant. I'm asking you "are we headed, we've had the mother of all bull markets are we now headed for the mother of all bear markets?" That's what I'm asking.

James Grant: We'll know more in 10 years.

Mark Skousen: Jim, people are paying good money to know the answer to this question. Dennis do you have an answer to this question?

Dennis Gartman: No we are not heading to the mother of all bear markets. It will be a standard come as you are normal bear market that we've gone through time after time. It shall not look nearly as egregiously awful as was the bear market of 2006 to 2009. It may not even be as bad as the bear market of the two bear markets of the early 1980's. And it may not even be as bad as the bear market of 72-74. But we'll give back 25% from the highs and the economy will go into a quiet, modest recession. We've done it before, we'll do it again. Are we heading for the mother of all bear markets? No not at all.

Mark Skousen: Peter?

Peter Boockvar: The difference the next time we get a bear market in a recession will be the impudent nature of central bank response. Everyone's used to previous recessions or bear markets. The fed quickly eases. It's a short lived downturn. And we go off and on to bigger and not necessarily better things. We're gonna go into the next recession with a fed funds rate that is dramatically below previous peaks. We're gonna go into the next recession with balance sheets that are still rather big. We're gonna go into the next recession in Europe with rates that are still probably negative. And in Japan certainly around 0. So that'll be the difference between the next recession and bear market is you won't have that central bank safety net to bail you out.

So anyone looking for the next V bottom in the next recovery after the next recession, it'll be something more of a bathtub type situation. Again because of the lack of ability of central banks to deal with it because they've already expended so much of their weaponry.

Dennis Gartman: They will go ahead and do exactly what they did last time. They'll revamp quantitative easing and they will aggressively go out and buy treasury securities, bank of Japan securities, ECB securities. The fact that they don't have the ability to take interest rates lower is consequential. But the fact that we've already done QE one time we'll do QE again. It'll be demonstratively inflationary in the end result, but ...

Mark Skousen: But aren't we headed for, Mr. Grant, aren't we headed for a fiscal crisis with unfunded liabilities? Here we are. Everyone agrees full employment. We're in full employment, right? Full employment economy. And even Keynesian even Paul Krugman who would say we should be running surpluses now, but we're running deficits. We could have a trillion dollar deficit next year. Does anybody give a damn? I mean come on. Isn't this going to head for a fiscal crisis? Or are we just in la la land? Are we just not having to worry anymore? Deficits don't matter.

James Grant: You can go on the treasury's website and there's a button you can touch. And it will give you the dollar amount that citizens have contributed to the paying of the public debt. And this goes from like 4 million, 3 million. Every year the sum total of the gifts will be 2, 3, 4 million.

Mark Skousen: Did Donald Trump write a check?

James Grant: And this year it's like 700,000. So not only is this the coldest button issue of the midterms, but the people who customarily donate to the extinguishment of the public debt are not doing so. So no, it is an issue on the backest of the back burners. But I'm not gonna repeat what I said only an hour and a half ago but it seems to me that the question of the integrity of the public credit has been the least negotiable piece of information on wall street.

No matter what you knew about the deficit, it would not make you one penny in a trade. Next week, next month, next year. But it seems to me, possible, not certain, but possible, that the public credit will now reenter the marketplace as in fact as the consequential idea in bond prices. Because the weight of supply this fiscal year prospectively for treasury issuance and the disposition by the fed from pairing down its balance sheet ever so gently, that sum is going to be the greatest percentage of GDP since 1945.

So it's very heavy weight of supply and this may or may not possibly, I think it is, two years into a secular bond bear market, so like that.

Mark Skousen: So do any of the three of you remember the 1995 fiscal crisis in Canada?

James Grant: Where?

Mark Skousen: Canada! North. Dennis and I were talking about Canada. We have very fond feelings regarding Canada. They're doing a lot better than the US in many categories. In fact they're ranked higher in economic freedom than the United States now. 1995 Canada had a major fiscal crisis. The Canadian dollar was at an all-time low. They were running huge deficits and the interest on the debt really drove crazy in fact the conservative and the liberal party came together. The liberal party complained interest was so high that they could use it if we didn't have it we could use the money for social programs. The conservatives said the interest rates were so high it's bankrupting us.

So they got together and within a two year period of time they slashed government spending. They laid off federal workers. They balanced the budget within two years then they passed a whole bunch of supply-side tax cuts and they have had a tremendous run and Canada got out of their fiscal crisis.

So we have an example to the north of our willingness to do this. Is that gonna happen in the United States? Where finally the Republicans and Democrats can get together and say "hey we have a crisis here. Let's solve it!"

Dennis Gartman: One can hope.

Peter Boockvar: Only when the bond market forces that discipline upon them through much higher interest rates. They're not gonna do it voluntarily because they see the budget deficit as a percent GDP getting above a certain number. It's only when their hands are forced and higher interest expense will be the hand that forces it.

Mark Skousen: Which is now approaching 200 billion dollars a year interest on the debt and when it gets over the cost of the military budget maybe somebody will pay attention. You know, Trump makes a big point of living up to his promises to his people who elected him.

Peter Boockvar: Interest on the debt is about 500 billion, not 200 billion.

Mark Skousen: It's now at 500 billion.

James Grant: Is it really that high?

Peter Boockvar: Well if we got 15, 20 trillion [crosstalk 00:30:36]

Mark Skousen: So my number may be low.

James Grant: Maybe it's gross and debt.

Mark Skousen: What's the military budget? It's 600, 700 billion right? So once the interest on the debt becomes the largest cost of the budget, maybe then we'll pay attention. But I remember Trump in his campaign saying "one of the things I'm going to do is reduce the deficit." And even reduce the national debt, so if he's a big believer in campaign promises, why doesn't he do that?

Peter Boockvar: Cause that would be hard to do and that's not what a politician usually ...

Mark Skousen: Well, Larry Kudlow, I know this, Larry suggested, he's the one who promoted the idea, and didn't get a lot of media but everyone should be aware of this that Trump asked every department to cut spending by 5% cause he figured there was enough waste in every department that that could be done. So what's happening to that proposal? Isn't that a good idea?

Peter Boockvar: It is.

Dennis Gartman: Certainly. You won't get much argument from this panel on that point.

Mark Skousen: But you lose elections.

Dennis Gartman: You will lose elections. And you have to remember if 5% cut, what is a 5% cut? Is a 5% cut from last year's budget or is it a 5% cut from a 7% increase this year?

Mark Skousen: Right so it'll be an increase. Exactly. All right, now, Mr. Grant, you are a student of history, correct? So here's my question. I dunno if you've read Alan Greenspan's new book with Adrian Wooldridge of the Economist, called "Capitalism in America." Have you taken a look at this book?

James Grant: No, I'm waiting for the movie.

Mark Skousen: Yes, yes, that's true. People don't read anymore, they just watch. That's right. So here's the question. Do you favor a Hamiltonian style strong central government or do you prefer a Jeffersonian laissez faire and why, which is better?

James Grant: Well, let us narrow this down to the fiscal nature of the thing, shall we? This being a financial theme. So Jefferson along with his treasury secretary Albert Gallatin was all about the elimination of the debt. And Gallatin was so single minded that when he succeeded as Treasury Secretary under Madison, and the war of 1812 broke out, he insisted that military operations be subordinated to the program of redeeming the debt. That was bean counting for the sake of bean counting. But Jefferson was all about redemption of the debt.

Now Hamilton, famously was partially quoted as saying that "the national debt is a public blessing." But a codicil to that was only when the means are provided for it's extinguishment.

Mark Skousen: Through the sinking fund.

James Grant: Ah, the sinking fund. The sinking fund was started less as an idea that had the sanction of Montesquieu and of other great thinkers and the practical imprimatur of [inaudible 00:34:01] in Britain. And this thing he found was a bit of a gimmick as you know because you borrow money perhaps at a higher rate of interest than you are paying then the debt interest ... then the interest on which you ... the money you pay is a lower rate of interest than the money you borrow to pay it back. That could be. That was the case.

But anyway the sinking fund was an expression of intent. And the sinking fund existed in this country until 1960. The last securities purchased under the sinking fund were 1960.

Mark Skousen: Really? Wow.

James Grant: So Hamilton and Jefferson in the matter of the debt were both of the same basic philosophical view is that it was no good to have ... it was okay to have provided you were not going to roll it over and grow it eternally. And that is what has happened.

Mark Skousen: So Dennis are you a fan of the Hamiltonian central bank idea? Do you believe that a federal reserve is necessary or are you like Ron Paul and other wide eyed Libertarians who advocate the end of central banking and going back to the gold standard?

Dennis Gartman: Yes to both. Okay. Yes, I'm a believer in both. I think there is a reason to have a central bank of some consequence. I would prefer that they would be as a dyed in the wool monetarist I would prefer that it was almost a central bank that every year on a pre-program basis put 4%, 5% growth in the monetary aggregates and let it go with that. But I do think you have to have a central bank there.

When there are the consequential circumstances that prevail such as in 2005, 6, 7, and 8 when finally you have to have a central bank that stands up and say "I'm the adult in the room and I'm gonna stop what's going on out there."

Mark Skousen: But they caused it in the first place.

Dennis Gartman: I'm not sure that the federal reserve was the causer of the housing crisis as much as it was the silliness of granting mortgages to people at 100% of the value of the mortgage.

Mark Skousen: But remember, remember the chairman of the federal reserve is the chief banking officer of the United States. He knew about the subprime loans. Ben Bernanke knew about it cause I saw, he gave a speech at the AA meetings which I listened to on bank regulation. And he used the term "panic" and "crisis" 34 times in January of 2007. That was a clear indication he knew were headed for trouble and he did nothing about it. Nothing! He just waited to bail us out at the end.

Dennis Gartman: And yes, he waited to bail us out. If he had done something consequential to stop the rise of housing prices and to stop the buying of house and to curtail the housing building business at the time, he would have created the same circumstance. He would have created the same collapse he was fearful of. I think that the only thing that the bank could do is what the bank did. Wait to see, hope that it didn't occur, when it did occur step in and say "we're gonna do what we're supposed to do as the adults in the room."

Mark Skousen: Dennis as we know it never happened in Canada. It never happened in Australia. It never happened in Hong Kong.

Dennis Gartman: Yes they did not lend 100 and 105 and 110%.

Mark Skousen: They had the [inaudible 00:37:10] rule.

Dennis Gartman: They handled things better. But Canada right now has a problem because housing prices in Vancouver, housing prices in Toronto have gotten to be, to reach egregious levels. Almost equal to what had happened here in the United States in the early part of this century.

Mark Skousen: All right we have 4 minutes left. We now come to the question of predictions for next year. See how accurate you can be. By the way, Peter Schiff was on the panel last year and he was quite accurate in saying “well, we don’t know for sure” but he predicted last year that the Republicans would lose control of the House and that we’d go back to gridlock. So it’s a week away, what’s your prediction for next week and next year starting with Peter Boockvar.

Peter Boockvar: I don’t really have any strong opinion on next week. I think it’s somewhat irrelevant in terms of legislation since Trump got what he wanted in the tax cut and there’s nothing really big legislatively to follow. I think next week could have more relevance to the negotiations with China rather than anything specific to the US.

I think the two drivers of this bull market in stocks was dramatic easing as we know, and historically high corporate profit margins. And both are now reversing. So to me that’s the results of those reversals will dominate 2019.

Mark Skousen: Okay, Dennis.

Dennis Gartman: I think both sides hate each other. And the amount of antagonism that exists on the right and the left, I think we’re gonna be surprised how many people actually do go and vote next week. I get very upset when I hear “get out the vote” requirements. Half these people I don’t want voting. I mean, really. I don’t think you should be allowed to vote until you pay taxes. But we’re gonna get a large number of Republicans and a large number of Democrats to go to the polls. Who’s gonna win? I have a hard time arguing with the pollsters themselves. Clearly the Republicans are going to gain control, or hold control of the Senate and may actually pick up a seat or two.

It’s sad when a gentleman as wise as the young man who’s running for the Senate seat in Michigan will probably get humbled by the current sitting Senator. She’s an idiot but that’s another question for another time. And perhaps the Republicans may actually lose 5 or 6 seats in the House. Maybe they hold control. We’ll see. It just depends who gets there. What will be interesting to me is to see what happens if the Republicans do hold control of the House. If you get a rally in the stock market that then fails. Oh god, that will be devastating. So that’s to me what’s more important.

If the Republicans do by any chance hold the House and you get an overnight rally and that rally fails, that’s going to be very ugly. And that’s my big fear.

Mark Skousen: The betting odds right now if you go to John Stossel’s betting site on election, the House will go to Democratic, but the Senate will stay Republican.

Dennis Gartman: How cool is John Stossel. I love John Stossel. They send him to the hinterlands of television and he should be on the front pages. He's brilliant [crosstalk 00:40:33]

Mark Skousen: You know he never got the popular, I mean I asked Fox News what happened there and he never did get the support that Bill O'Reilly and people like that did. But he is a statesman and a great guy. I'll be seeing him tomorrow night. I'll tell him you said that.

Dennis Gartman: Tell him I said hello.

Mark Skousen: He's going to be at the Reasons 50th anniversary in LA which I'll be at while the conference is going on. And finally Jim Grant, what's your outlook for in the next year before next year's conference?

James Grant: Well my only political view point which I hold very earnestly, is I'm really bullish on Melania, And my financial prediction ...

Dennis Gartman: I'm with ya.

James Grant: If Uber goes public it's going to be a great short sale.

Mark Skousen: All right. Thank you Jim Grant. Thank you Dennis Gartman. Thank you Peter Boockvar, let's thank our panel. Thank you very much for the economy outlook. We'll see you next year for that, thank you.

Dennis Gartman: Jim, an honor to be on the panel with you, truly.

James Grant: Thank you, Dennis.

Geopolitical Panel

Gary Alexander, Mark Steyn, Jonah Goldberg, Doug Casey

Lindsay Hall: You guys are in for a treat. Do you know what's next? Yes, the Geopolitical Panel. Up next you have Doug Casey of Casey Research, Jonah Goldberg and Mark Steyn. Gary Alexander's going to be mediating.

Gary Alexander: Thank you very much. This is always one of the highlights of the conference for me. I've been moderating these political panels for at least 10 years now. I thank Brien Lundin and the whole crew here for giving me this opportunity.

Just to summarize in 30 seconds, in the last 10 years, we have solved most of the nation's problems. We have elucidated the Bill of Rights, especially the ninth and tenth amendments. We have solved the entitlement crisis. We have solved the debt of the United States. The problem is that Congress and the establishment has not listened to our solutions, so we still have those problems. We are not gonna hash those over right now.

The basic outline of this panel is that I have a set of four questions I want to ask of each panelist. Then we'll just take it freeform from there. I'm going to ask about the media situation, the tribalism and the echo chamber effect that we have had exacerbated in the last two or three years. Exemplified by our first panelist, I'm gonna ask a question. Jonah Goldberg, in his book Suicide of the West: How the Rebirth of Tribalism, Populism, Nationalism, and Identity Politics is Destroying American Democracy, that is about how people are shouting and yelling at each other, interrupting. I don't know about you but I cannot listen while I'm talking. It seems to be a skill they're developing on television now where people can listen and talk at the same time others are yelling. I can't fathom that.

I grew up under William F. Buckley's Firing Line and I was in Debate Society in high school in 1962, where you had structured debates, where you defined terms, you listened to a case, and you argued back. And you actually learned what terms meant. William F. Buckley's Firing Line was built on that. We had those debates early in this conference with William F. Buckley, with George McGovern, with John Kenneth Galbraith. We had Lou Rukeyser sometimes monitoring those debates. We had meaningful debates in this conference over the years, but that has not been replicated anywhere that I know on television.

So I want to ask our panelists in this first round, I want to ask if there is anything like that in their experience on television and barring that, what their experience is in the media. Starting with Jonah Goldberg, in the last six months I have monitored the Sunday morning programs. I don't like doing this. It's not really interesting so I do something else while I'm half watching, half listening. I have timed Meet The Press, Face The Nation, and George Stephanopoulos 'til I couldn't even stand that anymore. I find 85 percent of the material is inside the beltway trivia, and most of that is tweets from the president. They do not interest me at all, but it is so beltway-centric that it's almost like the world doesn't exist. I never heard Venezuela mentioned once, for instance.

Jonah, you were invited often back to Meet the Press. Chuck Todd is no Don Lemon but it seems he is biased a bit toward the left. It seems on the panels in which you are one of the conservatives that you were only given about 30 seconds at a time and once it starts to get substantive you have to pass the baton to somebody else, and it really never gets somewhat deep into the issue. My question to you is what are some of the background elements that go on in a show like that? What are your instructions as to how to partake in a panel? Here's the tricky question, fantasize a bit. If you were the producer, if you were the host, how would you structure Meet the Press to be a bit more substantive and interesting than it is right now? Jonah Goldberg.

Jonah Goldberg: Gosh, I didn't know I was gonna be the expert on Meet the Press. First of all, I've never had any instruction beyond, on any show. You have this myth about Fox News where people think people are told what to say. They're not. I mean that ... bookers will sometimes pick people 'cause they know basically what they might say, but there is no sort of voice from on high that says, "You must say this or not say that." Same holds true on, I've been on now on all of the Sunday shows and I've never had anything like that.

You often get encouraged to interrupt and have an organic conversation but there's literally structurally no ability or time to do anything like that 'cause they've got this roadmap that they wanna get through. I do think that ... I think anybody who's ever been on a Sunday show thinks that they weren't given enough time. One of the tricks in the business is to figure out how to grab the time that you want rather than wait for it to be given to you. I think that is a non-ideological phenomenon.

Where the ideological part comes in is that you really will have three people who share the same worldview and then the token conservative who's sort of supposed to be like the Washington Generals. That was the team that played the Harlem Globetrotters and was supposed to lose entertainingly.

Pulling up to about 30,000 feet, I think there's a different phenomenon that's going on that's been going on for a very long time but it's accelerating very quickly right now so it seems so much worse than the past. That's basically the Balkanization of the media. 40, 50 years ago William F. Buckley was the host of Firing Line and that was the conservative show. Then there were three other channels, four other channels, and that was about it. Back in those days, and I still think there was a liberal media bias back then, I can go on a tear about it. But when you had such massive market share, CBS Evening News, something like 70 percent of the American people watched it on a night, you could afford to make people eat their spinach in a way. You could tell them the things that you thought they needed to know and not just the things they want to know.

But as the media market fractures, you get this situation where everybody is in a silo and craving for a small, very sticky segment of the electorate or the viewing public. For example, Fox News, which dwarfs the ratings of CNN and MSNBC, often combined, on a really good night will get about three and a half million people. That leaves about 327 million people not watching. That's enough still for Fox to be extremely successful.

I think part of the problem that you see across the media landscape, really in earnest in places like MSNBC and CNN, but I would say there are issues at Fox as well where I'm a contributor, is that the mindset becomes more about telling people what they want to hear and less about what they need to hear. As the groupthink solidifies at all of these institutions, you start having people lose their perspective about what actually constitutes the framework of the debate.

So places like MSNBC, where I think a lot of the hosts dance back and forth between their role as pundits and their role as objective news reporters, they often get caught up in this crazy group think. You have these examples of people like Don Lemon. I love this sentence he offered the other night where he says we have to as a people learn to stop demonizing other people and we have to realize that the real terrorist threat in America is from white men. It was like a snake eating its own tail. It was really fascinating. It just completely did not occur to him that this was something that maybe half the country would find ridiculous.

This is a problem that you get, I think, across the spectrum these days. Even the New York Times, which has always I thought been more liberal than people want to give it credit, is basically fueling a constituency that has a lifestyle where they expect the New York Times to come down on the issues the way they want it to. This leaves very little neutral ground for people to have arguments and conversations where people come from really different assumptions about the nature of politics, the nature of government, the nature of what America is supposed to be about. Instead, everybody is retreating to these sort of tribal notions that we're right and you guys are all wrong.

Gary Alexander: Thank you. Mark Steyn, I see you once or twice a week on the show with Tucker, Tucker Carlson who was here last year. It's one of my favorite shows. It's probably the only one I watch regularly. You two are very copacetic. But I also know that you're on Canadian television. I saw you on SteynOnline, the beginning of your free speech forum this morning in which you discussed on Canadian TV they have something called Canadian Content Ruling. Every third song has to be Canadian or something like that. Your bio in our book mentions a 10 million dollar lawsuit that you've had on Canadian media and also hate speech lawsuit. Tell us what it's like on Canadian media. Are you throttled more up there than you would be on say US media?

Mark Steyn: Well, I think oddly US media is more explicitly partisan. The affect in Canada, the UK, Australia, a lot of Europe, is always that they are more openly, they have an extreme version of what Jonah was talking about on Meet the Press where you'll have a panel where there'll be someone from the center left, someone from the extreme left, someone from the insane left, and then me. The trick there is-

Jonah Goldberg: Sounds like a fair fight.

Mark Steyn: Yeah. It is a fair fight. Actually I quite enjoy it. I wish they had a little bit of that, a little bit more of that on the US channels. I think that the trick there is always to be charming because you can upset the apple cart. A lady, nobody in the US knows her but she hosts the national news in Canada on the CBC called Rosemary Barton. Rosie interviewed me on the CBC and her whole thing was, she began by basically saying I'm an extremist hatemonger. Within about two minutes I'd charmed her so I'd gone from extremist hatemonger to oh, you're a little bit naughty. That's like a huge improvement.

In the modern world this poor lady, her performance is being live tweeted by liberal CBC viewers. They're all going, "I can't believe she's letting him get away with this! Look at it, it's disgusting! It's creepy to watch! Look at the way she's leaning into him, showing her cleavage and everything, it's terrible!" Poor old Rosie, it took her like three years to recover from that. I actually, I think we don't have enough of that. I don't like the echo chamber thing. I don't like this idea where you have subscription television services now where people who totally agree with each other can all sit in the echo chamber together. I've worked in a lot of places where I was the token right wing madman.

I was the token right wing madman at the Irish Times, which is a very liberal newspaper. Conversely, when we started the National Post in Canada about 20 years ago, one of the things we were concerned about was to find, it was a right wing paper but we wanted good left wing columnists. We tried to find them. I wish there was a bit more of that. We don't have, I mean it's not just politics but we don't really have mass media anymore. So the reason that the late night comedy hosts don't do genial universal jokes is because it's in their commercial interest to appeal to ever more precisely defined niche markets. That's true generally.

Gary loves music. We don't have popular music in the sense that we did in the 1940s when big hit record were huge hit records for everyone. We have competing niche markets of rap and country and all kinds of other stuff. In politics and in public discourse, that just incentivizes you to serve a narrower and narrower sliver of the population.

Gary Alexander: Okay, Doug Casey, I know you haven't been on any national TV lately but the way most young people learn their history is movies, like by Oliver Stone. The way they learn their morality is some TV series. One of them is Madame Secretary. How many of you watch Madame Secretary on TV? Just not too many, but my wife loves the show so I watched in and there's a Doug Casey character on Madame Secretary. It's the young boy. He's an anarcho-libertarian. I didn't know if you knew there's an anarcho-libertarian on TV. He's 20 years old. He doesn't go to college. He has his own views and they're ridiculed by the screenwriter, naturally.

But Madame Secretary is a Hillary Clinton-type person who is perfect: younger, slimmer, and somewhat ethical. Her husband, unlike Bill, is a former marine pilot. He is a professor of ethics at the national war college. He is a one-woman man. Now the two daughters are very liberal. They dropped out of college to be politically active. The second daughter was an active worker for a Cory Booker-like politician until that politician dropped his platform for forgiving college loans. So this daughter's at home eating chips and flipping through a magazine when mother says, "Aren't you gonna vote?" "No, because this politician backed out on his campaign promise to forgive college loans." "You've got to vote anyway. People died for your right to vote," says mother. Daughter says, "Polls close in 30 minutes and I'd registered in Silver Spring and we're downtown." Mother says, "What are motorcades for?" So they have this black SUV motorcade to take her out to vote for the lessor of two evils.

So my question to you Doug Casey, instead of the mother being in the room you're the screenwriter for the show. You can place yourself as father of professor of ethics or the 20 year old anarcho-libertarian son. I want you to explain to the daughter the ethics of forgiving college loans or voting for the lesser of two evils. Either the father or the son, explain the ethics of those situations.

Doug Casey: Well, there are so many problems with that setup. But one of them is that how can you have a professor of ethics teaching at a war college? In fact, how can you even have a professor of ethics in any college today? They're all political correct which is ... antithetical to the whole idea of ethics and philosophical thinking. They shouldn't even be voting. Look, I don't believe in democracy. Democracy's really, in point of fact, as I said earlier today, nothing but mob rule dressed up in a coat and tie.

This is all about stupidity. By stupidity I don't mean low intelligence, low IQ. Let's be more specific and give a useful definition. To me, stupidity is an unwitting tendency to self-destruction or, if you wish, an inability or seeing only the immediate and direct effects of what you do and you're unable to see the delayed and indirect effects of what you do. Look, this professor of ethics has obviously failed miserably. The very fact that he's got a daughter who thinks and that he's stupid enough, using these definitions, to have married a person that is like Clinton. This is all a jumble, a contradiction.

It's funny, when I used to be on the national media I had a full hour on the Phil Donahue Show the day before the national elections in 1980. Phil asked me who I was going to vote for. I said, "Well, I'm not voting tomorrow," and he was shocked, shocked. Then I started listing the reasons. Well, the lesser of two evils is still evil and therefore you're morally compromised if you're doing that. I mentioned that I'd have to hang around a government office for the better part of a day registering and then standing in line to vote. You just get your name in another government computer bank. The audience was getting very restive hearing these things.

In fact, on that show they booed me twice. It's amazing. This is like the speeches at Caesar's funeral between Brutus and Mark Antony. The mob claps and then they boo and then they clap and then they boo. They can be influenced. I didn't get as far. After they finished booing me when I told them that they were idiots sending their kids to college, which isn't nearly as bad then as it is today, I only got as far as giving them four out of the five reasons why they shouldn't vote the next day. That reason they probably would have stoned me as I said, "Your vote doesn't count. It's all a charade." And that's much more true today than it was then.

We could go on and on about that. It sounds like a wonderful show. I'd like to watch it and be mildly amused because we really live in an entertainment economy. Nobody listens to anything, certainly nothing that has any philosophical-

Gary Alexander: Well I thought you'd want to see yourself as a 20 year old in the show, and the kid has hair you know and he's handsome, but the screenwriters don't like him.

Doug Casey: No, of course not.

Gary Alexander: Of course not. Let's move on to the second round of questions which does have to do with voting. I think two of you aren't gonna vote. Mark, you're not allowed to vote as a Canadian, is that correct?

Mark Steyn: Well I would have a difficulty getting away with voting in my small New Hampshire township because my town clerk would say, "Get out of here, you're Canadian. You're obviously Canadian," because she knows who I am. But I'm pretty confident I could vote more or less anywhere up and down the California coast for example, multiple times. All I'm willing to say is no, I won't actually be voting in my town in New Hampshire but I don't rule out making appearances at other polling stations.

Gary Alexander: Well I'm going to ask about the elections, and since Mark and I share a love of the great American songbook, I'm gonna put it in terms of song titles. First of all, a list of Johnny Mercer titles. The incumbents all say the country's in the very best of hands but challengers say they are the fools that rush in. With days of wine and roses they promise that old black magic is gonna deliver lazy bones. The road to dreamland, but it's all a charade that's too marvelous for words. They're building up for a big let down 'cause something's gotta give because when October goes in early autumn, when the autumn leaves begin to fall, I want to be around to pick up the pieces when they all sing the blues in the night. So that's what's gonna happen on Tuesday night. Some party's gonna sing the blues of the night.

Mark Steyn: That's a fantastic medley. I've never heard a spoken word medley before. That's quite incredible.

Gary Alexander: Now there's a songwriter that was born Election Day, November 6th, Gus Kahn who wrote Makin' Whoopee. I'm gonna ask you which party is gonna make whoopee, the party of Nancy, with the laughing face, Pelosi, or will we be singing along with Mitch McConnell? Who's gonna win the House on Tuesday night?

Mark Steyn: Well I don't wanna be ungallant but Nancy Pelosi has anything but a laughing face. It seems to me increasingly immobile over the years for reasons I decline to speculate on. I recall that when Obamacare was introduced and the democrats were in control of Congress that in fact, that the republicans were in control of the Senate and Mitch McConnell wanted Botox not covered by Obamacare. Whereas Nancy Pelosi wanted Botox covered but did not want tanning salons covered by Obamacare. That was actually John Boehner, who as you may recall had the healthy glow that comes from spending winters in his sun-drenched corner of the Midwest. It was very peculiar, very peculiar [inaudible 00:22:02].

I don't know which way it's going to go. Taking Doug's point that voting is irrelevant, I mean in a way that voting is a citizen's obligation and in the democratic age that is how we exercise our preferences. But most of the changes that matter are made culturally. Politics then spends its time catching up to them. For example, a general mood arises that people are less offended by minority sexual behaviors than they once were. Then that becomes a broader disposition towards licensing same-sex marriage or transgender or whatever it is. There's an interim phase in which politicians then spend a few years lying about that. Barack Obama said for years that he believed marriage was between a man and a woman. His voters are supposed to know that he doesn't really mean that but it's not politic to say it out loud yet.

Then eventually here you have basically judge-made law. But again, when you read Anthony Kennedy's total incoherent argument for same-sex marriage, Anthony Kennedy basically is saying, "I'm just playing catch up with the culture here. I got nothing. I can't find a legal argument for it but I'm prepared to twist myself into a pretzel to explain why these guys in powdered wigs a couple of centuries back calmly foresaw the need for it a couple of, a quarter millennium later." It's the culture where the important shifts in our society are made. In a sense, it's a Potemkin fight that goes on about very peripheral battles on the political sphere. Only once in a while do you have someone who comes and throws one of the big cultural battles into the political arena, as when Trump basically did that with, for example, immigration, which republicans had shied away from. But the cultural battles are really where these things are resolved.

Gary Alexander: Jonah, you're the closest to the political beltway scene. I know that all the pollsters are saying it's about an 80 percent change the democrats will take control of the House and similar chance that the Senate will stay with the republicans. Do you see any chance that it'll be like 2016's surprise Brexit vote, surprise Trump victory that the republicans have a chance on Tuesday?

Jonah Goldberg: Yeah. There's a chance. I mean one of the reasons why ... Look, I mean Donald Trump in 2016 had about a one in five chance of winning and he won. One in five chance, unfortunately the way pundits talk about one in five means zero. But there's a one in six chance that any side of a die will come up if you bet on it. One in five, there are lots of things. If you've got a one in five chance prognosis for dying from some disease, you take that really pretty seriously. 20 percent chance is a real thing. 20 percent things happen all the time. But I would push back a little bit on the ...

The polling in 2016 was actually pretty good. It said Hillary Clinton was ahead by three percent. She finished ahead two percent. It was the state-level polling that was bad. That gets to the problems that they have in polling generally. Still, if I were gonna bet, I would bet pretty heavily that the democrats take the House. Historically, the average loss for the first midterm of a presidency is about 24 seats. The democrats need 23 seats. Historically, it's interesting. Incumbency is actually really, really powerful and usually protects you. What happens is is that going into the primary season, the incumbents who feel like they may not, they just don't want to put in the effort to protect their seats, they all retire.

The thing is open seats historically go wildly towards the other party. So there are a lot of open seats this time around. The democrats only need one in three to take the House. It just seems sort of as a safe bet to say yeah, the democrats will take it. I don't think it's gonna be the blue wave a lot of people thought it was gonna be last time. Personally, because I think we live in a timeline where the most ridiculous thing always happens now, I would like to see the democrats take it by one or two seats. Then you have enough democrats who said that they were not gonna vote for Nancy Pelosi, refuse to vote for Nancy Pelosi and you have this absolutely biblical fight over who becomes the speaker of the democrats.

On the Senate side it works the other way. I think the Kavanaugh thing was a huge galvanizing factor for reluctant republicans or fed-up republicans who came back home. This is one of these times where I think the conventional wisdom is largely correct. I just want to add, I agree with Mark entirely about how most of our issues in life are upstream of politics and they manifest themselves very late in the process. I do think voting is a good thing. My problem is if we're all gonna be sort of the cranky, "get off my lawn" types here, I don't like the way we talk about voting where we think it should be the gateway drug to civic participation rather than the end product of it.

You got these people who are too stupid to be spell checkers at an M&M factory in California who want to lower the voting age to 14 or 12 or whatever. For me, I think that voting should be something that you do at the end of a process of taking your citizenship seriously. I've never personally taken my vote very seriously 'cause I've never lived anywhere where my vote wasn't canceled out at least nine to one. I grew up on the Upper West Side of Manhattan where we were like Christians in Ancient Rome. It just didn't matter.

I think that what we're seeing right now, one last point is I'm sort of obsessive about how we fetishize voting in this country. For years I've been having these debates with people saying that low voter turnout is actually a sign that people are pretty happy with the way that their lives are going. You get very, very high voter turnout when people are really pissed off or angry or they think the country is going in the wrong direction. I think it's really funny that all these people are celebrating how there's gonna be massive turnout, and it looks like there will be in the 2018 midterms. But nobody is arguing that this is a sign of civic health. Whether you like the republicans or like the democrats, everyone is conceding that everybody's really pissed off and angry. This idea that we would be a healthier society if we had total turnout for elections I think is just belied by the reality of why people vote in this country.

Gary Alexander: Exactly. Now Doug, I know you don't really care who wins so I'm gonna put an investment angle on this Election Tuesday. Back in 2016 October was just like it was this year. They assumed Hillary would win, stocks were going down, and gold was going up. The same thing happened in October. We had a strong gold market and stocks were going down on the assumption that the democrats would take back the House. The absolute opposite happened after Trump won. Gold went down about 150 bucks in the next month and a half and stocks soared after Trump won.

My question to you is it really does matter to this audience and to you as gold investors if the republicans retain the House we might have a collapse in gold and we might have a stock market rally. Do you care about that now? Is it really important that the republicans win or lose?

Doug Casey: No. First I gotta say it's a pleasure being on this panel with these two guys. In the past, I was on panels with Doctor Strangelove and I ... couldn't agree with anything he said. I totally agree with everything-

Gary Alexander: I'm glad you're not on the panel this afternoon then.

Doug Casey: These guys, yes I saw that. I won't be here. I'll be on a plane when that takes place. Yes, I agree with Jonah. I believe that the bad guys are going to win or the worst guys are going to win. But I especially agree with Mark that this is a cultural thing, much more important. Who wins this election is really rather trivial. It's just a question of which deck chair you're sitting on on the Titanic. Ultimately, the way I see this is that the only solution at this point, what's going on now is much more serious than what happened during the 1960s and early '70s. Most people have forgotten, there were actually thousands, thousands not hundreds, thousands of bombings that took place. But what's going on now is a culture war, which is broad-based, much more serious than what we had back in the '60s.

I think what's going to happen and what should happen is the US should actually break up into several different countries along cultural lines. You can't have an election where people are at odds on the basic realities of the way the world works. It becomes nothing but ... like what Mencken said, an advance auction on stolen goods. How can you have an election where half of the public is a net recipient of goods from the government? It's a charade, all of this.

Mark Steyn: I'd just like to add to that too that I think we've seen in the last couple of years something that is disturbing if we do fetishize voting, as Jonah was suggesting. We live in a bizarre time when low-level bureaucrats and district court judges and all kinds of other people who are not susceptible to voting think it's acceptable to obstruct the policies of the duly elected government. That's a disturbing thing. You see it in the United Kingdom too where the bureaucracy tasked with negotiating Brexit basically regards it as its right to scuttle Brexit. You see it in the bureaucracy of the European Union where the unelected [inaudible 00:32:56] in Brussels, for example, think it appropriate to try and get motions passed in the European Parliament imposing sanctions on countries such as Austria that do not vote in approved ways.

We're actually seeing, which is an interesting phenomenon in the 21st century, we're actually seeing less and less lip service paid to voting and the disposition of the electorate than we have seen in democratic societies before.

Gary Alexander: I wanna highlight something as I was gonna go to global geopolitics next but I'll say that, 'cause you mentioned it's cultural and I believe that, Doug. Something from Jonah's book, early in the book, page 16 and 17, Howard Zinn's People's History of the United States, which I first became aware of when my daughters went to college at Thomas Jefferson's University of Virginia. It was a huge bestseller there and my daughters were influenced by it. He's an avowed communist and he told the history of the US from the point of view of all the victims and nobody else. It created resentful hostility toward the founders of this country by turning them into nothing more than greedy white racists.

Jonah talked about a sense of ingratitude that took over this country toward the miracle of the wealth creation that this nation and capitalism created. If we don't teach people to hold what they have precious they simply won't bother defending it against those who think what we have is evil. That's what Jonah wrote and Mark touched on it there. So I'd ask all of you to talk about that. I mean back in the '60s we believed instead of saying the one percent were evil, we said, "I can become one of them." "I believe that I can become one of them." Now we want to hate them and take what they have either by legal means or by means of force, which is really kind of the same thing. Mark or Jonah have any further comments on that before ... 'cause I know Doug feels the same way too. He spoke on it this morning.

Jonah Goldberg: Sure, yeah. I mean part of the basic ... That's in some ways the basic overarching conclusion of the book is that ... I believe that conservatism boiled down is basically a form of gratitude. You look around the world, you look around your life, you look around the community that you live and you say, you find the things that you find lovely or lovable and you say, "I wanna protect these things. I wanna maintain these things. I wanna pass them on to my children. I wanna conserve these things." That doesn't mean there isn't room for improvement. That doesn't mean there aren't still problems in the world. But if you don't start from a presumption of gratitude, that we have it pretty good, you're gonna be imbued with something, with the opposite of gratitude which is a sense of entitlement or resentment.

In this country basically following along the Zinnian lines is we teach entitlement and resentment as a core approach to the world. We tell people simply by virtue of the color of their skin, or their historical grievances, or just simply because their feelings are in disconnect with the reality around them, that the world owes them something. I've become kind of a Joseph Schumpeter groupie in the last few years. He was a famous economist who basically made this argument that capitalism was doomed. I don't completely agree with him, because I think our problems are still fixable. But his argument was that the real threat to capitalism isn't the proletariat. The proletariat tends to actually have pretty old-fashioned bourgeois values. The real threat to capitalism and democracy are the children of rich people. As a class, the affluent kids of rich people are being raised to have a deep-seated dislike and resentment towards the best and most glorious parts of the American story. The Howard Zinn version ...

Remember the movie Goldfinger? In the movie Goldfinger, Goldfinger doesn't wanna rob Fort Knox. His devious plan is to irradiate all of the gold in Fort Knox with a dirty bomb so that it makes it unusable for like 50 years making his stockpile so much more valuable. I'm sure there are some people in this room who find this an intriguing idea. That's what the left essentially does to American and Western history generally, is it says that any of the usable past for fostering a sense of gratitude, of communal purpose, of pride, of patriotism, these things are all unusable and radioactive.

The only stories that you can teach and tell are the stories of victimology, of racism, of bigotry, not the stories of us overcoming these things. Every civilization in the human history had slavery. The interesting thing about the West isn't that we had it but that we got rid of it. We don't teach that. Instead we teach that that original sin of America is the only thing you need to know about the founders. That's a huge, huge problem and it's way upstream of politics generally. If we don't get the story of America right, the story of our politics is going to continue to get crappier and crappier.

Mark Steyn: I'd forgotten that was the purpose of Goldfinger's scheme in the movie. I'm mindful of the last panel when I believe Peter Schiff asserted that his cuff links were gonna be worth more than the Dow. So I have a scheme to irradiate Peter Schiff's cuff links and shore up your 401Ks. We'll see whether 007 manages to obstruct that.

I think Jonah is right, that we have raised two generations to loathe their inheritance totally. It's true not just in the United States. It's true not just in the United Kingdom, which was obviously a major imperial power so if you're told that imperialism is bad that's a whole big lot of guilt heaped on the UK. But it's true of relatively benign non-imperial powers like Sweden, or at any rate a country that hasn't been in the imperialism business for a long time. Raising people to hate and loathe their inheritance, as books like Zinn's do, is a form of child abuse that has serious consequences.

We see it in the madness to take down ... Basically any functioning society, just at sort of 30,000 feet as Jonah says, is a compact between the past and the present and the future. None of us live or exist in the moment. That's true for investors who look ahead. But looking ahead also involves a union of the present and the past. That's what ensures you have a future. So if you destroy your past you are also in a sense destroying your future. That's why things like a little California town deciding to take down the statue of President McKinley, who took a bullet for his country. I mean I don't know what the guy has to do. I mean he didn't get a fair shake from what was that guy, Czolgosz? The fellow who shot McKinley? That's not enough. He's still an evil racist guy.

The most ridiculous thing was this astronaut, Scott Kelly, who tweeted the other day one of the most unexceptionable Churchill quotes, "In magnanimity victory." In other words he's calling for us to tone down all the partisan rhetoric so he quotes this Churchillian thing, "In magnanimity victory." Immediately everybody jumps on him and says, "No, no, Churchill's a racist. You can't quote Churchill. It's evil to quote Churchill. We don't wanna listen to anything Churchill has to say." I said years ago that in the future everyone will be Hitler for 15 minutes. That's the only historical figure anybody's ever heard of. If you're old, you're Hitler. We have now reached the perfect stage of this where Churchill is Hitler to everybody on Twitter. It's perfect. You can't go beyond that. Churchill is Hitler. When you do that, when you teach people to be ashamed of their past in that way, you actually cripple the possibility, ultimately you cripple the possibility of that society having any kind of a functioning future.

Gary Alexander: Doug, I have a question to you as we segue into geopolitics 'cause you are The International Man, one of your great books. I have a radio show on music and what follows me is the Pacifica News that's extremely far left. They usually lead with an anti-Trump story but they led with a story of an overthrow of an African nation, Congo I think. I said, "Mm, that's strange. Mm, I wonder how they'll tie that into Trump." No kidding, 20 seconds later, "Pundits are saying this is the fault of Donald Trump and his America First policies since the diplomats aren't staffing their offices in West Africa. Therefore there is not enough deterrence of overthrow of governments in West Africa." My question to you is what are the geopolitical hot spots over the [inaudible 00:42:43] They all blame it on either Donald Trump or global warming.

Doug Casey: Yeah. Obviously they didn't go far enough 'cause they didn't tie global warming-

Gary Alexander: Oh, they did later.

Doug Casey: Into the whole thing. But, it actually doesn't matter. Listen, remember this morning part of my speech was giving the 12 reasons why western civilization, western culture is in collapse, and why at this point resistance is futile. I mean the battle is over. Why? Because it used to be a very small proportion of the population went to college. In those days, the college professors were teaching western values so no damage done, in fact, good done. Now everybody goes to college and all of academia are total leftists and they're totally corrupting the youth who are impressionable at age 18. It's very hard to undo this damage and then replace it with correct values.

It's a moral value battle that's being fought. I'm afraid it's totally lost because all of these so-called educated people, everybody goes to college, everybody's got these bad values. Then they're reinforced by movies and television, and everything they hear from politicians, and people in authority, and their preachers and the people, the rock stars and people that run NGOs and so forth. It's actually pretty hopeless at this point. I'm very sorry to tell you this. Because as I said earlier, western civilization is the only civilization that's worth anything in the world's history and it's being flushed.

So I don't know, I don't give a damn about the Congo. I spent a lot of time in Africa. It's a great place to loot and pillage. If the west collapses the Africans aren't even gonna have mud huts to live in. I'm sorry to take such a gloomy view of these things just ... buy gold and ...

Gary Alexander: Well, despite that, I'm gonna close the last five minutes of this panel on an upbeat note. Now in this conference the last couple of days we've had a lot of downbeat notes about debt and coming recessions and various other things. I don't believe I've heard these facts recited so I'm gonna recite a few.

Consumer confidence is at an 18 year high. The GDP was up 3.5 percent in the second quarter, so third quarter is up after 4.2 percent in the second quarter. We created 250,000 jobs in October. 3.7 percent jobless rate, the lowest in 49 years. Despite tariffs, exports rose one and a half percent last month, same as imports rose. We've had a tax cut that is working its way through to record earnings for three quarters in a row, record corporate earnings. There's some things to celebrate going on. Despite the election, despite debt in the last couple of years, five years and so forth and it's grown out to really unsupportable levels, I would like our panelists to close on some predictions for the next year that may be of an upbeat nature. We'll have to close with Doug anyway but let's start with Mark Steyn at the other end.

Mark Steyn: I'm not used to being out pessimism-ed by ... I've no idea, this Congolese news escaped me. I would say this, I think it's actually good for the Congo that they're now blaming it on Trump because they had a Congolese civil war in the early years of the 21st century. It never made the papers because CNN and the New York Times couldn't figure out a way to blame it on Trump. Actually six million people died in that Congolese civil war. They all, both sides agreed on nothing except they liked eating the pygmies, which is unfortunate, very unfortunate for them. It was a terrible time in the Congo. I'm glad that whatever it is that has happened in the Congo, and like Doug I'm not listening to Congo FM around the clock so I'm not sure what's happened.

But in some strange way, I think this idea that we are at the center of world affairs is an important, is actually gets to the heart of the issue here. Whatever one feels about the last two years and about the president, the fact is he's actually engaged in the world in a more effective way than his predecessor was. In a sense, we're not worrying about stuff we used to.

I'm less worried about North Korea that I would have been two years ago. So I think on the international scene in the Congo and in North Korea and a bunch of other places things are actually better than they were.

Gary Alexander: Okay. Thank you. Jonah?

Jonah Goldberg: Gosh. I too am not used to being the sunny optimist. I've been giving a speech for 10 years called, "Cheer up For the Worst is Yet to Come," and every year it's prophetic. When Irving Kristol and Judge Bork, who were both at AEI in the 90s and the 80s, they were watching the Clarence Thomas hearings. At some point Judge Bork turned off the TV in disgust and said, "It's the end of western civilization." Irving took a long drag on his cigarette, which you were still allowed to do indoors back in those days, and said, "Of course it's the end of western civilization. That doesn't mean one can't live well."

Gary Alexander: Sounds like you.

Jonah Goldberg: Look, I think we have huge, huge challenges ahead. One of them, which you alluded to, is this now bipartisan consensus at the level of both parties that we should just do nothing whatsoever about the national debt. Herb Stein coined Stein's Law which said that which can't go on forever must eventually stop. So we're gonna have to deal with those problems in a very real way, whether we like it or not, and on whatever terms that reality imposes upon us. But at the same time it's worth pointing out, sort of on Mark's point, every generation faces significant problems.

Ronald Reagan used to say, "We're never more than one generation away from tyranny because we do not inherit liberty in our blood. You have to fight for it every single generation." That's part of the compact that each generation has with the generations that came before us. As Chesterton used to say, "Tradition is democracy for the dead." We have an obligation towards the future and towards the next generations. That I think is a fact that is dawning on a lot of people, that the problems that we have are serious and actually need to be confronted.

I think a lot of the hysteria again Trump, I'm no Trump fan, but the hysteria against Trump is bringing out some useful antibodies among even hardcore left wingers in terms of understanding that this idea that we should have neutral rules and a free society, and that democratic norms have value, is a useful argument to have. I've always been a long-term optimist about America. I've just never been such a short-term pessimist. I would still rather be born in this moment in this country than any other moment in any other place in human history. I still put an enormous of faith in the American people to solve their problems, but things might have to get worse before they get better.

Doug Casey: Well I agree with that analysis but the problem is that, insofar as we have a boom today, it's actually very artificial being created by more and more debt which means that people are mortgaging their future or they're consuming the capital that others have created in the past. That's why things look good today on top of the fact that you can't trust the statistics from the US government much more than you can trust those from the Argentine government. Here's the thing. Yes, everything kind of looks good but I think things are coming unglued in the financial markets and in the economy as we speak.

That means that Trump is going to be in office when it gets to be really serious and really ugly. They'll react against him because for some reason, some unjust and untrue, he's thought of as being a free market guy, a capitalist. Well relative to the lefties, yeah that's true but he really isn't. So the chances are excellent that in the next presidential election the democrats will win. They'll put up some complete loony toons communist and then you're going to get somebody much worse than Roosevelt, worse than Lincoln, worse even than Woodrow Wilson, who's gonna grab the economy around the neck and strangle it to death. I don't think there's much room for optimism at all.

Jonah Goldberg: But one can live well.

Doug Casey: But you can, yes. I mean listen, when the Roman empire was collapsing in the fifth century there were people who were living well even. So yeah, it's similar.

Gary Alexander: Well we have to end on that note. I just thank our panelists.

Global Investing Panel

Albert Lu (MC), Adrian Day, Guy Adami, Doug Casey, Mike Larson

Albert Lu MC: Our topic today is global investing. I'm very happy to have these four distinguished panelists with me. I think I'll just start with a few comments, my own observations, about investing globally. Something I've learned and observed at Sprott is that when you're looking for opportunities to invest, in our case natural resources, those endeavors necessarily take you globally at times. The assets that you're looking for, the management teams that you're looking for, they don't always exist in your backyard or where you like to vacation. Sometimes they are in Nevada, other times they're in Canada, Mexico, Australia and sometimes they're in the Congo.

That is an example of, I guess, looking for the right investment turning you into a global investor. But the other way to look at it is to see investing globally, or internationally, as end in itself. I want to start with Guy Adami and just ask you, do either of these two describe you as a global investor? Which category, if either of those two, do your global investments fall under? Opportunities that you're looking for specifically that take you abroad, or the idea of investing abroad as an end in itself?

Guy Adami: That's a great question. Thanks for having me, Albert, and this is a great panel. Thanks folks for being here. For me, it's more opportunistic, so you're finding opportunities as opposed to trying to put a square peg into a round hole. I'm looking at it, what presents itself as an interesting opportunity? Couple days ago you might have noticed that Deutsche Bank, which has been under extraordinarily pressure over the last three or four years in an environment where banks had been doing really well and until recently the DAX had been doing well, a stock that's completely underperformed. Then you saw somebody jump in on the investment side saying, “Completely overdone.” People were making a mountain out of a molehill, so maybe Deutsche Bank is an investment thesis. That’s more opportunistic, so that’s how I personally would look at the world.

Albert Lu MC: Okay, Adrian Day, same questions.

Adrian Day: I follow more of a John Templeton approach, which is I think of myself as a true global investor. To me, when I’m looking for investments, it doesn’t really matter to me at all whether they’re in New York, Singapore or Bangladesh. Obviously, you expect certain discounts with certain markets, but if I can find a good quality company with good management, trading at an appropriate price, it doesn’t really matter to me where it is. If you look at John Templeton’s career, he took that approach. Sometimes he was as much as 70% in the U.S. At times, he was as much as 50% in Japan. You get opportunities at different times in different markets, but I think it’s good to look everywhere.

Albert Lu MC: I want to go in to Doug Casey now. Doug, your first book was about becoming an international man. In your latest books, the novels, you talk about someone who is looking globally for investment opportunities while simultaneously looking abroad for personal reasons, meaning getting in trouble with governments and whatnot. In the way you’ve presented it, oftentimes the two sort of come together, meaning the investment thesis and the personal reasons for going globally. How do you look at global investing right now?

Doug Casey: I tend to look at things from a historical point of view. Here’s some ancient history that a lot of you guys might remember. Before 1971, almost everything everywhere else in the world was dirt cheap, really cheap, because the dollar was an inflated currency. Things have changed since then and the rest of the world has caught up. Now you can go to even backward countries and find that not only the cost of living, but investments, real estate and so forth, are actually more expensive than they are in the U.S.

There’s a lot that can be said about this, but my approach, at this point as a certified permabear, actually, is only to jump into things as speculations when they’re really, really cheap, when stock markets are, as a whole, are yielding 12% in dividends. That type of thing. Which, incidentally, as late as the mid-1980s, there were three stock markets in the world, Hong Kong, Spain and Belgium, they were all yielding 15% in current dividends. Especially now, I think you should wait for opportunities like that as opposed to trying to make a few bucks around the edges.

Albert Lu MC: I’m going to go Mike in a second here, but just anyone who wants to jump in, what are your metrics for deciding whether something is cheap or not?

Mark Larson: Well, I look at a lot of deciding where to invest here or abroad and what have you, a lot of my thinking is colored by what’s going on in interest rates and how that impacts currencies, of course. I think in this environment that we’ve had for the last several years, very low rates, very easy money environment, it was a great chance to invest in a lot of markets abroad and make a lot of money. Now, with interest rates going up, with the dollar seeming to firm and so on, we’ve all seen what impact that’s had on a lot of these foreign markets in the last 12 to 18 months and I don't really see that environment changing. The things that I'm looking to invest in now are mostly domestic and mostly defensive, whereas two years ago I was much more bullish on growth year investments and those abroad.

Albert Lu MC: Okay, Guy. You want to ...

Guy Adami: It's interesting. Sometimes something is cheap, it doesn't mean it's worthy of an investment though. I just had an interesting conversation out in the hall and I'll give you a pretty good example. When Micron was a $43, $44 stock in the spring trading at a single digit PE when they announced, company at the time was a 48 billion dollar market cap company, this highly cyclical company announced they were doing a 10 billion dollar stock repurchase plan, which at the time I thought was, "Wow, that's Micron telling us that they're no longer cyclical. They've changed, they've turned that dial." The stock did act in kind.

The stock went from 45 to about 63 or so within a few months. Now you have it lower than that stock repurchase announcement and trading at PEs that don't make a lot of sense. Just because something's cheap PE doesn't mean it's investible. I'll give you another real good, quick example. Same thing's been true in the auto sector for a long time. For three years now, people have been telling you how cheap GM and Ford have been and the stocks on what had so recently been an amazing tape in an environment where autos probably have never done better. You're talking about two stocks that have only gone down until the last week or so. To look just at price to earnings in that vacuum, I don't think you're doing yourself a service. In my opinion, you have to overlay that with a number of things, not least of which are these companies in sectors and industries that make sense?

Albert Lu MC: Yeah. Let's go to Adrian Day. I know you look at yields, among other things. What do you look at when you're deciding ...

Adrian Day: Well, no, I mean obviously I absolutely agree. One of the most dangerous things for value investors is the so called value trap. I couldn't agree more. We are essentially bottom up investors. Bottom up investors, or primarily, I should say, we are primarily bottom up investors. That mean you look at individual companies and you look at how the companies are doing and you look at the companies' metrics, PE as well as free cash flow and book value and yield and other things.

You also have to overlay with that, in my view, you have to overlay that with a top down approach. I think value investors who say that they ignore what the economy and market are doing and they only look at individuals, I think they're doing themselves a big disfavor. You overlay that with what's happening to interest rates, what's happening to oil price, what's happening to currencies and so on.

Mark Larson: I'm glad you brought up the whole issue of value investing because if you look at the performance, and we did an analysis of this not too long ago, looking at the Russell 1000 Growth Index compared to the Russell 1000 Value Index and just the spread as far as performance, and you chart that back all the way to the last 1970s, early 1980s, there's only been one period in all of that long stretch of time where growth has outperformed value to the extent that it has in the last 12 to 18 months. That was the one year period bracketing the peak of the dot com bubble.

Value investing .... Growth stocks, that's what everybody's wanted, the [inaudible 00:09:00] names and so on, and nobody's wanted to touch utilities, consumer staples, the boring stocks, if you will, but that's where I think there actually is some value and opportunity because so much money's been invested on the other side of the boat. I think you're going to see stocks that have been left by the wayside for a long time finally start to attract interest. And that's happened the last three to six months really.

Albert Lu MC: Different question now. When we invest in these foreign stocks, let's assume it's not solely in the case of an extraordinary opportunity, but just global investing in general. If you invest in a company that say has cash flow, are you indirectly making a bet on currencies? I'm trying to get to what are the benefits that we're actually extracting out of these investments? Are we searching for better tax regimes or better regulatory regimes? Is it an indirect play on currency, is it an indirect play on growing economy? Anyone want to comment on that?

Guy Adami: I'll jump in real quick in terms of currency. It's a fascinating ... this is not going to answer specifically your question, but I bring this up because CNBC did a conference a few months ago, Delivering Alpha, I think was the name of the conference, and Mary Erdoes made a comment about the biggest concerns that she had was the volatility in the currency market. I grew up in 1986 at Drexel Burnham Lambert, I was a commodity trader.

Currencies would move 1% in a year, if you were lucky. Now you see currencies move 1% in a few hours. The volatility in currencies to me has completely changed the landscape. I personally think it's a harbinger of really bad things. I know I'm not answering specifically your question, but when you bring up currencies, they are absolutely, in my opinion, at the forefront of what could be one of the most volatile times in the history of markets. Just my opinion.

Adrian Day: No, I agree with that, but I'll also try to answer you question if I ... You've probably seen funds and ETFs say they're global hedged funds, which means they hedge the currency. These tend to be value funds. They tend to be value funds that are looking at great companies and want to hedge out the currency exposure. A lot of people often ask me if I hedge. For retail people, to me, you just simply can't hedge on a permanent basis like that. It's just too expensive. You have to take a view on currencies, which is very, very difficult. I mean, I don't know about you, but I find forecasting currencies one of the most difficult things to do, much more difficult than most markets or asset classes.

But you have to have a view. To get to your point, Albert, if you think a currency is likely to be strong, you want to look at companies that are perhaps individual companies that are perhaps importing their raw materials and selling domestically. You don't want to be looking at a company that is producing domestically and exporting, if you think the currency's going to be strong. A lot of people make that mistake. When you have a view on a currency, you then have to look at the appropriate companies or sectors to take account of that view.

Mark Larson: One of the things that's interesting if you're looking to make money from global investing without having to deal as much directly with the currency issues, I mean there's obviously multinationals, U.S. based, U.S. traded companies that do a ton of global business. When things were looking better to me in the markets and really in the growth environment, a year and a half ago we were recommending things like Texas Instruments and Triple M and so on, because those were U.S. based but obviously do a lot of business overseas. Now, given what's happened in a lot of these foreign economies and what's happening with the U.S. dollar and so on, I'm trying to avoid as much as possible investments with both currency and growth exposure overseas because I think the environment's a lot choppier and a lot more dangerous. [crosstalk 00:13:04]

Doug Casey: One thing that I think it's important to remember, always keep in the back of your mind, is that absolutely every one of these currencies issued by every government in the world is a piece of toilet paper. They're floating abstractions that are headed towards their intrinsic values, which is zero. Actually, the most interesting currency to me right now is the Argentine peso. Now you're saying, "Why would you buy the currency of a country where money goes to die?" The reason is that right now, interest rates are in the 60 to 80% area. The currency's only been losing value at around 30 to 40% per year.

Mark Larson: Only.

Doug Casey: Well, that's a pretty good spread when you're getting twice that in interest rates. I would look at that. The other thing, talking about currencies, I was late to the game, but not too late, to Bitcoin, which was very, very good to me. One of the good things about Bitcoin is that it's drawn the attention of the millennial generation to the fact that now they're calling all these government currencies fiat currencies. It's opening their eyes to other currencies like gold and like Bitcoin. Incidentally, I think there's going to be a second kick at the cat with these cryptocurrencies. When you talk about currencies, think about these cyrptos. Now, 90% of them are total junk, but it's like junior mining stocks. Some of them are going to be quite interesting.

Albert Lu MC: Doug, can we talk about politics just for a second because you and your editor, Nick Giambruno, have been known to parachute into distressed situations, distressed political situations. Can you talk a little bit about that, what you look for?

Doug Casey: Oh, that was to me?

Albert Lu MC: Yeah, to you again.

Doug Casey: Well, I've always been oriented towards exotic, goofy places. The reason is this, is that I like to go someplace where I don't like a level playing field. I think it's silly to play on a level playing field. I like a playing field that's tilted steeply in my direction. That's why I like to go to Africa, which is absolutely going to slip back into the dark ages, on the one hand. But on the other hand, if when I go to Africa I have money and connections and experience and all kinds of things that the locals don't have, which gives me a big marginal advantage. I like to go to goofy places like that where I know more and have more than the locals that I'm dealing with.

Albert Lu MC: Anyone else?

Adrian Day: Are we dismissing an entire continent as goofy?

Doug Casey: Yes we are, actually. But that's not to say I don't like it. It's a good place to loot and pillage and exploit.

Guy Adami: There's geopolitical risks right here at home, quite frankly. You talk about currencies and Doug mentioned he's a permabear. I think in this environment we find ourselves in, and Peter Schiff is floating around, I mean it actually might be the right view given what's taking place. I agree, by the way. The U.S. dollar is a fiat currency and every fiat currency in the history of mankind, starting with the Roman Empire, has ended in disaster. If you just don't think that's the case, to your point, I mean just look what's going on in Venezuela over the last few months.

The fact that central banks globally are in a race to torch their currencies because to make your currency cheaper than the next guy's and gal's, makes your goods more attractive, that can't end well by definition. I don't know how this global race to zero in currencies manifests itself, but I will tell you maybe it is crypto. I traded gold for a living for a long time. Gold is not a story until it's a story. That's not me being glib, that's just the way it works. Interesting, anecdotally, about three years or so ago, the Bundesbank announced they were repatriated their gold from France and from the United States.

I encourage you to ask yourself the following question, they didn't wake up in the morning and decided they wanted their gold back. They saw something. That would be an interesting story to go home, Google, figure out what's happening, because as I mentioned, when gold becomes a story it becomes a story in a major way.

Mark Larson: It's interesting, you bring up central banks, I mean look at what Russia did, right? They basically sold almost 85% of their U.S. treasuries and essentially it looks like they bought gold with it as an asset to get out of that political risk in the U.S., which is amazing to talk about that given what's been going on in the politics here. Who's to say that other countries wouldn't do something similar? Who's to say it's not happening behind the scenes already? You look at a day like Friday where the market went from what, up 200 to down 300 at one point?

Treasuries went nowhere. They sold off all day. Yields were up all day. There wasn't any of that safe haven buying. If you look at the trend in U.S. bonds, it's been ugly for 18 plus months. I think there's something to be said for there's persistent sellers in that market that are doing more than just looking at the economic environment. I think they're looking at the U.S. dollar or looking at U.S. bonds and saying, "Is this really what I want to hold?"

Adrian Day: Let's not forget, not only are existing holders selling, but there's also a lot of new issues coming on. The Fed, as was pointed out by somebody yesterday, the Fed is selling at the rate of 600 billion over the next 12 months. The treasury is probably issuing 1.3 trillion in new issues, so that's almost two trillion of supply that somebody has to buy.

Mark Larson: I think the real issue, the real danger to the markets, Guy mentioned it being a very volatile environment, is we've had two big bubbles and busts now in mostly tech stocks and then housing. The problem this time is that it's really, this easy money environment's permeated so many markets. It's stocks, it's high yield bonds, it's residential and commercial real estate again. You look at how much that's over the peaks that we had at what we all agree was pretty much the biggest real estate bubble ever and you're finding all these esoteric assets.

I've been working on a lot of research for this book and it's everything from artwork to comic books to the value of an NFL team. All that stuff's gone through the roof much more so than even the S&P. It tells you that this has really permeated a lot of markets. It's very dangerous. Valuation isn't timing. This isn't a good timing tool, but it does tell you about your underlying risk and I don't see a lot of places where valuations, besides the things I mentioned earlier, look all that attractive.

Adrian Day: Agree.

Albert Lu MC: Just want to point out that Guy Adami has been here for 20 minutes and he already sounds like one of us.

Guy Adami: Why? Is that right? Is that bad? Should I ...

Albert Lu MC: No, this is great. They're going to tease you when you go back to CNBC though. I don't know if anybody caught James Grant's presentation yesterday. It was brilliant and he included an analogy. He talked about traveling, not eating on the plane, getting in late, everything's closed, you're starving and you're looking at the minibar with the $7 Pringles wondering what to do. My first thought is this guy needs a Snickers. It reminds me of that commercial, you know, you're not yourself when you're hungry?

He linked that to the idea of buying U.S. treasuries now for safety when it feels like yields have bottomed out and he thinks that we're going into what could be a very long bear market in bonds. I want to tie that to globally investing for safety, which is sort of where we were going. Some people don't want to buy treasury bonds. I'd like to know what you think about that, but would you go globally to protect yourself as a hedge, or is everything too correlated at this point?

Guy Adami: This is my opinion. People say, "What's the safety trade?" Obviously, I work on a network where each day the market is our story. When the market goes down, that's a more interesting story than typically when the market just grinds higher. Then the invariable question is, "What is the safety trade?" You're supposed to come up with an answer. Quite frankly, I don't know if there is a safety trade, per se. I could make a very compelling argument that defense stocks, not defensive, but defense stocks, had been a safety play. Then you look at what's happened to Boeing over the last couple weeks and you look at what happened to Lockheed Martin as well.

Safety becomes unsafe very quickly. In my opinion, in the world we currently live in, everything is somewhat correlated. Now, you can save yourself, as ridiculous as this might sound, maybe the safety trade finds its way into China because if President Trump is truly correct and there is an imminent deal with President Xi, what I will tell you is although our market will probably go higher, the Chinese market will go a lot higher, a lot faster. Maybe that's some crazy safety trade. I don't like the term because quite frankly, I don't think it does anybody any service.

Adrian Day: I think when you talk about a safety trade, one of the things you're looking at is hedging against most of your investments, or the mainstream investments. In that regard, a safety trade would obviously be gold, physical gold, would be some foreign currencies. One of the things we ... When you start to get more defensive, we're getting much more defensive now because we simply can't find a lot of good values. As I say, I look at hundreds, hundreds, of companies on at least a cursory level every day, well scores of companies, every day, at least on a cursory level. Very, very, very few of them even get in to the second stage these days because just nothing looks cheap to me.

We stop getting more defensive and for us, that means, apart from gold, I look at things that are cheap on a net assets, things that have strong balance sheets and have good assets and are cheap on an asset basis and I look less at price earnings and yields and so on. For example, we would look at a company like Loew's, the conglomerate not the homing store, the Tisch Family Holding Company, selling at about a 28% discount to the value of their assets right now. Now, most of those assets are publicly traded companies so clearly if the publicly traded company's valuations go down, or prices go down, the discount narrows and Loew's goes down, but at least you've got a nice cushion and you've got 4.8 billion dollars in cash on the holding company level.

If a company's not going anywhere and perhaps in a market crash you'll be able to take advantage of other opportunities. There's a similar one, I'll just mention this and then ... In Switzerland, Pargesa Holding, which is a joint venture of the Canadian Des Maris families and the Frère family from Belgium, two very, very well known ... Des Maris is dead, deceased now, of course, the father, but two well known, value investing families, shall we say. Pargesa, most of what it holds is publicly traded companies, so it's very, very easy to do a valuation. You expect holding companies to trade at a discount, but a 40% discount to publicly traded companies, I think is excessive.

Their biggest holding, for example since you asked, is Total, the French energy company. You don't mind holding Total, unless you're an energy bear. Second largest holding is a German company, a chemical company, called Imerys. Anyway, again, over 4 billion dollars in cash. They're very similar, these two companies, 4 billion dollars in cash at the holding company level, no debts at the holding company level. Pargesa actually pays a dividend, which is 4.3% right now, unlike Loew's which pays, I don't know, 1% of half a percent. I once said to James Tisch, that I love your company? We own a lot of it, but I'd love it even more if you paid a dividend. We're not getting paid while we're holding it.

He said, "Well, if you want to get paid, just sell some of your shares." I said, "But I don't actually want to sell your shares." He said, "Well, that sounds like you've got a psychological problem. I can refer you to a psychologist." I didn't know if he was being funny or not, frankly, but anyway Loew's doesn't pay a dividend. Both of those are very cheap and to me, they're good safety plays.

Doug Casey: That's funny. I second those emotions, but I don't think safety exists. I'm not sure if it ever really existed, but it definitely doesn't exist in today's world. What's your biggest danger in this unsafe world? I think the economic risks are huge. The financial risks are even huger. The biggest risk of all is political risk. It's what your government is going to do to you. They will. I promise you. How do you handle that risk?

Really, the only way you can do so, most of you guys are Americans, most of you live here in the U.S., is you've got to diversify politically, just like you diversify asset-wise financially. Diversify politically. Don't have all of your eggs in one basket. Yes, I know, the United States, it'll last forever. You don't want that it turns out that you're in Russia 1917, or Germany in 1933, or Vietnam in 1965. This stuff happens all over the world constantly. Diversify politically. That's the only way you can get what safety exists.

Mark Larson: When you talk about safety, it's interesting, a year and a half, two years ago, the main letter that I'm involved with, Safe Money Report, was essentially 100% invested. I had a lot of concerns about what was going on in the market in the background, some of these concerns about asset valuations, but the trend was looking fine and so I wanted to ride it while it was happening. You look at that initial VIX-Plosion, or whatever you want to call it in February, some of these ETFs got vaporized, 80% losses in a day and so on.

The rally back, in my opinion, had a lot of divergences, sectors not participating, S&P made a new high, but things like credit spreads did not make a new low in the investment grade market and so on. I raised the cash level substantially. The model portfolio's about 50% in cash right now. Even in my own 401K, I said publicly I went to basically the highest cash percentage, or cash-like percentage, I've ever had.

I think that in this market, especially now with a two year treasury paying somewhere in the neighborhood of 95 BIPS over the S&P yield, being in cash or having a much higher percentage of cash doesn't hurt you as much as it did when you had essentially zero interest rates, or in foreign countries, their equivalence with negative yield. I think that there's a lot of things going on that make me think you want to be much more liquid, much more defensive and much safer in terms of how much cash you just keep on hand than you would have for the last eight, nine years.

Albert Lu MC: You're defensively postured now, but we should also add that you look primarily at domestic stocks, right?

Mark Larson: Correct. There is one company that's in the portfolio that we recommended a few months ago, Israel Chemicals Pod. They do fertilizers as well as some fluids, chemicals used for deep water oil drilling. That's been pretty decent. It's up 11 some odd percent from when we added it. That's pretty much the only foreign based company that I have in the portfolio right now.

Albert Lu MC: I want to talk about larger political economic zones, like the EU, and by the way, Adrian and Guy, I'm really enjoying this juxtaposition between the tortoise and the hare. I'm wondering who's going to win this race.

Guy Adami: Not me.

Albert Lu MC: Your different styles. Look at the EU. I'm wondering, do you look at it as a huge opportunity, or danger in the sense that you get harmonization of certain regulations which make it easier to do business, I read opportunity there. Then you also see these, like for instance, Turkey benefiting in terms of its sovereign rating, by being part of that, or Ireland, and then distorting the real economics of the situation. Is there more good than bad there? How do you come out on that?

Guy Adami: Real quick, and then I'll let Adrian speak, but in my opinion, and again just my opinion, the euro will go down as one of the great failed experiments ...

Adrian Day: Absolutely.

Guy Adami: ... without question. I don't know where people are from, if you're from Alaska, you're from Nevada, you're from Nebraska, from Ohio, but if somebody says, "Who are you," you say, "I'm an American." You go to Europe, you're from Germany, you're a German. You're from Turkey, you're Turk. You're Italian if you're from Italy. It just doesn't line up the same way. The sense is Europe is on the precipice of something, I don't want to say disastrous because I don't want to use that term, but not good. I'll say this as well. I mentioned Deutsche Bank earlier. There's something going on, in my opinion, with European banks and it clearly is not good.

I think if Deutsche Bank was down the south here in the United States, we would talk about Deutsche Bank on the show the same way we talked about Lehman Brothers and Bear Stearns eight or nine years ago. It's the fourth largest economy, I think on the planet. It's last, I looked, I think, it's the largest bank in Germany. It's been trading abysmally now for the last four or five years. There's clearly something going on there. They say, "Well, how does it manifest itself here in the United States? Is it systemic or is it just closed in in Germany?" I would say look at what Citi Bank has done, the stock, over the last couple months. You say to yourself, "You know what? Maybe the risk in Europe has made its way to our shores and it's manifesting itself in some of the weakness in Citi Bank."

Mark Larson: One thing just to add as far as European banks, at Weiss Ratings we also rate, not just for investment quality, but underlying credit quality or underlying bank safety and so on. We do a global ratings update every six months and Europe's banks compared to pretty much every other region of the world were terrible, I mean relatively speaking. There's a lot of lower rated poor asset, poor other quality, type things going on in Europe more than any other part of the world. It's definitely something interesting to keep an eye on.

Adrian Day: First of all, Albert, I'd say your premise, you said is it a danger or an opportunity? Of course, as you know, mostly opportunities come when you have danger. Apart from that, no, I agree completely. The euro is idiotic because it's fundamentally and structurally unsound. It just doesn't make logical sense. Milton Friedman famously said that the euro will last ... How long do you think it'll last? He said, "It'll last until there's a first crisis." Well, it got through 2007, but in a much, much weaker state.

You look what's happening now with Britain leaving the euro and that's primarily not for economic reasons but primarily because British people frankly just don't like bureaucrats, bureaucrats, in Brussels, telling them the curvature of bananas that are allowed and not allowing us to call British ice cream ice cream because we use vegetable fat instead of animal fat, or is it the other way around? I don't know. The whole point is it's just idiotic that these bureaucrats are issuing hundreds and hundreds and hundreds of idiotic regulations effecting everything in life. That's why Britain's leaving.

Then you have the same situation in Italy which is partly, partly cultural, thing same thing as in Britain, and partly economic. I think the whole euro zone is probably going to break up, between north and south. Before that happens, the euro ... The euro is just an ill thought out construct. For evidence of how bad the euro is, I'm going to offer a reference, endorsement.

I'll quote to you something Paul Krugman, the New York Times columnist said. Now, I don't often quote him. I think Paul Krugman has probably said more absolutely idiotic things than any other Nobel Prize winner in history. He said that all of us here, gold bugs, we should really like the euro because the euro is exactly like the gold standard. They issue paper with pretty pictures of bridges on them and gold coins have pictures of pretty people on them. I thought, "Is this man crazy or what?" But he's a Nobel Prize winner. Anyway, I think the euro's going to collapse.

Doug Casey: Yes. Adrian's absolutely correct. Everybody here is correct. I'll go further, though. The European Union itself is going to fall apart and that's the best thing that could happen to Europe. There's got to be some good things that happen to Europe because the whole continent is constipated, concrete bound, stultified, socialistic, totally overwhelmed by political correctness. The first step in making things better is getting rid of that government in Brussels where you have 50,000 employees plus 100,000 more hangers on making everybody's lives miserable. This is a trivial problem. What Europe really faces in the future is an invasion from Africa. Don't worry about these trivial things. There's nothing wrong with Europe that the influx of 200 million Nigerians can't cure over the next couple decades.

Albert Lu MC: Where do I go from there? Going back to global investing, what about an idea that popularity can ruin an idea? I remember talking to Jim Rogers once and he was saying that when he first started investing abroad, people in his office, they didn't even know if these places had stock markets. He had to call and then he found out that oh, they actually have a stock market. Now of course, we know what's going on in emerging markets and all markets. If everybody knows about an opportunity, does it cease to be worthwhile? It's like the airport lounges now. If the whole airport is in the airport lounge, is it better to be at the gate? What do you guys think about that? Are they too accessible now?

Guy Adami: Quickly, because I know we're on time, I will say absolutely 100%. I can only speak to what we do on our show but we started talking about cryptocurrencies probably in earnest in the fall and I don't think it's coincidental that Bitcoin topped out in December/January, not unlike by the way that we've talked a lot about cannabis stocks recently. If you've seen some of the moves in those names, they've been dramatically to the upside and the downside. Popularity can get you to the top of the mountain, but it also takes you right back down. It's unfortunate in the world that we live in today, with the advent of social media and the instantaneous ability to get information, things become popular. Popular is probably not a good word, though, for investing.

Adrian Day: Yeah, no. Absolutely. Your comment about the airport lounges reminds me, I don't know how many people here are from Virginia. My daughter lives in Fredericksburg so I drive down. The fastest lane is actually the slow lane when you're going on I-95 South. Avoid the fast lane because that's the slow lane. It's a popular lane. What you said is actually a truism, of course. As things become popular they obviously lose some of their value. If we're contrarians, we have to be a little careful about investing in things simply because they're out of favor. Things that are out of favor are often out of favor for a good reason and they're often out of favor for a long time. There's always a sweet spot, which is difficult to get of course, between out of favor and in value in favor.

Doug Casey: Yeah, I completely agree. I used to make a habit of visiting third world stock exchanges. One of the more interesting ones that I visited was the Makati Stock Exchange in the Philippines in Manila. I showed up there. It was during trading hours. It was a real building, a big trading room, and there were only two guys standing around smoking cigarettes. That's how active that exchange was in those days. There was real value in the Philippines in those days. A lot of these places you can't invest. Investing is putting a dollar some place, like planting a grain of corn, so you grow things. Create more wealth. I'm not sure how possible that is in a lot of these backward countries. You can only speculate. You can only go some place when everybody hates it and the brokers are all smoking cigarettes. Well, they don't do that anymore anywhere in the world. I think that's the attitude that you have to adopt today. Forget about investing.

Mark Larson: We have so many more markets that are dominated by indexing or the ETF-ication, for lack of a better word. You can buy an ETF for everything from Egypt to Vietnam to Greece, whatever. That's a blessing and a curse. It makes it so somebody can just sit with their e-trade account and buy any market almost in the world, but at the same time those ETFs ... If everybody's doing it and everybody's investing on an index or an ETF basis, you're not really doing the work, right? You're not going out there and deciding do I want to buy this random telecom company or do I like this small bank or whatever. You're just buying a basket. It makes it easier, but at the same time it does make many more markets just trade together in one basket.

Albert Lu MC: We have to conclude now. Let's end, starting with Mike. Just give me one actionable piece of information on the way out.

Mark Larson: Sure. Be defensive and focus more at home than abroad. I said at a recent luncheon that I was at that everybody says, "Oh, greed is good," they quote the Wall Street movie and so on. Frankly, my advice is boring is good in this market. You want to be buying the stuff that nobody has really liked for a long time.

Albert Lu MC: Boring is good. Doug?

Doug Casey: The only thing in the world that's really cheap today is commodities. I would focus on commodities and in particular, if you don't have a bunch of gold, make sure you do.

Adrian Day: I agree with both of those and I'll add something different, which is something that Doug actually alluded to earlier, which is don't think you have to invest at all times. There's absolutely nothing wrong in holding cash and waiting for a good opportunity.

Guy Adami: I want to go get a scotch now. I mean, that's unbelievable. I will say this quickly. I think a lot of people are hoping that the U.S. market recovers on the back of the U.S. China deal. I think President Trump has a very specific game plan for all his adversaries. I don't think China is a typical adversary. I think they're much better suited to play the long game. I think they have more leverage than we give them credit for. If you think a deal with China is going to be done in the next couple weeks or couple months, I would disagree, which I think will lead further pressure to the down side.

Albert Lu MC: Great job, guys. Ladies and gentlemen, that's the panel. Please, let's have a round of applause for our panelists.

Doug Casey: Very good comments.

Adrian Day: You don't think they'll do a deal?

Guy Adami: No.

Jonah Goldberg

"The Future And Past Of Conservatism"

Gary: Okay. We're going to hear from Jonah Goldberg. Now, you've heard from I'm on the panel this morning and the panel just now. He's going to guide you through the essential nature of politics in America by examining the underpinnings of liberal and conservative ideologies, economic policy, and the changing role of modern-day media. He's senior editor of National Review. He's established as a prominent analyst with his publication of the New York Times best-selling book I showed you this morning about the Suicide of the West. And also his earlier book, Liberal Fascism: The Secret History of the American Left, From Mussolini to the Politics of Meaning. And he's named one of the top 50 political commentators in America by Atlantic Magazine. His informed and thoughtful perspectives spark indispensable dialogue and debate whether discussing an intellectual history of the left or the hazards of living in the Trump era. Okay, welcome back Jonah Goldberg, for the Future and Past of Conservatism.

Jonah Goldberg: That didn't take long. I'm going to grab another bottle of water because I can because I've been smoking a lot of pot today, and I get terrible dry mouth. Yeah so as Gary pointed out, well, today's speech is supposed to be called the Past and Future of Conservatism. That was the title of my speech last year, so I'm not going to give the same speech again. But I'm a little weary about it because the rule of thumb, I usually tell people, is you can have a new speech, or you can have a good speech. I figured I would sort of weigh in first with just a little bit more punditry to set up what I actually want to talk about. As I said on the earlier panel this morning, I think that it's pretty likely that the Democrats take the House and that the Republicans hold onto the Senate, maybe even expand it.

As a conservative, I'm kind of glad for that. The Senate matters a hell of a lot more than the House does from a conservative perspective because the Senate is the thing that actually approves and confirms judicial picks, and it doesn't need the House for that. And I would say that as a conservative first, and a Republican a very distant second, the very best thing about the Trump Presidency has been his judicial appointments. And I want cocaine Mitch to keep doing what he's doing. But there's also this strange irony that we've got right now, which is that the House election really doesn't matter in terms of policy. And it's something that neither party is willing to admit.

The Democrats are constantly talking about Medicare for all and socialized medicine and all these various things, and there's literally nothing the Democrats can do policy-wise that will get past both the Senate, a Republican Senate, never mind Trump's veto pen. And at the same time, the Republicans are running as if, if Nancy Pelosi gets power, we're going to be Venezuela by tomorrow. And the reality is that's not true for the same reasons. The House can't get anything done without the Senate and so the only reason why the House matters, for a political matter, is in part because if the Democrats take back the House, they will have subpoena power. And this matters a lot for the Trump Presidency because normal administrations have been crippled when the opposite party has gotten the ability to subpoena and compel witnesses and swear in witnesses where they have to tell the truth on the punishment of perjury.

And one can see, wherever your position on the Trump administration is, this could be an even bigger problem for the Trump White House. But the other irony is that the Democrats don't want to say that because the one way they could guarantee not taking back the House is if they actually promise publicly what is really going to be the most likely outcome, which is an even more chaotic political climate. Everything is going to get crazier, not less crazy, particularly if the Democrats take back the House because then you're going to see a lot of people lawyer up. You're going to see Trump freaking out, yelling at the Democrats and at the same time, you're going to see Donald Trump running against the Democrats for his re-election campaign, at least that's what the people in the Trump White House talk about.

And so it's funny. When you see Trump going around on this very, I have to say, physically very impressive barnstorming campaign in the last six weeks or so stumping. And he's basically stumping for Senate candidates in places where Donald Trump is amazingly popular. And that points, in part, to the fact that this is the best Senate climate the Republican Party has seen since the passage of the 17th Amendment in 1913 in terms of the possibility for Republicans to run away with things. And the strange thing about that is that Trump running for all of these Senate candidates in all of these states, he's actually hurting the House's chances, the Republicans in the House races. There are a lot of red states out there. He's campaigning in places like Texas, and Wyoming, and Indiana. These are basically red or sort of reddish-purple states.

There are lots of districts, swing districts, districts that went for Hillary Clinton in those states. And so when Trump comes out and galvanizes the base, the true MAGA hat wearing crowds, he's also galvanizing the anti-Trump crowds. And I've talked to lots of political consultants, particularly in places like Texas, that really did not want Trump to come and campaign for the Senatorial candidate because it would destroy or damage the chances for various House candidates in districts that are at least marginally anti-Trump, but friendly to Republicans. And this sort of gets to the larger point that I wanted to talk about. One of the things that we're seeing is kind of an accelerating of transformations that have been going on in the electorate for a very long time. I like to say that Donald Trump isn't the cause of a lot of the problems that we have, but he's contributing to some of them. He's certainly contributing to some of the trends.

White college educated Republican women are almost a vanishing demographic, and Donald Trump is largely responsible for that in this moment. But if you look at the historical trend, the Republicans have had a gender problem for a very long time, going back 20 years. Remember George H. W. Bush and the wimp factor? Republicans have been suffering with suburban white women for a very long time and Donald Trump is accelerating that process. He's also accelerating the process of something that's been going on for a very long time, which is white working class men leaving the Democratic Party. The FDR coalition has been disintegrating for a while. In a lot of ways, what Donald Trump has done has sort of finally pulled the plug on it. And he's brought in these blue-collar, non-college educated white working class guys. Many of them were Obama voters as recently as 2012, who are now Trump guys. And that's reflected in the shape of the parties these days.

The parties are becoming very, very different things. And so you can see on stuff that we've been talking about at this conference about things like limited government debt, entitlements. Donald Trump is not more right-wing than previous republicans Presidents. Viewed from the perspective of saying what did Democrats say in the past versus what did Republicans say in the past, he's actually moved remarkably left on a lot of these things. He basically says we're not going to reform entitlements, we're not going to touch social security. We're going to expand Medicare in some clever kind of way. And so the parties are, in some ways, both becoming more statist in their own ways, just in different flavors.

So why is he running in all of these different states doing all of this? One of my views is that Trumpism should be understood as a psychological phenomenon rather than a political phenomenon. He, by his own admission, does not have, with the exception of issues like trade, which I don't think he really understands very well, he does not have a coherent ideological worldview. Up until fairly recently, he was pro-choice. He was for gun control. He was for all sorts of things because he was, essentially, a New York City Democrat. He brags of himself that he just goes with his instincts and that he just goes with his gut on how to do policy. And so the only things that he's been consistent on for a very long time are these issues like trade, not even immigration. Remember, he attacked Mitt Romney from the left for being too mean on immigration. I'm not saying he doesn't believe this stuff or at least some of it, but he's a late convert to it.

So I think one of the reasons why he's running around the country campaigning like this is that Donald Trump really like to take credit for wins, and a lot of these Senate candidates are going to win. And he'll get to say look I saved the Senate. I think another reason for it, though, it's a little more difficult to explain is that he is actually trying, along with his advisors, people like Steven Miller, are trying to turn the Republicans party, essentially, into a nationalist party. And nationalism has a different flavoring and tenor, and worldview than a traditionally conservative party in the Anglo American tradition. And we can talk about more of that in a second.

And so the result of what we're going to see in these Republicans races, in the House races, is that the House members who survive are going to be much more pro-Trump. The average Republican Congressman is going to be much Trumpier than the average Republican right now because the ones who are most vulnerable are all the ones who are going to be knocked off, Barbara Comstock in Northern Virginia, this guy Mark Kauffman in Colorado who learned Spanish so that he could campaign in a purple district where he needed Hispanic votes. Those are the guys who are probably going to get destroyed in these competitive races. The people who are going to survive are going to be like the Western Pennsylvania, carried their district by 20 points, pro-Trump guys. And that is going to make what is left of the Republicans Party after the election vastly more nationalist, vastly more Trumpy.

Whether you think that's a good thing or a bad, that's fine, but it's just, I think, analytically where we're going to go. So if you're investing in the country becoming more protectionist, I think you can expect that the country will get much more protectionist after 2018 because you have a lot of interests in the Democrat Party that are protectionists, and a lot of these guys who are loyalists to Trump are going to be protectionists.

But I think the major reason that Trump is running around like this and releasing these ads showing how this caravan is going to come to your house and set fire to your garage and murder your children is that this is Trump. Trump does not change. Whether you like it or dislike it is a completely different argument. Donald Trump is, again, a psychological phenomenon. He cannot help himself. He's the first President in American history, at least modern American history, who has shown no interest in trying to expand his coalition while in office. Barack Obama was a very partisan President, by my alights, but at least he pretended that he was bipartisan, at least when the moment called for it. Donald Trump is simply, temperamentally, characterologically, ideologically, psychologically, whatever phrase you want to put around it, incapable of not being Donald Trump. It's like Aesop's Fable, you knew he was Donald Trump when you elected him and that's what you're going to get.

And this was true throughout his business career, as well. He's kind of a black swan. He does lots of things that other businessmen didn't do, and it worked for him, so he kept doing them more and more. And so what I want to turn to, you know, I have this book out called, Suicide of the West. It's a really cheery title, I know. It was a compromise with the original title of Why You Should Take a Bath With a Toaster. And I want to pick up on stuff that Mark Steyn and I were talking about on this morning's panel. I believe that most of the problems that the United States have are upstream of Washington. Civil society, the little platoons of civil society as Edmund Burke would put it, starting with the family but also church, Elks clubs, voluntary associations, the kind of thing that the Alexis of Tocqueville wrote about, they're breaking down.

They're breaking down across a wide array of factors. And the problem is, is that these are the institutions that actually create citizens. These are the institutions that actually civilize people. Hannah Arendt, one of my favorite intellectuals, she had this great line where she says, "Every generation, Western Civilization is invaded by barbarians. We call them children." And what she meant by this was that, and anybody who's had kids knows what I'm talking about. We come into this world, not blank slates, but actually as little barbarians. We have lots of preloaded software in us, and the first thing that we need when we come into this world are updates. And that's what family does, family civilizes us. We are born into a little tiny civilization called the family where parents model good behavior. They set expectations. They lay out what your decision trees could be, they tell you what is acceptable and what is not acceptable. And so when the family breaks down, it makes all the other institutions after the family have a much harder time of it.

Any teacher you've ever talked to will tell you that look, public schools may have problems, but a lot of these problems start in the home. We've known this about human beings for a very long time, particularly about men. If you look at street gangs, street gangs, for thousands of years, formed when young men who are not properly socialized band together and behave in ways consistent with human nature, with their natural programming. If you read the Lord of the Flies, like five minutes into the story, these pinnacles of Western Civilization, they're dropped off on an island, these little British boarding school kids. And within like five minutes, they've got spears and war paint, and they're worshiping some weird pagan god. That's what our human nature wants us to do. We are wired to want to live in tribal lifestyle.

And what a civilization does is it pulls you out of those behaviors. It regulates things like violence and how you deal with other people, how you deal with strangers in positive ways. And civilizations rest on these little institutions that are at the local level. They give us a sense of meaning and belonging, and an understanding what is right and wrong. And so when these institutions break down, we don't lose our wiring. We don't lose our desire to belong to a tribe or a little group, we look elsewhere to satisfy that. One of the places that we look is social media these days. I have a big following on Twitter. Twitter has got its problems, but I really think Facebook is essentially Satan's urinal.

And what Facebook does is it makes people, first of all, curate their lives to make everybody jealous about how they're living their lives. They make it seem that they're happier than they really are. But worse, what it does is it pulls people out of real communities with real human beings, and instead you join virtual communities where you have all of your bigotries and biases confirmed rather than confronted. Where people who are just as angry as you about the exact same things make the same sort of arguments and tell you the only thing you're wrong about is you don't realize how right you are.

And this has contributed to a massive epidemic of loneliness in America. We're becoming deracinated, alienated. The number of friends that people report having has dropped by almost half in the last ten or twenty years. And so what happens is we start looking to abstractions to give us that sense of real belonging that we used to get from faith, family, friends, church, local communities, soccer clubs, baseball leagues, whatever. Instead, we start looking to these abstract identities. We start looking to politics. Identity politics is, basically, just this incredibly cheap idea that says you can get all of your meaning and sense of belonging based upon some abstract category about the color of your skin, or some claim that you have some shared grievance with somebody 1,000 miles away about something that happened to an ancestor of yours.

Nationalism is another one of these things that's coming up that people are investing their identities in. Now, nationalism is kind of a tricky subject because it means different things to different people. There are a lot of people who think nationalism just means patriotism. And if that's what you think nationalism is, then I have no quarrel with you. But in the political literature and in the American tradition, nationalism and patriotism are different things. Nationalism, historically, comes out of Europe as this idea that there's some essence to a specific ethnic group, some sort of genetic family that all belongs together. You know, Germany for the Germans, and that kind of thing. In America, the difference between nationalism and patriotism is that patriotism says we are all committed to a certain creed, to certain ideas that come out of the American founding, certain ideas about limited government, what I call the Lockean Revolution. The idea that our rights come from God, not from government. We are citizens not subjects. That the individual is sovereign and that the fruits of our labors belong to us.

This is an open cradle association that doesn't care what color of skin you have or who your ancestors were. And that, which I always thought was the essence of Conservatism is starting to be bent toward this idea about nationalism, which kind of gets us back to politics. One of the weird ironies of the moment that we're in is that we haven't been this polarized along partisan lines since at least the 1850s. We are more polarized today than we ever have been before. Social scientists are staggered by the data that has come in that shows that your partisan affiliation is now more predictive of attitudes and behavior than your race, your ethnicity, your gender, or your religion for millions of people.

We are treating our partisan affiliations almost like a secular religion. And one of the things that this yields is this thing that political scientists call negative polarization. Negative polarization just, basically, means that for millions upon millions of people, the main reason why they are Republicans is that they hate Democrats. And the main reason why they are Democrats is because they hate Republicans. My wife had this great New Yorker cartoon blown up and framed for me a few years ago. And it's got two dogs drinking martinis at a bar in New York in suits. And one dog says to the other, "You know, it's not good enough that dogs succeed, cats must also fail." That's sort of the essence of our politics right now where we have people who say that it is worth doing something rude. This is particularly true on college campuses. It's worth being rude or offensive so long as you make the right people angry, so long as you offend the right people.

This is a very tribal way of thinking. We evolved in an evolutionary landscape where working within the tribe was the way you passed on your genes. It's the ways you survived. It's where you got all your meaning, all of your politics, and the stranger was this dangerous horrible person. And we are applying that sort of mindset to our politics. The other thing that we're doing is we're starting to follow politics like it's a form of entertainment. And what I mean by that is that when we watch movies and TV shows, all sorts of terrible things can happen. The hero can do all sorts of terrible things, and we don't care because he's the hero. We're invested in his success. So Denzel Washington or Clint Eastwood can murder people, he can torture people. It doesn't really matter because we know he's the good guy, and he's trying to do good things.

And it's almost as if the morality of the tribe operates through entertainment, and the thing is, is that your brain changes profoundly when you watch things like entertainment. There's this great social science experiment they did where they'd bring in a test subject, and they'd open up a curtain and on the other side of a two-way mirror is someone with electrodes attached, and they shock them. And the observer kind of does one of these, you know, does one of these jumps. And that's because if you don't know anything else, the empathetic part of your brain lights up. You imagine it could be you being tortured. You imagine it could be you being shocked. And then they do this amazing thing where they then tell the person, "Oh, by the way, you're a Yankee fan, well, that guy is a Red Sox fan." And then they shock him again. And all of a sudden the pleasure centers of the brain light up. It's creepy because it's true.

And so you find now that this is infecting a huge amount of our politics these days where you find people defending what Donald Trump does, or what Nancy Pelosi does, or what Bill Maher says, or what Don Lemon says purely in the basis of how it's bad for the other side. And I think that is a profoundly corrupting thing. It's weird, nationalism is supposed to be this great unifying movement, and you have these guys showing up at various Trump rallies these days wearing T-shirts that say I'd rather be a

Russian than a Democrat. That's a really weird thing, historically, for a nationalist to be wearing. And it's an absolutely insane thing for a patriot to be wearing, and so how did we get here?

Well, there are a lot of different reasons, and again, a lot of it has to do with the breakdown of civil society. But one of the things that's happened that's really stuck with me is that even though we live in this incredibly partisan polarized moment, the parties themselves have never been weaker. And you can point to getting rid of the smoke-filled rooms, or you can talk about the rise of the primary system, which took the decision making out of the hands of the party. You can talk about all sorts of things we've done in terms of how Congress operates and getting rid of earmarks. Or you can talk about campaign finance reform. Whatever it is, the parties are shells of what they once were.

The parties used to be these institutions that filtered, that edited bad ideas, bad candidates and kept them from running. They don't do that anymore. Basically, popularity is the only thing that matters, which is why Michael Avenatti has a shot at getting their Democratic nominee. Because there's this amazing primary going on on the Democratic side about who can be the biggest jackass because the Democrats have convinced themselves that they need someone who can fight fire with fire against Donald Trump. And that's why you see things like Hillary Clinton saying, "We can't be civil anymore." And if you don't think that Hillary Clinton isn't thinking about running ... Look, for 20 years people have asked whether or not I thought the Clintons were going to run again in some way, and I always would say, "Have you seen no horror movies?" Jason always comes back, Freddie always comes back. There's always another sequel. They just did a remake of Halloween. They'll be back. Maybe they'll freeze a head and put it on an android. I don't know.

But one of the things that has happened is as the parties have downsized and retrenched from actually being robust institutions that manage a healthy political party. Sort of in plain sight, but I have to confess, sort of hidden for me for a long time, is that other institutions that have basically, picked up the slack. They're sort of like contractors who do all sorts of stuff for the Pentagon that used to be done by the Defense Department itself. And so you have these third-party consultant institutions that serve, essentially, party functions I've worked with many of them for most of my adult life. You know, think tanks, conservative magazines, liberal magazines, the major cable news television networks. They all do things now that used to be done primarily by the parties themselves about shaping messages, about anointing candidates. And about vetting ideas, and shaping idea, and coming up with them and all the rest.

And for the most part, that's fine. There's not a huge problem with it. In fact, it's somewhat healthy. Some of these things have to be done. But what I saw in 2016 brought home for me the realization of how much more that process has gone on than I had realized. In 2016, which is what I talked about the last time I was here, I was amazed at how many people who have the exact same job description as me, they're conservative pundits, or authors, or journalists, or Fox News contributors, or whatever. I was amazed by how many of them, when the little red light on the camera would go on, they would say one thing, and when the little red light on the camera went off, they would say another thing.

And I think most journalistic ethics are kind of B.S., but one thing I believe in pretty passionately is that you're not supposed to lie. And you'd meet people all the time in 2016 who would say I can't believe I have to defend this guy. And I would say, "You don't. That's not your job." But it turned out what I didn't understand was it kind of was. That it turns out that there were a lot of people who wore these different ... I've been a party guy, I've been a party booster. I've defended Republican candidates for a long time. But at the end of the day, I always thought the one hat I wouldn't take off would be this intellectually honest writer guy. There are other people who the one hat they wouldn't take off at the end of the day is the party guy, the movement guy. And we all have our rationalizations for it and whatnot, but at the end of the day, there are just some people who see themselves more as proxies for the Republican Party than they do as objective journalists or conservative movement people or whatever it is.

And it's just a different way of seeing what your own role in the world is, and I think all of these problems are much, much worse on the liberal side. But what is happening now is it's a bipartisan phenomenon where more and more people just simply see their role in the press and in the media as simply arguing for their team. And I think this is all a symptom and downstream of the increasing tribalization of our politics. And so as a conservative, I want to say in all honesty, I think the transactional arguments for Donald Trump are perfectly defensible. I may disagree with some of them, but the transactional argument, which is one that you hear most often from people in various levels of intensity, is basically look, it was a binary choice. Hillary Clinton was bad. I agree. My position on the 2016 election was a choice of the different kinds of crap sandwiches on different kinds of bread.

But I also said if it was push come to shove, and I lived in some swing district, I would have voted for Donald Trump, not Hillary Clinton. I just never really cared about my vote. What I wasn't going to do was lie and say things I didn't believe to be true. And so the transactional argument is just simply, look, we got our judges, we got tax cuts, better than Hillary. Look at the things that we're getting, better than the Democrats. We like the policies and so we put up with the tweets when he tweets like an escaped monkey from a cocaine study, so be it. Look at all of the great things we've got. That is a perfectly defensible position by my lights.

The problem is because of our tribal wiring, because of the tribal nature of our politics today, very few people are content with actually making that argument in public. It's part of human nature to want to believe that our leader is a good person, that our leader is deserving of our followership. And it's particularly difficult with Donald Trump because he craves flattery. He is very different than almost every other politician we've known. In the past, the traditional model is, if you want the President to do something, you criticize him when he's wrong, and you praise him when he's right. The problem is he does not take criticism well, I don't know if you've noticed this.

And so the party has basically, internalized praise at all corners. And that loses a very important pricing mechanism in how we talk about politics because if you can't criticize him, you can only praise him, that means it's like having a car that can only take right turns. You don't actually get to the optimal policies. And so I see this on the opinion side of Fox News. I hear it on talk radio, I see it in friends of mine. Where the impulse is, you have to say that Comrade Trump will deliver the greatest wheat harvest we've seen in 500 years because he's the greatest negotiator. He's a 12th level chess master and all of these various kinds of things.

When I point out every now and then, for reasons that must have to do with sadomasochism, when I point out that Donald Trump is a man not of great character, people flip out. But I don't know if there's a metric that you can come up with of a definition of good character that he actually can clear. And I'm not just talking about the fact that he has more ex-wives than the previous 45 Presidents combined or any of that kind of stuff. I'm not talking about the Stormy Daniels thing. I'm talking about how, in his autobiography, he writes about how he cheated business partners and brags about it, he brags about lying. There's just not a good definition of good character, and I think character matters, that he can meet. But I've become a pariah for saying that even though, by all means, the judges are great. Gorsuch is great, Kavanaugh is great.

And that's because we are wired to want to believe that our leaders deserve to be where they are. And so what is happening in large chunks of the right is we are redefining what good character means to fit his yardstick. We are defining what conservative means to meet his yardstick. It's like well, Peter Dinklage is only two foot eight, so let's cut the top few inches off the yardstick to match it. We are changing the mold and definition of what we used to believe were conservative principles to fit what Donald Trump is doing. And that is having a profoundly corrupting effect.

I'll give you one example. I don't know, in 2012, I think it was Pew, polled the American people and asked can a politician be morally corrupt or sinful in his private life and still be a good public servant. And among the results was that self-identified white Evangelical Christians were the least tolerant of immoral private behavior, fitting the stereotype. Only like 32% said you could be a good leader and an immoral person in your private life. They asked the same question in 2016, and the number went from 32 to the mid-70s of white Evangelical Christians saying you could be an immoral person. If those trends hold, which I think they must ... In America today, the single most tolerant demographic of immoral behavior in American life today are self-identified white Evangelical Christians. That's weird. And that is a sign of how people are bending their attitudes to fit the man rather than holding the man accountable to their attitudes. And I think it's a problem.

And so you can see this in partisan politics all the time, as well. Steve Bannon and his crowd, and I'm not a big fan of Steve Bannon. I'm pretty sure he has hooves. He wanted to declare last year, open war on Mitch McConnell, the guy who gave us Gorsuch more than anybody else by holding open that seat. And he wanted to declare war on Corker, and Sass, and Flake. And he was somewhat successful in that regard. He wasn't successful in picking their replacements, but he was successful in ruining some of their careers. And the argument you always heard from the Bannonistas was well, they're not supporting the Trump agenda. That was simply factually untrue.

First of all, McConnell's agenda in the Senate is the Trump agenda. It's what he brings to the floor that Trump then takes credit for as victories. But even Sass, and Corker, and Flake, I think their voting with Trump was somewhere between 89% and 96% of the time. But what they didn't do was flatter him when he did things that didn't deserve flattery. And what they did do was criticize him when he said things that were worthy of criticism. And that was their sin. Meanwhile, Rand Paul, who probably did more than anybody in the Republican caucus to undermine the Trump agenda in its first year, year and a half, by constantly changing what he demanded for Obamacare repeal and whatnot. He figured out the secret sauce of simply praising Trump in public and then voting against his agenda on the Senate floor.

And this is what I'm talking about. We are turning politics into a form of entertainment where we just want everybody to get in line for the sake of the narrative arc of the TV show rather than arguing about what the real politics or policies should be. And they're going to have profound consequences for that because what we're seeing is, we're basically, seeing politics turn into a reality show. Which is why I now think one of the greatest politically prophetic movies was Idiocrasy where you have the entire political system was based on the precepts of professional wrestling. We can never be quite sure whether or not what you are watching is kayfabe, or real, or not real.

And I worry about this because I'm a Conservative, I'm not a Republican. I never really took much pride in calling myself a Republican. The Republican Party is just the more conservative of the two teams that control the fight of our elected system. I'm pretty proud of calling myself a Conservative. And if things go the way they're going, we're going to define Conservatism as, essentially, a right-wing version of identity politics. And some people around Trump want it to be that. They've said that. I've been in debates with people like Michael Anton, the author of the Flight 93 Election where he basically said the old notion of America as a melting pot where we judge people on the content of their character rather than the color of their skin, he says that's dead.

And so our only choice is to fight fire with fire and meet their identity politics with our own identity politics. The trouble with identity politics, which is an ancient form of human organization. Right? I mean aristocracies are the first form of identity politics when you have the first aristocracies, the first nobility emerge after the agricultural revolution. Aristocracy originally meant just rule of the best, most qualified, meritocracy, essentially. But very quickly, the aristocrats realized that they wanted to leave their power and status to their children. And so they created the concept of noble blood, nobility, royalty, the idea that some people were just simply better than other people because of their blood. And that way they could pass their power and status and privileges to their children in perpetuity and forever.

One of the most radical things the American founders did was get rid of titles of nobility. They rejected the idea that simply by virtue of an accident of birth, some people are better or worse than other people. Because one of the great and most glorious things about the American way, which we've struggled to live up to for the last 250 years, but we've constantly improving, is the basic idea that you're supposed to take people as you find them. That you're supposed to judge people by their contributions, not by their allegiances to some abstract grievance of the color of their skin. And that's not the way our politics is going now.

Instead, it's going towards this version of identity politics, this version of tribalism. And it's a problem on both sides. This is one of the reasons why I've become much more of a Libertarian in recent years because the one thing that the Libertarians get is how messed up party politics can be. And they don't make what I call the fundamental category error of politics, which is simply this, the government cannot love you. The government can't be your mommy or your daddy. It cannot be your church or your faith. It cannot fill the holes in your soul. There are only about five things that give human beings happiness, faith, family, experiences, genes because some people are just born miserable bastards, and this thing called earned success, or what Ben Sasse calls meaningful work.

Earned success is this idea, it's not about money. It can be about money. But what it's really about is this feeling that I was talking about with Charles Krauthammer, this feeling that you've made a difference in people's lives, that you would be missed if you were gone. Stay at home moms can have huge levels of earned success and Wall Street tycoons can have extremely low levels of earned success. It's this idea that says you've lived and are living a meaningful life, that you are loved, and yet you deserve to be loved. These are the only things that give people happiness. The federal government in Washington can improve your net worth, but it can't improve your self-worth.

And the problem that we have today is that we have two competing teams out there that are overpromising and under delivering. They're that the government can love you. They're promising that the government can fill the holes in your soul. They're promising that the government can do all of the things that faith, family, friends can do, and it can't. And our disappointment at the failure of the government to deliver these things makes us fall for ever greater levels of con jobs where we go with the guy who promises even more. The real path to happiness and the real path to a healthy society is for us to get power out of Washington and send it back to the most local level possible where people actually live.

I want to invert the pyramid of government in America where the federal government should get the least money out of your wallet because it's only supposed to do a handful of things. And the place where you live gets the most money because that's where you actually live. And if you did that we would still have culture war fights. But the thing is the winners would have to look the losers in the eye the next day. It gives you a certain sense of humility when you're not talking about some abstract person 1,000 miles away that your pissed off is enjoying their life when you don't think they should be. And instead, you're talking about someone down the block from you that you have to see the next day at drop off at your kids' school or at the supermarket.

The thing is, if we did that, we would actually create better citizens. We would also create better political leaders because one of the great things about sending power down on the most local level possible is that you actually know who to fire when government officials screw up. Right now, the way we have things set up, no one's ever responsible for anything. If you send the power down on the most local level possible, you know the powers that be's names because you see them all the time. You can show up at a town hall meeting. And that, I think, would siphon off a lot of the poisonous populism that we have today where we have people who think that they're lives are being run by far off unseen forces. Instead, their lives to the extent they're being run by politicians, they'd be run by Tom, and Phil, and Janet, and people they actually know. And that would actually make people more engaged in the political system and happier.

And I think, eventually, that's the way things are going to have to go. But it's going to be a while yet because, as I was saying earlier, things are going to get worse before they get better. And you should cheer up for the worst is yet to come. But I don't think it's the end of Western Civilization. Instead, I think the end of Western Civilization is a choice. My friend, Charles Krauthammer gave a great speech once called Decline is a Choice. We are choosing the path that we're on. The thing that's so wonderful about that, that means we can choose not to be on that path. And what was required is for citizens to be engaged, to make themselves known, and stop outsourcing all of the decisions that are important in their lives to people they don't know thousands of miles away. The fight for liberty begins in your own backyard, and it will be won no other place. And with that, thank you all very much.

James Grant
"Humanity's Worst Subject"

Speaker 1: I'm honored to have the privilege of introducing our next speaker, the financial journalist and historian, is also the founder and editor of Grant's Interest Rate Observer, a twice-monthly journal of investment markets. His book, "The Forgotten Depression 1921: The Crash That Cured Itself," is a history of America's last governmentally un-medicated business cycle downturn. It won the 2015 Hayek Prize of the Manhattan Institute for Policy Research. His new book, "The Greatest Victorian: The Life and Times of Walter Bagehot," will be published in 2019. Among his other books on finance and financial history are: "Bernard and Baruch: The Adventures of A Wall Street Legend," "Money of the Mind," "Minding Mr. Market," "The Trouble With Prosperity," and "Mr. Market Miscalculates." He is, in addition, the author of a pair of political biographies: "John Adams, Party of One: A Life of the Second President of the United States," and "Mr. Speaker: The Life and Times of Thomas B. Reed, The Man Who Broke the Filibuster."

Mr. Grant's television appearances include: 60 Minutes, The Charlie Rose Show, CBS Evening News, and a 10 year stint on Wall Street Week. His journalism has appeared in a variety of periodicals, including the Financial Times, the Wall Street Journal, and Foreign Affairs. Mr. Grant, a former Navy gunner's mate, he has Phi Beta Kappa alumnus of Indiana University, he earned a Masters Degree in International Relations from Columbia University, and began his career in journalism in 1972 at the Baltimore Sun. He joined the staff of Barrons in 1975, where he originated the Current Yield column. His talk today is "Humanity's Worst Subject," please welcome James Grant.

James Grant: Thank you.

Well ladies and gentlemen, good morning to you. Let me first report what I hope will strike you as an arresting fact, and that is, as of today, seven trillion dollars worth of bonds yield less than gold bullion. Yeah. According to no less a source than Bloomberg, seven trillion worth of securities, sovereign and corporate, are priced to yield less than zero per cent to maturity. If you want to reflect on the status of gold in the investment world, think of the holders of seven trillion dollars worth of promises to pay fiat currency, value those promises that are guaranteed to deliver less than zero. They value those promises greater than that thing which can't be devalued. That's the pickle we're in. I think it's also the opportunity, because gold is money. It's a legacy, money. And because money competes with credit, I'm going to talk in the four hours given to me today ... Fine, three. I'm going to approach the question of gold from the vantage point of credit. A promise to pay money. Of bonds.

Now perhaps you have had the experience, as I think we all have had, at one point or another, of checking late into a hotel room. Say it was on Jet Blue. They don't serve food. And you arrive in your room, ravenous. And they just closed room service. And you eye the mini-bar with guilt and with hunger. And there you see it. A seven dollar canister of Pringles.

(laughs)

You buy it. You had to buy it. You hate yourself for it, and you really resent the price, but you needed it. That, ladies and gentlemen, is the value proposition in the bond market today. There is not one point on the treasury yield curve that delivers an after-tax and after-adjustment for inflation, a return of greater than zero.

The 10 year treasury, after a little jolt this morning, yields, I think, less than 3.2, still. Let's see. If you were to add onto that 3.2 the customary 50 year custom, adjustment for inflation, if you deliver today, the average real return on a treasury, that yield, instead of being 3.2, would be about five and a half or so. So interest rates are indeed extraordinarily low. As recently as late last year, there was an issue of Telecom Italia trading in Europe denominated in Mario Draghi's euros, that was priced to deliver a yield. This was a speculative grade corporate piece of paper. The Telecom Italia issue was priced as recently as late last year to deliver a return beginning with the figure zero. Zero point seven something or other.

Perhaps some of you were around for the peak in yields 37 or 38 years ago. 37 years ago, I suppose. At the time, US treasuries were priced over 30 years to deliver 15%, and if you had, I was there ... If you had told me that in my, to be sure, somewhat protracted lifetime, that we would live to see a junk bond priced to deliver a yield beginning with a figure of zero, I would have been certain that you were either kidding me or that you were in very profound error. And having lived to see that, I am slightly less dogmatic about the future than I might have been a few years before then. The more birthday candles you extinguish, the less dogmatic you are likely to be, if you are paying attention.

So with that preface, I think I'll tell you a little bit about progress. Progress in the last 10 years. This talk will feature two anniversaries. One, of the tenth anniversary of the great sorrows of 2008 and the second anniversary is the, a little more obscure, but this is the, as you probably know, this is the 69th anniversary ... of the talk given to the American Bankers Association in San Francisco by Allan Sproul, then president of the New York Fed. Exactly 69 ... November second, 1949. It's astounding that that event would fall on this day, when I'm here before you. Well slightly astounding.

I will begin with the less obscure anniversary, that of the tenth year of the crisis of 2008. I think it is useful to reflect on where we were then and where we are now, and how our progress or retrogression might bear on the market that interests most of us most. Alright. So here goes. Here's some comparisons, then and now. Okay. The top seven banks in 2007 showed an average ratio of assets to equity of 29 times. That's on a statement date. Morgan Stanley, in 2006, was showing a leverage ratio that is assessed to equity on the order of 35 or even higher. That's on a statement date, too. That provoked Grant's Interest Rate Observer to write a cover story under the headline, "Over the Cliff with Morgan Stanley."

2007, at what would prove to be the start of the Great Recession, the leverage in the banking system was upwards of 30 to one. Now, following years and years of de-leveraging and re-regulation, the average ratio is 13 and a half to one. So 30 times to 13 and a half times. A great decline in banking system leverage. To a degree, the withdrawal of leverage in our private institutions, or our cartelized semi-private institutions, has been offset by an increase in the leverage of our public ones. The Federal Reserve comes first to mind. In 2007, the Federal Reserve system, as a whole, showed a ratio of assets to equity of 24 times, and today, that ratio is 107 times.

The Federal Reserve Bank of New York, the flagship of the system, the heart and soul of the financial regulatory body of the system, was then leveraged 34 to one, and today, ladies and gentlemen, the Federal Reserve Bank of New York is leveraged 186 to one, which I don't call that leading the front, with respect to safety and soundness. Over the past 10 years, the assets of the four major central banks of the world have grown by upwards of 200% to 14 and a half trillion. The suppression of interest rates, the persistence of a zero funding cost, and of a squashed yield curve the world over, has of course facilitated epic exercises in lending and borrowing.

Corporate debt is a particular source of protuberance in the growth of this debt. And in particular, a lot of the credit formation has been concentrated in the lowest major rung of the corporate credit spectrum, that is a triple B rating category. In 2007, the ratio of triple B bonds to speculative grade bonds was about even. One to one. Now, the ratio of triple B bonds to junk is about two and a half to one. And you may think of triple Bs as kind of speculative grade in waiting, pending the onset of the next recession. There is the possibility, it seems to us, at Grant's, seems the possibility, indeed perhaps the likelihood, of a great excession of supply into the junk bond market, come the next time we zig instead of zag.

Alright. In 2007, pre Volcker rule, the dealers in corporate bonds on Wall Street had inventory of 200 billion dollars worth of securities. 200 billion. Today, after the Volcker rule, after the revamping of the regulatory regime in banking, those dealers show supply inventory of corporate debt of only 30 billion. Which raises the question, again, of what happens the next recession when what is wanted most of all on Wall Street is that precious thing called a bid. Chances are that, insofar as there will be a bid, it will not come from the dealer community.

I think, by far, the most astounding transformation in the world, certainly in hot contention for that dubious prize, is the immense ballooning, the billowing, of Chinese bank assets. Now I'm gonna quote, Chinese bank assets as a percentage of GDP, but it's not Chinese GDP. It is worldwide gross domestic product. So in 2007, China was a formidable actor in world finance. Its banking assets represented 12% of world GDP, which is no small potatoes. As of today, at last count, Chinese banking assets constitute 48%, almost one half, of world banking assets. That's 31 ... Oh, wait a second. No one is getting any younger. Wait one second, please, for clarification.

39 billion of Chinese banking assets over 85, sorry, trillion. 39 trillion of Chinese banking assets, over 85 trillion in world GDP. Almost 48%. Rising 50.

In general, one can say that on Wall Street, nothing is new except the details. Cycles are eternal. You know, in science and technology, progress is a story of standing on the shoulders of giants and building on what our fore bearers have achieved. On Wall Street, it seems, it's rather different. On Wall Street, we seem to be stepping on the same rake. There's recurrence of error. This perhaps has to do with the obvious, if troubling, fact that money is really not humanity's best subject. But be that as it may, the cyclicality on Wall Street has ever been, ever will be pronounced, and nothing really is ever exactly new. But there are some things that are a little newish today.

One of them is the aforementioned level of interest rates. Now, perhaps, you are familiar, as are we at Grant's, with a page-turner called "The History of Interest Rates, 2000 BC to the Present," by Sidney Homer and Richard Sylla. I see a lot of nodding heads. Yes, okay, good. That's excellent.

Now, I called up Dick Sylla, the still-living co-author to confirm that never before in history have there been a substantial number of longer-dated notes, not bills, mind you, but notes, trading for less than zero. Negative yields. He said, "Yes, that's correct." So that's a new thing. Not in 3000 years. Another new thing is the remarkable level of US treasury yields in the context of the history of benchmark sovereign yields. A study was performed by the Bank of England, and the study showed that ... Well it took the reigning principle, most credit-worthy solvent issuer, sovereign issuer, from the 14th century to the present. It went from like Venice to, I don't know, to ... name another sovereign government. I'm stuck. But there were some. And it finally wound up, of course, with Britain in the Victorian Age, and Germany for [inaudible 00:16:21], and then America, of course.

Not since 1311, since the early days of the 14th century, has a benchmark sovereign longer-dated yield been lower than the 1.37% yield printed in the first week of July 2016 in this country.

One of the preceding speakers gave a very interesting talk on organic farming, and sustainable farming. I keep on thinking, "Why don't we have sustainable interest rates?" I'm thinking, non-GMO. Gluten-free. Free-range. Farm to table. Organic. Local. Interest rates discovered in the marketplace and not suppressed by government powers. But not exactly a singularity, but a distinguishing feature of the present time, is the extent to which a price discovery has been snuffed out, and in its place has been inserted the willful power of central banks the world over. In Japan, which is probably the most grotesque case of the overpowering of market forces by governmental forces, sometimes the benchmark JGB, Japanese government bonds, simply don't open. There being no spontaneous desire to buy or sell. The Bank of Japan owns what is increasingly looking like a preponderant level of corporate equity through its purchases of exchange traded funds.

Around the world, interest rates are treated by central bankers as if they were knobs on the control panel of state. They have been used, as have to a degree, equity markets, risk assets have been used as macroeconomic tools with which to raise up aggregate demand or to create a kind of a trickle down effect, or the wealth effect, it's called, or used to be called. So this, too, is a distinguishing feature of the age, the extent to which that asset prices have been enlisted or indeed conscripted into the cause of national policy measures.

United States is not the greatest either implementer or offender with this idea, depending on your politics, but we are up there, just behind Mario Draghi's European Central Bank and the Bank of Japan. So all of this raises a lot of questions about gold and about how gold might fare in a time of what might prove to be rising interest rates. I've given you two striking American yields. One is the 15% or so printed on September 30th, 1981, that was the peak in yield of bottom in price of the great bond Bear market, and the second yield was the ... The mirror image of that, which was the one point, we'll call it one and three eighths yield, of the 10 year treasury in 2016.

I have come to believe, through observation and experience, that great highs and great bottoms, great extremes in markets, are typically punctuated by levels of valuation that, in retrospect, quickly seem to be preposterous. Almost satirically wrong, wrongly struck. There was still a more, in retrospect, egregious case of mis-evaluation of treasuries in in 1984, for a few hours in 1984 in May, the 30 year treasury was priced to yield 14% at a time of slightly less than four per cent CPI inflation. So almost 10 percentage points of real yield, on a 25 year, non-callable US treasury security. And the reciprocal absurdity of that, absurd as seen through the rear view mirror, is I submit to you, the seven trillion dollars worth of negative yielding securities today.

I invoke these facts to build at least a working hypothesis, certainly not a forecast. My working hypothesis is that a bond Bear market, perhaps of generation length, began in 2016. Now I say perhaps a generation length, only because that has been the form. That has been the book since the

19th century. Bond yields have risen and fallen in generation length intervals. In this country, since the Civil War, they fell for the last, say, 30 years of the 19th century. They rose for the first two decades of the 20th, takes us to 1920. They fell from about 1920-1946. They rose from 1946 to 1981, and they fell from 1981 to, say, 2016. Now if the 2016 observation has merit, as the beginning of a Bear market in bonds, that is, of a long term rise in interest rates, that would put us in the very beginning of what might prove to be a very protracted move. So you wonder, how would a non-yielding asset compete against what might be a persistently, a persistent headwind of rising rates, that ought to be one of the questions we, as people interested in gold, even if we're not all Bullish, we'll have to think about it. How might gold do against true interest rate competition?

I think we have to consider that interest rates are promises to pay streams of income, denominated in currencies by a certain specific obligor. So let us go straight to the world's principle obligor, the United States of America. Because treasury yields are only the promise to pay by a sovereign state. Now the sovereign state is the world's hegemon, and is truly a great sovereign state. But still, this country has not got an unblemished credit history. We, not us actually, we weren't around in 1814, but in 1814, the year they burnt Washington, the British, that is. Not the gold bearers. In 1814, the US treasury defaulted on its domestic promises to pay. Now fast forward to 1933-34, this country defaulted on a promise to redeem dollars at the rate of one dollar, well one twentieth or so of an ounce of gold. $20.67 got you an ounce. That was the promise, the United States reneged. Fast forward again, 1971, the United States had represented it would exchange all dollars held by foreign central banks at the rate of one thirty fifth of an ounce of gold, that promise, too, proved to be empty.

You perhaps traveled, or knew someone, perhaps your grandparents, if you're young enough, knew somebody who traveled abroad in the 1970's during the Carter era of inflation, and you perhaps have heard about it, if you did not personally experience the mortification of being given the stink eye by an Italian hotel clerk because you're presenting American Express traveler's checks.

That was when the dollar was in a very low state of prestige, indeed. And it might be said, I think it's defensible, that the United States defaulted in the '70's by suffering a rate of inflation that by the end of that decade, achieved double digit levels, rates.

So as great a nation as is America, we have to watch our P's and Q's, as do all countries, as indeed, does every human institution. So patriotism alone is not going to guarantee the timely payment, in good money, on time, of these securities. So, with that preface out of the way, how do we handicap the credit quality of the world's superpower?

Well, let's look at what they call gross debt. Which is that debt that is not held in a government account, just as the so called social security trust fund. Let's look at the overall outstanding, that's the figure that you see if you're walking along 44th Street in Manhattan. There's a debt clock up there. And you can see the gross debt streaming by. It's updated every second, 'cause it has to be. It is compounding briskly. So I want you to consider the following progression of figures, with respect to America's public debt, gross public debt. Okay. Let's say the country was founded in 1789, as a constitutional proposition. So the first trillion dollars in gross debt, that ... 1981, that occurred, it hit the first trillion. So that's 193 years. The second trillion was in 1986, this was during the Reagan arms buildup. Five trillion, 1996. Ten trillion, 2008. 20 trillion, 2017. 21.6 trillion, now. Or wait. 21.6 ... you know a few careless tens of trillions of dollars.

It would seem to describe what they should call an exponential function. That's not my field, but I think it kinda seems to fit. So since 1971, when the United States reneged on the $35 per ounce promise, the gross debt has grown at about eight and a half per cent compounded, the GDP, nominal GDP, has grown about six point something per cent compounded, and that gap, that roughly 200 basis point gap between the rate of growth on the one hand, the debt, on the other hand, the most basic expression of capacity to pay and service that debt. The difference is wide, and indeed, very ominous. If you projected that into the future, we would, certainly, as a mathematical truism, default.

You might say, I think it's reasonable to come back at that and say America owes 21.6 something trillion, but our GDP is only slightly less than that. If we wanted to, we could pay this off in a year. By not eating and stuff. And indeed, that is true. We could elect people who would make it their business to pay down the debt. Do you recall that in 1998, Bill Clinton gave a speech, and he said, we had just run a succession of balanced budgets owing to the great capital gains bonanza of the tech bubble. Bill Clinton said that if we pursue the right policies, we could eliminate the public debt in the year 2015. And there were a lot of chin-stroking editorials about the desirability of doing this. It had last been done by Andrew Jackson, 1835. We could pay off the whole public debt. Well, the Wall Street Journal said, "Look, the public debt is only an accounting entry. It doesn't matter. Better we should focus on growth." And others objected for other reasons, and it turns out, after all, of course, in 2015, the debt was not zero. But making its ... seemingly relentless and irresistible progress to the current level of 21 trillion plus.

Mr. Clinton's miscalculation doesn't necessarily reflect on his mathematics or his patriotic hope for this country, but it reflects on the uncertainty of the future, and on how little we can know about that future. But what we can know, is that there is no evident attention to the public debt, therefore no program in progress or he contemplated to address it, and it just might be that the public debt comes into play as an actual investible feature of our markets. When was the last time that happened? The last time it happened probably was like in 1981 when the bonds were topping out in yield and the people were despairing. How could this be happening? Never before had anyone imagined a 15% treasury yield. The Battle of Gettysburg it was half of that. What was wrong? Well people made up reasons. I'm in the business of making up reasons, I'm a journalist, so you practice my craft, you go chasing after facts with theories. Not least, foremost among these theories, was the public debt is out of control. Look at what Reagan's doing.

And then Dick Cheney, many years after that, was overheard to say the following. Dick Cheney said the following, or was overheard to have said the following. There's a difference. "Reagan proved that deficits don't matter." Why? Because as I've mentioned, during his tenure, the public debt tripled. In his two terms, the public debt tripled, interest rates from top to bottom were chopped in half.

Japan has a ratio of public debt to GDP of something like 200%. It's astounding. And their sovereign debt yields are zero. Then again, Italy has a debt problem, it seems, that is not so different than ours, and is having difficulty funding itself. So there is no magic level of debt to GDP that constitutes the signal. There is no signal. There are no signals in markets, right? If it were that easy, we'd be at home counting our money rather than here trying to make some more. I present it to you as a possibility that the public debt could come into play as a feature in the perceived credit worthiness of this massive obligor called the treasury. Or I guess we should call it the Department of the Debt, because there's no treasure in the treasury.

If that's Steve Mnuchin I was kidding about that. But what about Dick Cheney's observation about the inverse relationship between growth and debt and interest rates. In the 1930's, some portion of the American electoral public was shocked at the New Deal, and about the profligacy of the Roosevelt administration. Just shocked. And yet, do you know, that even after the devaluation of 1933, 34, after the government called in the gold, after the New Deal began to open up the purse strings in the treasury's budget, the treasury spending, that interest rates, with a couple of bumps, persistently fell until 1946? So that, too, would seem to underscore the practical sense of what Dick Cheney said. So how could it be that interest rates might be a credit problem in the years to come?

I think for some of the following reasons: For one, it might just be that interest rates fell in the '30s, into 1946, and that they fell from 1981 to 2016, not because of the treasury's borrowing, but because of some forces that were greater than even the balance sheet of the world's foremost power. So these Bull and Bear markets and bonds seem to have lives of their own, they're great, sweeping, generational things. Nobody that I have ever read or heard from has explained exactly, we all have theories about how they come to be, but they have existed, and it might just be that if we're embarked on a new bond Bear market, now two years and some months into it, that interest rates will rise, even as the treasury's finances come to be held under the market suspicion. Why would the market be suspect? The projected, White House projected, budget deficit for this year is more than a trillion dollars. Think of it. This is a time of bounding prosperity. A trillion dollars in a time of prosperity. After it took 193 years to achieve the first trillion, of course with a different kind of dollar.

This year, treasury issuance, plus the expected dispositions of the Fed, as it undoes a bit of its portfolio, are expected to represent a greater portion of GDP, that overall supply of securities for sale, than anytime since 1945. So there's an immense supply of treasuries here and coming, at a time, perhaps, when the tides are going out in the bond market. And there's something else, too. And that something else has to do with the long absent blight of fiat currency called inflation. Inflation has been AWOL for many a moon, and so long has it been absent that whole books have been written about its death and decomposition.

But I don't know, I kinda think that inflation is never dead. It's a cancer. It's in remission from time to time, but it is a social function, it is a function of social democracy, as my friend Bill Fleckenstein says, it certainly has been associated with a regime of improvisational emission of paper currencies over the years, over the centuries. I'm proposing that inflation has been in remission for whatever reason, but now, but now. Labor market's tight. This morning, I gather that the employee compensation was up a rather robust three per cent. The Wall Street Journal reported, I think yesterday or the day before, that companies are raising prices with more boldness and more confidence that consumers can bear the freight. So it might just be this is the springtime. The March third or so, in New York City, equivalent of a new season of inflation, we don't know. Again, we don't dogmatize, but it might be.

Recall, please, that the Fed is out of the business of suppressing inflation, it's in the business of supporting it. Ah, yes, but only to the extent of two per cent. It is a remarkable comment on the times, that the Fed believes that it is in charge of events. Now is that true? Is the Federal Reserve, does it have freedom of action? Is it under no constraint? Well, to a degree, it's under no constraint. It does not have to exchange its promises to pay for a thing called gold or silver. Because we float the world's reserve currency, we have given a pass on balance of trade, of current account. We run a chronically negative one. We have a very sizable net negative investment position. If you were to add together, as the Bank of America Merrill Lynch has done. If you add together America's treasury deficit and America's current account deficit, and take that as a percentage of expected GDP and compare that to 44 other nations, you would find that America comes in the fifth from last. We are ahead of the following: Argentina, Turkey, Brazil, and Pakistan.

Now that's a reflection of the world's belief in America. A belief in her ideals, a belief in her finances, a belief in the integrity of the governance, a belief in the dynamism and enterprise of her people. That's what the world thinks. And the world is not wholly mistaken, but the world, perhaps one day, in our meaningful investment horizon, will come to want a little bit more than that reassurance of ideals and idealism.

My case for rising rates is that it's time. That the creditors are being underpaid, and that the world seems to be in the opening phases of a Bear market, judging by the reciprocal absurdities of 1981 and 2016. Then, too, there really is very little value in these securities. So perhaps there's a Bear market in bonds. If that Bear market in bonds were overlaid on unscripted inflation, sustained in part by the very people who are charged with stable prices, not price stability as defined by the PHDs as two per cent a year, but stable price, that's in law. Stable prices is the law, price stability is the construct of our PHDs.

Rising rates, a sense that America's fiscal affairs are out of control, and unscripted inflation, could lead to a setup in the credit markets, that is not unfavorable to gold. I am a "yes but" guy, and I've lived in a "gee whiz" time. And I constantly have to check myself. I'm always looking for what could go wrong. Well the bond people really must do that. I'm a bond person, because the upside in bonds is not the same as the text stock upside. Nobody is going to invent some fabulous Silicon Valley thing that is gonna cause your bond to quadruple in price, that's not gonna happen. You can get par in interest with luck.

So I'm a "yes but" guy, and I wanna ... I wanna close with some perspective on where we are in our finances. So where we are is, and where we have been is a pretty swell place. We have enjoyed three and a half decades of falling rates. We have enjoyed the reciprocal in the stock market of rising valuations, of falling cap rates in real estate. Benign inflation meetings, we have had unimaginable progress in technology, medical technology, not laced, tightening credits spreads, fattening PE multiples on and on.

Okay. That is our moment. No world wars, might have mentioned that. Robert Lovett, who was a distinguished partner of the still thriving private bank of Brown Brothers Herriman, wrote a piece for the Saturday Evening Post in 1936. And Lovett, Saturday Evening Post, of course, was the great national weekly magazine. Everyone got it and read it. And Lovett was one of the most prominent and prestigious Wall Street guys. His message to the American public was, "Don't invest, because it never pays." And he proved this by taking representative, what he thought representative, stocks and bonds, since the year 1901, and computing, not an index in which the losers are taken out, but just taking out from the beginning, a certain number of railroads, industrials, and seeing how they had done over 35 years. At every interval of that three and a half decade period, Lovett was able to show that you were behind from having invested.

So he said there was no place to hide. This is this great Wall Street man, no place to invest, had been nothing for a while. So he goes on and he says, "No use getting upset," he goes on, urbanely. He said quote. "We merely must recognize, that in dealing with people, in mass or with governments, one is dealing with something very similar to a natural or elemental force. No one would consider for one moment entering into a contract with the Pacific Ocean by which it agreed to stay calm, or accepting a promise from the North Wind to blow only once each quarter." So Lovett, though he didn't seem to be aware of it, was living in a very, very difficult period. The Great Depression, soon the great 1937 Recession would be on him, did I mention the second World War? What Lovett did not say, did not say to his millions of readers was that this is an unusually adverse time. Don't project the future from it. There's something better coming.

I invite you, in the same spirit, not to take as a god-granted right, the projection of our own truly unusually favorable experience in the past three and a half decades. It has been one of the great, great moments in financial assets. It has been, historically speaking, perhaps unprecedented. In any case, really, really bullish. So as Lovett was a little bit ahistorical in his own reading of the situation, let us not be. I promise, oh, I only gave you one significant anniversary. I gave you the ten years since the 2008 crash. I didn't give you the other one. The other one, of course, was Allan Sproul, the president of the Federal Reserve Bank, now the highly leveraged, one might say almost exceptionally, or recklessly leveraged, Federal Reserve Bank of New York. He was the president then, and he gave a talk before the American Banking Association on the subject of the dollar and on gold.

The question of whether the currency ought to be exchangeable or convertible into gold was still a lively one. This was 1949, November 2nd, 69 years ago today. And Allan Sproul was a great one for standing up for discretionary management by the Fed, and here's what he said. He was addressing now, his gold-minded critics. He said, "When you boil it all down and try to eliminate mythology from the discussion, the principal argument for restoring the circulation of gold coin in this country seems to be distrust of the money managers and of the fiscal policies of the government." That was the case against. And I conclude by urging upon you a constructive, patriotic distrust of the Federal Reserve Board, and equal patriotic distrust of the fiscal policies of this government. I'm Bullish on gold. Ladies and gentlemen, I thank you.

Nick Hodge

"Real Investments For A Fake World"

Gary Alexander: Now, to our final speaker for the general sessions today, Nick Hodge, a great friend of this conference for many years. He is founder and president of the Outsider Club. He has become well-known for a call-it-like-you-see-it approach to money and policy. He is the author of two bestselling books on energy investing, his insights have led to numerous appearances on television and various outlets on the web. Investment director of Early Advantage and Nick's Notebook, he's led tens of thousands of investors to hundreds of double and triple digit wins in the mining, energy, and technology fields.

He's going to speak on real investments for a fake world. Welcome, Nick Hodge.

Nick Hodge: Hello everyone, as he said I'm Nick Hodge from the Outsider Club, I'll be speaking about real investments for a fake world. You just heard about bitcoin and the threat of governments stealing money and manipulating currencies, and I think that's a fairly good segue for what I'm going to talk about. Bitcoin is a ... it's an imagined thing, and, as I'll get to, I'm going to talk about some things that are imagined.

This is Göbekli Tepe. Does anyone know what Göbekli Tepe is? One or two hands. So, we discovered this in the mid 1990s, and sociologists and anthropologists have been doing studies on this for the past 25 years. Carbon dating and analyzing why it was built. This structure was built in 9,500 BC, so that makes it seven thousand years older than Stonehenge. And so we were really scratching our heads trying to figure out why did humans build this thing in 9,500 BC?

And so I was reading this in a book called Sapiens that's out right now, it's a bestseller, and when I came across this particular section I started thinking about what I was gonna talk about in this talk, because I picked the book up in a Chicago airport on my way to do some due diligence on a project. And I said, "You know what? This would make a perfect intro for my talk in New Orleans."

So Göbekli Tepe and humans myths, this is the oldest known religious site we've ever discovered. And it changed, really, our perception about early humans and our species, and how we evolved, and how we think about the world, and why we do the things we do. So it was once thought, until we found this site, common belief was that the Agricultural Revolution came about because it was easier to grow wheat. We dropped some seeds on the ground, you've probably heard this story, and they sprouted up and we said, "Well, these seeds sprout up here, we can just grow some wheat." And that was the common theory for a long time, that that's how agricultural growing and the Agricultural Revolution came about.

But this turned it on its head because the structure I just showed you was the first religious structure ever built. And so after they discovered that they started tracing back the lineage of the strains of wheat that we grow, and they traced it back to that very site. And we built this site because we started believing in something. We don't know what they were believing in, some form of religion. And so they settled on this site from, and this was the transition from hunter-gatherers to villages, so when they started building this site they needed hundreds of people to build it, if not thousands. And so they congregated in this one area to build this religious site, and that's when they needed to grow stuff in one area.

And so we didn't start growing stuff because it was easy, we started growing stuff because we started believing in myths, the origin of fake news. And then, once we started growing wheat we started having more kids, and once we started having more kids we had to grow more wheat. And so then instead of working for four hours a day, as anthropologists now know we did, just four hours a day to hunt and gather in our tribes, we now farmed eight to 10 hours per day. This was the beginning of the rat race. We screwed ourselves 12 thousand years ago by believing in fake things.

And from there we evolved, you know what happened next, Mesopotamia and East Asian kingdoms, and things like that. And we traded in the hunter-gathering lifestyle, roaming hundreds of square miles in bands of 100 or 150 people, for a 10 by 10 hut that we always stayed in, and we've been battling keeping the bugs out of ever since. And this is when we turned to be self-centered, and it was "my house" instead of "our resources." And then villages sprang up from there, and elites and rulers sprang up from there and started to control the peasants, and things like taxes developed. All because we traded reality for myths.

And I would argue that all political and law systems ever since then are all myths, they take collective belief to make them real. And myths live until they don't, kingdoms have come and gone, over 500 fiat currencies have come and gone. All of which somebody, some group, believed in at some time. Massive cities came from then, more myths came, different religions, Native American religions, East Asian religions, Indian subcontinent religions, all of which are myths, all of which are fakes, even the modern religions of today. These are called imagined orders, that's what I was talking about bitcoin.

Bitcoin is an imagined order, the dollar is an imagined order, the Code of Hammurabi from 1776 BC is an imagined order, and, I'll make you squirm a little bit, your Constitution is an imagined order. It only works because we collectively believe in it. But they're flawed because they were based on myths.

So let's talk about the Code of Hammurabi for a second, it said that men were greater than women. If you broke a man's arm, an elite man's arm, you had to pay 30 shekels; if you broke an elite woman's arm you had to pay 20 shekels; and if you broke a commoner, or a peasant's arm you had to pay 10 shekels. So this is flawed, right? We now know in our modern state of justice and wokeness and all that other stuff that that's not right.

Well I would say that the Declaration of Independence is not right either. They were both derived from what we said were divine. The Declaration of Independence we said came from God. We have the right to pursue life, liberty, and the pursuit of happiness under some divine order. But this is flawed. Myths come and myths go. So both are wrong, and both are imagined. Gets you a little squirmy.

So let's talk about our own Constitution, it says that all men are created equal, and that's just simply not true. I'm 6'1", you may be 5'10" or weigh more than I do or have a different color hair, we're inherently not equal, it's a myth that we believe in. And you would say, "Whoa, whoa, whoa. It's in essence that we're equal, it doesn't mean that we're all the same size and the same height and have the same color hair." And I would say, "Exactly," it's imagined, you have to believe in that to make it real.

And so whether it's Hammurabi in 1776 or Jefferson in 1776 AD, both are myths and so here's a nice Voltaire quote that says, "There is no God but don't tell that to my servant lest he murder me at night." And so imagined orders are always in danger of collapse. I told you about the kingdoms that have come and gone, I told you about the fiat currencies that have come and gone and so because they're always in danger of collapse we have to have mechanisms to keep people in line and that's why we have armies and prisons. Better stay in line, boy.

And so if all those things are myths I want to talk about something that is real. While in Göbekli Tepe they were building those towers for whatever they were building them for and at Stonehenge they built towers, you know, Stonehenge for whatever they built that for and all the way to Machu Picchu and the towers on Easter Island straight through to the Roman empire and the statues they built. There's all these different beliefs. But at the same time as all that was evolving all these different cultures just happened to settle on the same form of currency, this gold and silver, the Chinese settled on it, the Indians like gold and silver, the Europeans.

And so I think a good story to tell is about the Crusades. This was a clash to the death of religions. A clash of myths. Whose myth is better, whose myth is right. And while they wouldn't accept each other's myths, they would certainly accept each other's coins, whether or not a Christian would accept a coin with a Muslim insignia on it and vice versa and that leads me to believe that that's something that's real. It's not something that's imagined. We all settled on the same thing thousands of years ago. How?

Something that has tangible value. It's something that's real. And it's remained, gold, silver, the Chinese used a little bit of bronze. While all these other empires and currencies, fiats, have come and gone. And I'd argue that those real things, the gold and silver and precious metals, they'll be here unless we drop all the myths and go back to hunting and gathering. And that's just my little philosophical intro and now we can talk about some more things that are modern and what's real and what's fake.

So the sum of the money in the world right now is some $60 trillion but the total sum of bank notes is only 6 trillion and so there's 54 trillion of myth money floating around. How long are we going to keep believing in that? That's just ones and zeros on a computer screen, same as the imagined reality of bitcoin if we're being honest. You don't need to put in God we trust on gold and silver because people inherently accept that it's real.

Let's have some fun. Last year I talked about what's fake. There's a lot of things going out there. Wells Fargo created millions of fake accounts, Volkswagen faked data emissions, I could go on Twitter or Google something and I could come up with a litany of examples, we're just going to run through a couple.

This is Fitbit the device you wear on your wrist that supposed to tell you how many steps you're supposed to take or what your heart rate is or how long you slept but the data that it was turning out was fake. Caught red handed. Pull up a chart of Fitbit on your Stock Watch or your Yahoo finance and see what that did to shareholders. Fake. Fake data. Fake device. Fake investment. This is a juicer I talked about last year. It's one of my favorite ones, Silicon Valley raised this company tens if not hundreds of millions of dollars, it was a juicer that was supposed to cost $400 and the whole shtick was that it was the Gillette razor blade model. You bought the juicer and then you had to keep buying the pouches to put in the juicer. Well, we come to find out that you could just order the pouches and squeeze them with your hand. Squeeze the juice out. You didn't have to buy the $400 juicer. And I was saying in fact, you could just buy some fricken oranges.

Here's another one I talked briefly about last year when fake cheese is real. So you've seen these containers of Parmesan cheese, the Kraft or the house brand or whatever that says 100% grated Parmesan. Well, there was a study last year that found that some of those brands that were promising 100% grated Parmesan, that's a Bloomberg story, contained no Parmesan at all. Fake cheese.

And then you have companies reporting fake numbers all the time. These are publicly traded companies like Match.com that has a holding company that's publicly traded and they're just lying about their data, this happens all the time. Oh yeah, we have this many active users. Well, it turns out that we don't, we're just lying to manipulate the market, to manipulate investors or so, to garner favor in the market, or whatever it is.

Here's one from Macy's. You know how you guys like your smooth sheets, a thousand thread count, 2000 thread count, somebody counted the threads, the thread count is fake. A supplier of bedding to Macy's is under scrutiny and Texas for allegedly misleading consumers about the quality of one of its products. Yet, they didn't have enough threads.

Here's a good one that goes back to the myth of religion. There was a Bible Museum, this was just two weeks ago in DC. This is the museum that Hobby Lobby built. You'll remember when they got caught importing stolen artifacts from Iraq. Well, not only that the Bible Museum that they created in which they were displaying Dead Sea Scrolls, somebody investigated the sea scrolls that they were displaying in a Bible Museum, the religion is a myth obviously, but it was also a lie that they were Dead Sea Scrolls, the Dead Sea Scrolls were fake.

Kardashian butts are definitely fake.

There is a lot of fake outrage these days. This is one of my favorites and I love to call it out when I see it though. You see fake outrage all the time. Just this week there was some celebrities who may have worn offensive costume and you'll see it in the headlines, so and so defends this or such and such is outraged by that or, whatever the headline is. You see this every morning when you wake up and it makes you want to throw your phone against the wall.

And I would say that instead of being outraged that what real Americans should be outraged about, stagnant wages, an opioid epidemic, rising cost of living, whatever it is, the wackiness of the two-party system, also an imagined reality. Instead of focusing on that stuff we focus on stuff that is minute, stuff that doesn't really affect us in our day to day life. Should we tear down 100-year-old statue? Which of the million genders should go in which bathroom?

You've got Republicans outraged at Obama for the same things that Bush did and Democrats outraged at Trump for the same things Obama did and it just makes me want to turn my head around like an owl.

Here's some fake outrage. This girl, you may remember, this was about a year ago, she wore a dress to her prom that had some Chinese prints on it or something and people were outraged, she was appropriating Chinese culture. This was just a fricken teenager going to her prom. This was headlines for days. Headlines for days. People were boycotting the Peter Rabbit film because in the film one of the rabbits couldn't eat carrots and by God that's food allergy bullying.

But maybe a fake world is a better world so this is something from an essay I wrote last year. Deceit, fake, fraud, call it what you will, those things are business as usual for multibillion dollar companies, governments and their agents, because actual reality that place where two thirds of Americans can't come up with a thousand bucks and wages are stagnant and 30 million people are taking antidepressants. Well, that place kinda sucks. And rather than make it better I'd argue it seems the majority of our species is just too content to live in some version of unreality. Some imagined order.

And now we just have things that can facilitate this. So now you can download an app, if you take a picture, you can just scrub out the background and replace things that aren't in the photo literally altering the reality of the photo you took. Erase some unwanted objects from your photos and replace your photo backgrounds with just a click and much more. Well, that's not a photo at all, that's just something ... that's a picture, that's a painting, that's fiction.

How far do we go? Well, monopoly is kind of hard, life is hard, investing is hard, so monopoly comes up with a cheater's edition that just encourages you to cheat. Sure, why not. Everybody else is doing it.

Finally, to gold. Oh, it's bad. So that's the GDX, the XIU gold bug's index and the uranium ETF URA, that's just a YTD chart for the year. You can't pick out which one is which because they're all pretty hammered down, 20 to 25%. People don't believe in gold even though it's one of the few real things we've got.

This is Downtown Josh Brown, he calls himself the chairman of the Twitter reserve, the Twitter Federal Reserve and he's got a lot of followers. He's a mainstream guy, he manages hundreds of billions of dollars for Reichhold's Wealth, he's on CNBC every week and this is a tweet he sent out in September, he said there's no gold in our asset allocation strategies. No disrespect it's just that gold doesn't actually hedge that well and diversification works fine without it. I'll show you why that's bull in a second. And here's Max Kaiser, once a gold enthusiast, but now a bitcoin enthusiast, erasing your memory with a Men in Black flasher asking, "Does anyone remember gold?"

Downtown Josh Brown said gold doesn't act as a hedge but here's the mayhem of September, that's the S&P on the bottom, it went down some 8 to 10% and on the top you have the gold price and the gold bugs index. Obviously, mirroring the carnage that we saw in the broad markets this week, it very much acts as a hedge. It very much acts as a safe haven. I don't know what imagined order that guy was thinking about when he tweeted that.

So yes, it acts as a volatility hedge, gold does, but it's also a real investment. This quote comes from the Beaver Creek conference that went on a couple of weeks ago and it's from Resource Capital Funds, Josh Parel, Resource Capital Funds manages on any given day five to $7 billion across a various spectrum of funds and he was on an investment panel with Joe Foster from VanEck, he's the one that manages the GDX fund and the GDXJ fund, Steve Totterich from Sprott was on the panel and it was moderated by Joe Mosumdar, who's Brent Cooks' partner at Exploration Insights and he's saying what Resource Capital Funds, the $7 billion guys, he says, what I would say generally is that the market has been bad for many years, he's talking about gold, we think we're coming out of that and it's a good time to be deploying capital. Maybe not such a great time to be harvesting capital. We are prioritizing gold as an investment space. So not just a hedge. Now, after ... Call it six, seven years of abysmal underinvestment it's time to invest in gold again.

There are contrarian factors at play as well that are bullish tailwinds for gold. Consider that in 2017 a record $750 billion dollars of private equity was raised globally and only $3 billion of that went in to the mining space. Severely, severely under invested. Institutional money, assets under management, I'm talking just about gold now, fell from 54 billion in 2011 to $32 billion today. It's hated, it's contrarian time.

And I won't read all this but this is just to say that Russia dumped a lot of their treasuries, they dumped 84% of their US treasuries this year going down to 14.9 billion while they increased their gold holdings by 37%. And so maybe the imagined order is in some type of danger, I don't want to say collapse but eroding perhaps.

The gentleman before me also talked about currency crisis in Venezuela and things, you saw the picture of how many bolívars it took to buy a banana I think it was in his presentation. And that's in many countries. So you've got the Argentine peso down 49%, 35% down for the Turkish lira and on and on. If you look at gold in those currencies, gold is actually going up, gold is ascending up into the right. Just not in dollars because dollars remain strong right now. But if you live in one of these countries gold is very valuable.

And I'll quote, this is a Sprott article that came out a couple weeks ago called Brinkmanship, I don't pretend to be a Fed expert, so I'll let somebody who is tell you, he says, "The fuel of Trump tax cuts is now fueling GDP growth which the Fed is interpreting, we believe mistakenly, as sufficient cover to normalize policy." He thinks that ... he's saying that the economy is on the upswing so they can raise rates. But what they see, Sprott, during the next few months, "we expect asset markets to come to terms with grossly misplaced investor faith in the sustainability of the Fed's dual policy agenda of simultaneous rate hikes and balance sheet reduction." Which is a bit of word salad, it's all to say that the Fed is out of bullets. The balance sheet is five times bigger than it was in 2008.

We simply haven't been investing in gold. Global gold production declined 1% since 2000 despite a 850% rise in Capex. But since 2012, Capex has fallen 77%. So if gold only went up, gold production only went up 1% when Capex rose by 850%, what's going to happen now that gold Capex has fallen 77%? A fair question to ask then. Is the gold price going to have to go up precipitously?

A quote from Agnico Eagle, Shaun Boyd, I mentioned on the mining share panel last night, and he says, "there's just too few high quality gold opportunities left and far too many players." So some of these assets are going to have to start to go bye-bye. And you've seen that already. The Barrick and Rheingold merger, Northern Star taking out Pogo, Zgen and Nev Sun, Core and Northern Empire, recently Hekla and Klondex, but also strategic investments, not outright acquisitions, this is something my partner, Gerardo Del Real wrote, I'm going to steal it from him, he says, "it's clear that mid tiers and majors will continue to defer exploration expenditures by taking strategic positions in junior explorers as opposed to increasing their own exploration budgets. It's cheaper, there's less red tape. And the quality juniors tend to have a better pulse for the local politics." And here's some companies that majors have taken stakes in just as he was describing.

Midas Gold, Barrick came in and took out 20%, that's the Stibnite project in Idaho, some 6 million ounces. Revival Gold, Orion Mine Finance has taken a chunk of ... They have a 2 million ounce resource in Idaho targeting a 3 million ounce resource in the coming months. Newcrest, Australia's Newcrest came in and took a chunk out of Almaden Minerals developing the Ixtaca project in Mexico. They have a mill that if you were to buy it today would cost some $70 million which is the entire market cap of Almaden at this point so you're getting no value in the market for the 4 million ounces of gold and silver that it has.

Quickly now, I only have 30 seconds left. Palamina is exploring the Puna orogenic gold belt in Peru, it's being run by Andrew Thompson. He sold his last company to Agnico Eagle, his last company was called Saltouro. He sold it to the benefit of shareholders in 2015. And then, two uranium companies, Fission Uranium, Uranium Energy, I think that in addition to gold the uranium story is very real. The electrification of everything story is very real. Fission and Uranium energy, two ways to play that. And then Atlantic Gold, a very, very low cost producer in Nova Scotia. Less than $600 all in sustaining cost, highly successful management. And then one I'm actually writing up this week and last week, Prophecy Development Corp. a pure vanadium play with a Gibellini asset that's been designated by the Trump administration for fast track permitting. That's as real as it gets. I either recommend all those companies or I own them myself.

I'm Nick Hodge, the founder of Outsider Club and I own Resource.Digest, go check them out. I appreciate your time.

Ben Hunt

"Investing In The Fake News Age"

Gary Alexander: We're running a couple of minutes over time, so I will not read the full bio of our next speaker you can find it on page 60. 60 of your program book for Ben Hunt. Trust me, he's got a lot of real world experience running a billion dollar hedge fund, and chief strategist for a $13 billion hedge fund. You heard him on the "Booms, Busts and Bubbles" panel earlier this morning, and a few different ideas than our previous speaker Peter Schiff. And, now he's going to flesh out the entire plan for you in "Investing in the Fake News Age". Welcome back Ben Hunt.

Ben Hunt: Thanks. It really is great to be here. You know, I've got a lot of slides, and I want to present these slides, not with some eye towards saying, that this is good, what's happening in the world, or this is bad with what's happening in the world. I just want to try to describe what is happening in the world, because I believe very strongly, that all of us as investors, and as citizens, we have to play the cards we've been dealt, not the cards we wish had been dealt.

And, we can't think about ... well, "I hope the free market fairy comes down and saves the day." We've got to make our own way. And, that's what I want to try to talk about today. So, I'm going to start with this slide, which I think gives a really important backdrop for what we're experiencing, not just in markets, but also in politics.

So, this is from the Pew Research Center. They do wonderful work. And, the point here is, that ... you know, they're trying to make the point, that the median democrat and the median republican are farther apart than they've been in the past, and that's absolutely true.

But, what I want you to focus on is the shape of the blue electorate there, the republican ... sorry, the democrat electorate, and the red shape there. Because, it's not just that the median voter is farther apart. Look at how the shape of that entire graph has changed, so that we've got this big gulf in the middle.

And, that a really important. It's really important because, what we have in 2017 is a world where the center does not hold. So, that's the notion of the widening gyre, which the famous point by Yeats, about the "center doesn't hold". And, what this graph is showing you is, that a centrist candidate on either the democratic side, or the republican side can not win a primary, and certainly can not win a general election.

It means, that centrist policies can not survive when you've got to use the ten dollar phrase "a bimodal electorate", like this. The way to understand this visually is, when you look at that purple shape, the purple shape there in the middle, the overlapping electorates, which as you see in the past this is where an effective politician lived. Whether you were an effective on the democratic side, or the republican side, you wanted to live in that purple area.

And, today we're in a world where that purple area is smaller than either the all blue, or the all red area, and what that means is, that there is no centrist policy. There's no policy, or candidate living in that purple area, that is not beaten by a larger number of people, both in the democratic party, and in the republican party. This is entirely new for American politics, at least going back to the 1930s, at least for how long they've been collecting this data.

And, this is a tipping point, because it does not get better, it's not mean reverting. What happens is you get more and more, I'll say "extremist" candidates on both sides, and you can not get a centrist policy, or a centrist candidate to win. So, if you liked your choices in 2016, you're going to be thrilled with 2020.

At the same time where we have this widening gyre, this centripetal force, this coming apart in politics, we've had just the opposite effect in markets. What I'd call a "black hole", where everything comes down on the S&P 500. Now, what you're looking at here, the green line, that is the S&P 500. Right? And, that is over ... since March of 2009 when the US Federal Reserve decided to save the day. I think, correctly so. I think the Federal Reserve saved the world with QE1 in March of 2009.

They did that. They did what a central bank is supposed to do. They're supposed to put emergency liquidity into the system, that syringe of adrenaline into Uma Thurman's heart, which is ... was, it stopped in Pulp Fiction, as the global economy was stopped in March of 2009. That's what central banks are supposed to do. But, what happened is what always happens. Same thing happened in the 1930s.

Emergency government action becomes permanent government policy. So, it wasn't just the QE of March of 2009, but it was the QE2, the QE3, other central banks adopting this philosophy of buying stuff. And, the impact has been to lift ... to provide a rising tide, to lift all boats in public markets. So, that S&P 500, that green line, that has quadrupled. It's up 300% since March of 2009, when this program started.

So, quadrupling in the S&P 500 over the last, close to 10 years. Now, what's the blue line? That blue line is an investible index that Deutsche Bank puts out. Goes back to about 2000, that index does. And, it's a quality index. It is trying to isolate the factor we call quality. Now, why did I pick quality? I picked quality, because I would bet that every person in this room including myself has a bias in favor of quality.

Because, we've been very well trained that, that is what we should own when it comes to our stock purchases. We want to own companies, that have a great management team, and a fortress balance sheet, and wonderful and growing earnings, and we want to avoid the companies that don't. Well, that's what this index creates.

It looks at 1,000 global large cap companies and evaluates them on metrics of quality. Return on invested capital, return on equity, positive accounting accruals. It evaluates all 1,000 of those companies, and it goes along, it buys the top 20%. Equal weighted investments in the top 200 of those 1,000 companies. And, it goes "short" the bottom 200. The companies that score the lowest on each of these measures of quality.

I get it. So, quality is like beauty, it's always in the eye of the beholder, but this is a pretty good proxy for what all investors think about when they're thinking about quality. And, that index, that market mutual index of quality has done absolutely nothing for nine years now. it's not up 300%, 290%, it's up two and a half percent. Not, two and a half percent per year, two and a half percent over nine years.

And so, look, I'm not saying that your quality stocks haven't gone up over the last nine years. What I'm saying is, that the crappy stocks have gone up just as much. What I'm saying is, that what we're living in today is a world where there is a rising tide for all stocks, regardless of quality, and that's a hard lesson for an active manager, for an active mutual fund, for anyone. And, I bet it's everyone in this room, who has a bias in favor of quality, and against crappy companies, because that has not worked for nine years now.

All right. There's a common cause for both of these things. There's a common cause, both for the political polarization we're seeing, and this monolithic market, where if it's a US large cap company, it's just going up. And, that common cause I think is shown in these next two charts, which is the relationship between US household net worth, how rich are we as Americans, and US GDP growth, how fast has our economy grown.

This data goes back to the 1950s, and what it's trying to show is, kind of the answer to this question. Is it possible to be richer than your economy grows? I don't think it is, and for most of the last 60 years that's been the case. But, you see we've got something odd happening, kind of at the tail end of this chart, where that blue line, US household net worth, how rich we are, is now diverging from the gold line, how fast our economy's been growing.

So, if we just look at that tail end there, these are the three bubbles that we've been experiencing since 1997. And, these were intentional, they were politically motivated, as you can imagine, any president, regardless of party wants the electorate to be better off, to be richer under his administration, than not. It's good for whoever's there in the Federal Reserve, it's good for whoever's in congress, it's great for Wall Street, everybody loves this, this idea, that we can pull forward growth and be richer than our economy has grown.

That is a bubble. That is the definition of a bubble. And, now we're in the third. The financial asset bubble. We had the "dot-com" bubble, we had the housing bubble, and now we've got the financial asset bubble. Now, I think at some point, whether it's over some event, or whether it's just a matter of time, that these two lines have to meet again, and there's about a $10 trillion difference.

US household net worth is about $110 trillion, and that's about 10% above where it "should be" if we were tracking that gold line, so that's about $10 trillion to get there, this is across all assets, but I'd figure in something like a 25% to 30% decline in the S&P 500 would narrow that gap.

Now, it's not what I'm calling for. Because, I think we've got, again, a dynamic here that I want to talk about, that's very different from these bubbles that have been in the past. And I don't know at all, that the way that this resolves itself is through some horrible market event, some crash where it falls back down to the gold line.

Let me point out one more thing, because I think this is really important. Again, I'm not saying whether this is good or bad, I'm just saying it is. The benefits of these bubbles, they're not distributed equally in this country, particularly this last bubble. Particularly this last bubble that's been focused on the stock market and the bond market.

Because, one thing, if the bubble was in housing, a lot of Americans own housing. Few Americans ... particularly if you take away the pension fund ownership of stocks, few Americans own stocks. And so, what we're seeing ... and, this data also goes back about 100 years, is that the relative wealth, of not the top 1%, the top one tenth of 1% of Americans is now ... and, this chart is a couple of years old, it's now crossed each other. Right?

The red line, the top one tenth of 1% of American, they own, they are richer than the bottom 90% of Americans. That's something that hasn't happened since the 1930s, that sort of wealth inequality. Again, I'm not saying this is good or bad, I'm just saying it is, and what's fascinating to me is, that go over a hundred year period, the 9.9% ... which is probably what almost everyone in this room fit's that category. So, not the top one tenth of 1%, but the next 9.9%, that group's share of US household net worth has been basically flat, has been basically even for the past 100 years. What has changed over time, where the action is, is in the wealth of the top one tenth of 1%, and the bottom 90%. That's the battleground, between those two groups.

And, you see that the blue line reached its peak late 70s. So, when Ronald Reagan came into office in 1980, Margaret Thatcher outside the United States, set in motion a lot of policies, tax, monetary policy, everything, that changed this dynamic a bit. That's where the blue line peaks, it's been coming down since then. What I'm saying is, that this most recent bubble we had, the financial asset bubble has accelerated this, has moved the wealth inequality away form, kind of more of a long term balancing point, to a point where, again, like we had in the 1930s, which was the last time we had political polarization like we're seeing today. It's all of the piece. It's all of the piece.

Right. So, my question is "How does this work?" Because, if we don't understand how it happened it's going to be very hard for us to understand what could change, whether it's a popping of the bubble, or a slow deflation of the bubble. We have to know how this works, before we can know how to react to it, I think.

So, how do you create a financial asset bubble? Well, part of the story has been what central banks, not just our central bank, but the central bank of Europe, central bank of China, central bank of Japan, what they've done, which is to buy stuff. To buy trillions of dollars worth of stuff. So that, today the big four central banks own more than 20 trillion dollars worth of financial assets, trillion with a "t".

This is, as Jim Grant is fond of saying, he calls it "the thin, Swiss, mountain air". Because, a central bank that's not on this list, the Swiss national bank is one of the largest holders of Apple. What did they use to buy those shares of Apple stock? They printed money. They printed Swiss francs. And, it's the same that's been going on with every central bank, particularly over the last nine years. This is part of the answer to "this", and to "this", the financial asset bubble, just buying stuff, driving up the prices of everything in financial assets.

But, it's not the whole story. It's not the complete story, because central banks are now tapering off their purchases. If you hear what central bankers say, they say "Yeah it was the purchases, but there's something else going on." The something else that's going on is communication policy, what they call communication policy.

What they call using their words to change our behaviors. To speak, not words that they truly believe, but words that are meant to get us to act in a certain way. You know, what we might call "lying" under other circumstances. And, I created this picture. So, if you type in any one of these names plus finger pointing ... these are the pictures of ... on the US side, the current and past, immediate past two chairs of the Federal Reserve. You've got Mario Draghi, European Central Bank. You have mister Kuroda there, the Bank of Japan, you've got the bank of England represented here.

But, you just type in these names plus “finger pointing”, and you get these pictures. And, I did this, because when somebody is shaking their finger at you, they’re trying to tell you how to think about the world. It’s not that they’re shaking their finger at you and saying the sky is blue, they’re shaking their finger at you and saying “Here’s how you need to think about the unemployment report that just came up. Here’s how you should understand the policies that we’ve implemented here.” That’s what somebody is doing when they shake their finger at you.

In game theory, which is my field, we have a name for this action, it’s called a “missionary statement”. If somebody is getting up there and is not just trying to tell you what to think, not trying to tell you a fact, they’re trying to tell you how to think. Because, if they can convince you of that, that’s so much more effective than anything else they can do, so much more powerful than any policy they can do. And, once you start looking for this, what I’m calling the “missionary effect”, you will see it everywhere.

And, of course here’s our missionary in chief. Now, look, I honestly ... like I said, I just want to live in the world as it is, and ... I don’t really ... Regardless of your view of Trump’s policies, good or bad, what I think you have to acknowledge is, that he is very good at playing this game. This game is called the “common knowledge game”.

And, the way this game works is, it’s focused on getting the crowd to look at the crowd. And, I really think ... I think this is because of Trump’s experience as a TV host. He understands how this works, and it’s why I’m certain that he made such a big deal out of the size of the crowd at his inauguration. Despite photographic evidence that it was not the largest crowd to ever be at inauguration, he made a big point out of this.

If you go to listen to any of his speeches, in his campaign speeches notice this, the first thing he will say is he will call attention to the size of the crowd. This is intentional, it is very smart. It gets the crowd to start looking around at the crowd. In the middle of his speech he’ll say “Wow, what an incredible crowd I’ve got here.” And, at the end of the speech that’s where he closes with it as well. Throughout, the focus is on the size of the crowd and get the crowd to look at themselves.

Because, that is an incredibly powerful mechanism for playing this game. It’s something that politicians have known for thousands of years, central bankers are just now getting in on the act. I’ll give you a couple of examples. The first example, the big slide there, that’s Tiananmen Square in Beijing. Now, to this day, more than 25 years later, if you even type in the date of Tiananmen Square, June 4th, you will get a knock on the door from the state security apparatus in China, and you’re going to be shut down, or worse.

Every year on June 4th, the internet shuts down in China. I’m not making this up. It is the internet maintenance day. Honest to God, I’m not making this up. The reason is, that the Chinese government understands, that the risk to their government is not 200,000 people in Tiananmen Square, it’s that 200,000,000 people will see a picture of 200,000 people in Tiananmen Square protesting the government.

It’s the crowd looking at the crowd. It’s why sitcoms have laugh tracks. You will respond more positively to the TV show when you hear the crowd, a disembodied crowd, laughing to the lines that are delivered. Try it sometimes. I mean I've done it. Watch a Friends episode without the laugh track ... I like friends, but it's not very funny without the laugh track, it's the damnedest thing.

I've got Dick Clark up there. So, Dick Clark died about three, maybe four years ago. He left an estate of about $800 million. Dick Clark did very well for himself. How did he make his fortune? Well, American Bandstand got it all started. And, what American Bandstand did, it was the core of his syndication and his music publishing business. American Bandstand told middle America what music they liked. And, he didn't do it through ... like you might see in some, you know central European ministry of "culture" with a "k", you know they come and say "You will like the oompah. You will like the polka."

No, it's actually much easier than that. He got a TV, he got a slot, a TV show with ABC, and he hired a bunch of young attractive people, and he told them "I want you to dance around and react very positively to this music that I'm going to be playing." Music that oh, my goodness, Dick Clark happened to represent and syndicate.

So, he played the music. "Oh, it's got a good beat and you can dance to it." I give it ... Did the slides go away? The slides went away. I'm sure one of the slides went away. There we go, the slides are back, yay, hooray. So, what Dick Clarke was doing, was he knew that people watching, the audience at home was watching and it's like "Wow, those are really attractive, good looking kids, and they really like this music. I think I like it too."

Now, we think we are hard wired ... We think we're immune to this stuff, I promise you none of us are immune to this, all of us are hard wired to respond to these sort of signals, to these missionaries telling us to look at a crowd. You know, it's why another stage, American Idol, or The Voice, these are all filmed in front of live audiences. It has nothing to do with the performances, or the audience that's there watching it live, it has everything to do with the audience at home, because you will enjoy that show more when you see and hear an audience responding positively to it.

That is what is happening when the Fed and the Fed governors, and our politicians all get up there and shake their finger at us. It forces all of us as investors, or as citizens to say "Hm, I think everyone else has heard this message too." Now, I'm going to go through this part a little quickly. And, the slides here, I'm delighted to send them to everyone. So, at the end I'll put my email address up here, send me and email. Happy to send you a copy of the slides.

But, this notion of shaking a finger at us, and telling us how to think has been how Wall Street has behaved forever. I've got these three guys up here. These three robber barons. Certainly you've heard of Andrew Carnegie. Jay Gould, he cornered the gold market in the 1870s. And, here's the commodore, Cornelius Vanderbilt. I love reading the memoirs of these guys and their associates, because they're never talking about free cash flow.

They're never talking about the fundamentals of companies. They're only talking about the narrative and the story around markets, about how to use their words to get the crowd to look at itself and say "Oh, I need to buy." Or, "I need to sell." We've got this expression "you get a corner on the market", "win a corner of the market". Well, the notion of a corner comes from this notion that you were trying to create a corner. They meant it like a newsstand corner, where your message, your narrative about a company would be heard by everyone, and so it would get everybody to go to one side or another of the stock, so you could position yourself to undo that. It happens again today. It's happening all the time today. I like to pick on this company. This is the CEO, Marc Benioff of Salesforce.com. Salesforce.com is a ... it's not just a large cap tech stock, it's a mega cap tech stock. it's got a market cap of over $100 billion.

It is a company, that has never had a penny of gap earnings, of profit, and it never will. It never will. It has a business model, that is not designed to ever generate a profit. And, yet it is a company that's worth well over $100 billion. And, how does it work? How can this possibly work? Well, it works for everybody involved. It works for the Street, it works for management, and that's who carries the game. It works for the media too.

So, four times a year Marc Benioff the CEO, he goes on Cramer's show. Miraculously, those are exactly the four times a year after he has his earnings announcement, where he talks not about profit's, but about something that's called "pro forma net revenue growth". That's the metric that the Street uses to evaluate Salesforce.com. I'll tell you, I have no idea what "pro forma net revenue growth" means.

it's a made up idea. Made up by Mark and his management team. But, that becomes the story around Salseforce.com, and amazingly four out of five quarters they beat on "pro forma net revenue growth", and Cramer always goes "Buy, buy, buy." And, the same four or five sales side analysts, Street analysts who write the reports, publish the next day. Marc Benioff has what's called a 10b5-1 plan.

This is, you have to file a plan to sell stock. So, for five years Marc Benioff sold 10,000 to 15,000 shares of stock. Not every quarter, not every month, but every trading day. Every day the market was opened, Marc Benioff sold 10,000 to 15,000 shares of stock. Marc Benioff is worth about $8 billion, and more importantly he's liquid. Hats off. Hats off.

Why? He understands how to play the game. Now, how does it work for investors? Well, that's a chart on the right. Over, again, a five year period of time. If you only own the stock, for what I'll call, are the "12 days of theater", the four earnings days, and the eight days where you have a Fed press conference. Those 12 days of theater, where you've got people shaking their finger at you and telling you why "You should buy, buy, buy this stock."

If you bought it before that day, and you sold it at the end of the day, so you're only owning it for 12 days out of the year, you're up 170% on the stock. If you owned the stock for the other 240 trading days out of the year, you're down 10%. That's how this game works. This is my poster child, I can draw you a picture of every S&P 500 stock, and it's going to have something of a look of that.

it's how we are driven by these days of theater, by the shaking a finger at you, and telling you the story, even if it's as made up a story like "net pro forma revenue growth" we still buy it, because we're told to, we're hardwired to buy it. That's Wall Street fake news in action. So, what can we do about this? You know, ... again, I want to live in the world as it is.

This is the president of France after World War I. He's got that famous quote, that "War is too important to be left to the generals." I really believe, that over the last nine years we've ended up in a world like this, where what I like to call "team elite", Wall Street, management, White House, media, what they believe is, that markets are too important to be left to investors. And, that's the world as it is.

Now, what can we do? Like I said, I don't believe in this notion of the free market fairy coming down and undoing all of this. So, what I think we have to do just to survive is this ... I like the poker playing dogs, I like to play poker, and I think most of us are aware of that famous saying in poker, that if you have been paying for 30 minutes, and you don't know who the sucker is at the table, it's you.

What I'm saying is, just don't be the sucker. Don't be the sucker at the table. I'm not saying to fight the Fed. I'm not saying to go against any of this. I'm not saying to short Salesforce.com. I shorted Salesforce.com into my hedge fund for a couple of years, and I got my teeth kicked in every earnings period, until I finally figured this out.

What I'm saying is don't be that sucker. Don't be the sucker. So, when uncle Wilbur comes on CNBC ... that's Wilbur Ross our commerce secretary, and he holds up the Campbell's soup can to say "Oh, no, no, our steel and aluminum tariffs, they do nothing. They won't do anything for inflation, they won't do anything for corporate cost. It's fine." Understand, that what uncle Wilbur is doing, is he's shaking his finger at you.

He's telling you how to think about the tariffs. And, all I'm saying is to step back and understand that, that's what they're trying to do. All of them, that's what they're trying to do. And, I think we need to have some tools, and some ability to make up our own damn minds about what we're going to do. And, in the last minute here, or last few seconds really, I want to show, or introduce to you an idea, a technology that I've been using a lot.

it's called Natural Language Processing. What it does is, it basically takes every article that's been published about a certain topic, in this case I wanted to look at inflation, and we create a snapshot of the sentiment and the relationships between all of these articles. The sum total of the finger pointing, and finger wagging that's going on with us.

So, this is the sum total of the narrative around inflation, from two years ago to one year ago. Here it is today. And here, over the same time period, over the same media sources is the narrative around budget deficits. What I'm telling you is, that inflation is happening. I don't know, if it's the inflation truth, but I know it's the inflation narrative. And, that's going to change everything for every investor in this room.

Again, I don't know what the truth with the capital "t" is, but I know what the narrative is, and I know there's not some counter veiling narrative around budget deficits, that could control that. I think it means we have to think differently about everything, and I'm as worried about as anyone about the "three horsemen year", the Fed, the China, ... the China ... the Fed, China, and Italy, these event risks.

But, what I want everyone to pay attention to is this fourth horseman, that no one's really paying a lot of attention to today, and that's our regime change in the way we think about inflation. it's something we haven't thought about for 30 years, but I think it's coming back.

So, as you can tell I love to talk about this stuff. I've got a website where we have lots of articles and stuff about this. By all means send me an email, and I'd love to carry on the conversation, I'd love to share the slides, if anybody's interested. Thank you so much.

Byron King

"*A Nation On The Edge Of Forever*"

Robert Helms: Right now, I'd like to introduce you to a Mr. Byron King. He's going to talk about The Country On The Edge Of Forever. Byron is a Harvard-trained geologist with a strong background in geochemistry and mineralogy and he's also a former Naval Officer who served on the staff of Chief Of Naval Operations and now Byron writes about precious metals and mining for Agora Financial. His newsletter is called the Rickards' Gold Speculator with Byron King. Byron uncovers investible opportunities in precious metals looking for asymmetric trades with minimum downside and strong upside. He focuses on applying high tech to classic gold geology and he writes in a very common sense approach that's easy to understand. I think you'll enjoy our next talk. Please welcome Mr. Byron King.

Byron King: Thank you very much. Good evening everyone. I am the warmup act for Brien Lundin and I want you all to know we have to be very, very nice to Brien tonight and actually for the next couple of days because this conference is on the weekend that LSU is playing Alabama and Brien has to schedule these things like two or three years ahead of time to get the Hilton so I feel really bad. He might miss that game. If you don't see him on some evening, he's at the game so be nice to Brien when we see him but for now, I'm going to talk about The Country On The Edge Of Forever.

My newspaper is the Rickards' Gold Speculator with Byron King. It's about gold and silver. It's about gold, silver, Western American decline in a constructive way. It's gloom and doom but you know we talk about it in a way that hopefully will help. I work with a guy named Jim Rickards. He knows a few things. He's written a bunch of books on currency and money and gold and The Road To Ruin, New York Times Bestsellers. I would usually talk about these books but they told me to hurry up because we're behind schedule and we gotta catch up but I work with Jim. He's fabulous to work with. His view is that if you take global money supply and you back it with 40 percent gold, you need $10,000 gold which gold is twelve hundred and thirty something dollars as it was an hour or two ago. That's an eight times rise on the price of gold but then in a world of $10,000 gold, you might be paying $25 for a gallon of gas too. Be careful what you wish for.

I want to digress. Everybody's seen Star Trek. You know The Enterprise, Captain Kirk, all that stuff, and I want to talk about that because the best episode ever of Star Trek, at least the original one, was called The City On The Edge Of Forever. You may not know the title. If you're a Star Trek watcher, you've probably seen it. The Enterprise goes into orbit around this mysterious planet and naturally Dr. McCoy, he gets infected with this virus which makes him crazy but down on the planet is this old city that's ruined. It looks like Roman ruins as many ruins did on

Gene Roddenberry's Star Trek. But there's this time tunnel in there that you can jump through this portal and you can go anywhere in the universe, anytime, whatever. It's the city on the edge of forever and so poor McCoy, he gets this brain disease or something. He jumps through. He goes into the past and all of the sudden, everything's different. Here's Kirk and everybody. They're on this planet but there's no Starship Enterprise anymore. Oh God, what happened? And of course, Spock with his tricorder which is really an iPhone, an advanced IPhone. Spock said oh yeah, he changed the past. We have to go back and unchange the past.

It turns out that what happened was Dr. McCoy had gone back in time to the 1930s and he had changed the 1930s so that Germany wound up winning World War II. The US was delayed getting into the war and that opens up an entire new idea but Philip Dick stole the idea with The Man In The High Castle. What if Germany had won World War II? Well, among other things, there would be no Starship Enterprise and that's kind of what happened.

So anyhow, Captain Kirk has to go back and fix the past. Now, he winds up fixing the past by falling in love with Joan Collins, a young-looking, beautiful Joan Collins but she has to die which is very sad. It's really, it's a great episode of Star Trek and it has to do with what we call counterfactuals in the history business, you know, like what if the South had won the Civil War? That kind of a thing. Probably the wrong place to be showing a Confederate flag. Forgive me but I actually got this picture from the San Francisco Chronicle so blame them. The San Francisco liberals out there so this was in an article of what if the South had won the Civil War.

Let's get closer in time because you may or may not be thinking about it. I mean today is November 1st. Next week, you know November 11th, is Veterans Day, Armistice Day is what it used to be called. The 100th anniversary of the end of World War I and it's not the 99th and it's not the 101st. It's the 100th. You only have one 100th anniversary. Now a lot of people in this room, I'm not going to embarrass anyone, many of us are old enough, perhaps, to remember the 50th anniversary of the end of World War I. That was in November of 1968 but you were probably busy doing other things. Maybe you were in Vietnam. Maybe you were worrying about the election between Nixon and Humphrey. Maybe you were worrying about, you were much younger then. Of course everyone here has aged well, I'm sure.

But this is the 100th anniversary coming up and that's important because it really gives a lot of people time to reflect and think back. The Great War they called it then. Such a victory, really? From what you perhaps know about World War I, you don't even have to be a great scholar of World War I. I mean, what a mess of war that was. The war that kinda shouldn't have happened. Everybody expected it. Nobody wanted it. When it started, nobody could stop it. When it came time to stop it, even then, it was just a total mess. It wrecked the world. But what if Dr. McCoy, instead of changing, what if Dr. McCoy had gone back and stopped World War I?

I mean, let's counter factualize. Let's just think about it. Put it all on one slide. I hate to show you eye charts but just no war, no carnage, no wreckage, no destruction of people and property. Think of all the European empires that may have persisted. Otherwise, I mean the British saw the beginning of the end of their empire. The French saw the beginning of the end of their empire. The German empire was gone. Austro-Hungary was destroyed. The Russian empire died. The Turkish empire died. The Middle East was carved up and we're still dealing with that 100 years later. I mean all those boundaries in the Middle East were drawn at the end of World War I.

There would have been no Russian Revolution, no Civil War in Russia. No Bolshevik Revolution. No Soviet Union. Hmmm. No Treaty Of Versailles. No World War II. Geopolitically, the United States may have remained on the Western side of the Atlantic as opposed to inserting itself on that side at least to the extent that we did such that we wound up going back 20 years later. We would live in a different world. This isn't a history class. It just sort of gets your mind thinking what if Dr. McCoy had used that time tunnel to stop World War I?

I mean the world might even have remained on a gold standard. I mean these are all gold coins from 1914. They were all minted in 1914. U.S. Dollar. There's a British sovereign. There's a Russian five ruble piece. They got Austro-Hungary, German, French, Belgian. So I mean, the world was on a gold standard up until 1914 and then when the war started, everybody went broke in a hurry. Germany had these gold reserves in Spandau Fortress which became Spandau Prison where they put Albert Speer and the war criminals after World War II. But Spandau Fortress was sort of their Fort Knox. They ran out of gold within about two months.

World War I was fought on credit. World War I was financed, in many respects, by the bank, not the Bank of England, but by the United States Federal Reserve. I mean Woodrow Wilson wouldn't allow, he did everything he could to stop money flowing out. But if you really examine it, World War I, in big, big parts on the Allied side, was financed by US credit extended to the Allies. I mean, they ran out of money but they still fought the war on credit.

But if the world had remained on a gold standard, that could have ended the war. But no Dr. McCoy didn't prevent World War I so let's get out of the counterfactual. We live in this world. In this world, in the US, we have problems and we've got great things. You know we're going to make American great again and all that stuff but we're make America great from a pretty tough base line. Factories and industries, we've deindustrialize the country. We have homeless people. I mean California is such a rich state but 40 percent of the people live below the poverty line. We got troops all over the world dropping bombs, nothing that can't be solved with a few air strikes. That seems to be the ethic. We have infrastructure problems. That's the I35 bridge in Minneapolis a few years ago. You know, pollution, EPA superfund sites that have never been cleaned up. After 40 years of the EPA, we still haven't cleaned up hardly any of the EPA superfund sites. $21 trillion worth of debt. That's pretty interesting. You subtract that from the GDP and we have negative wealth in the country so you can all work for a year for free and we still haven't paid off the debt.

But decline is a long-term thing. It's been happening for decades and decades and decades under all of these August leaders that we see here in this nice picture and all elements of power are at risk because of the debt and because of the commitments we've made, the promises that the country has made on an individual basis, on a business basis. In the previous panel, one of the questions was do you think blue chips are a rival to gold? Well yeah they are and they cheated. When you think about all the blue chips, I'm just, this wasn't part of the talk but...you know blue chips for the last 10 years have been nothing but borrowing money and buying back shares. So yeah sure. Blue chip shares have gone up in value, competed against gold. Gold is sort of beaten down by that but how long can you do this? How long can you juggle these balls? Look at General Electric, you know? Finally, the wolf's at the door. Look at IBM. Wolf's at the door. The desperate bet the company, buy Red Hat, because if they don't, who knows where IBM's going?

But anyhow, all elements of US power are at risk. It takes me to a book that you may have read. You could borrow it from your local library. It will be a gently read book, I assure you, as the librarians like to say. Samuel Huntington's book The Clash Of Civilizations, a fascinating book that talks about what is it that makes a civilization great. I mean why does the West, why does the US, why do we dominate the global order?

Well the simple answer is, I mean the basic fundamental two-line answer is World War II ended and it reset the power game. Europe was destroyed. The Soviet Union was destroyed. Asia was destroyed. The rest of the world was an undeveloped world for the most part. There was the US with lots of people, lots of money. We had atom bombs. We had the Bretton Woods made the dollar the name of the game. But further than that, let's use a couple of Samuel Huntington's ideas. What is it that makes the US run the world and as we go through these, just think to yourself if we're up here right now, is the US position at risk?

It helps to understand why you want to own some gold. The West, the US, own and operate the big banking systems, okay, but how healthy are our banks? Do I need to really need to get into that? You control the world's key currencies. Well okay, the dollar is the key currency so far but we're doing everything we can, the US, to make people not want to use the dollar. Sanctions on this country. Sanctions on that country. Pretty soon they start de-dollarizing. They start going around you. India is buying defense equipment from Russia. They're going to pay them in rubles. China's buying oil from Saudi Arabia. They're using yuan. So if you abuse your privilege of controlling the key currency, eventually you're not going to have that privilege anymore.

Dominating the international capital markets, well we like to think oh yeah, US, are you serious? I mean you look at the world, China's buying up the world. You go anyplace and China's owning, they're buying oil fields. They're buying mines. They're buying mills. They're building railroads. They're owning the ports and harbors. They own the Panama Canal for God's sakes.

World's principal customer. Who's the world's principal customer? Whoa, it's the US. Maybe for Wal-Mart but the world's principal customer, who buys half the world's copper? China. How much of the world's oil does the US use? About 20 percent. That leaves 80 percent for everybody else.

Provides many or most of the world's finished goods. Can you say that about the United States? US companies provide a lot of important things, you know, Boeing, Caterpillar, high-end computers, but most of the world's finished goods, eh, not really. Travel around. Look around. Do we have a ship building industry in the US? No way. I mean why do you think we have tariffs. Tariffs because deindustrialized huge parts of the economy. Corporate boards and corporate management teams made these decisions over the years to outsource things. Entire industries, entire supply chains left the country. They're not here anymore.

Controls the sea lanes. I say this as a retired Navy guy on my own personal account, not as a representative of the US government or the Department of

Defense or the Navy, controls the sea lanes, are you kidding? With the Navy we've got? The ships we're buying? Are you kidding? It's not working. It's not working. We sail around, show the flag, make a big splash. In terms of controlling the sea lanes, I assure you, we don't.

Capable of projecting significant military power ideally to win. Oh yeah. How's that working out? I mean 17 years in Afghanistan and what's the theory of victory there? I mean the theory of victory is pack all that shit up and get on the airplanes and get out of there. We're not going to fix that place. Pardon my German. I'm sorry.

Conducts most advanced technical research and development. Oh we love to pat ourselves on the back for that but really, if you follow this stuff and I do, there are entire fields of endeavor where the US is certainly not the world leader, let's say. We're the world's leader in telling our children that they should feel good about themselves but when it comes to what's coming out of the laboratories and getting operationalized, not so much.

Sets the global pace for technical education. Oh, you cannot be talking about the United States. That's for sure. In China, the China thing, they have entire universities that teach geology. I sat next to a guy at a convention one time and he was from China. I said what do you do? He said oh, I teach at the Wuhan Geological University. I said it's a university about geology? He said oh yeah. I said how many students do you have. Oh, 40,000. I'm like you have 40,000 kids studying geology. He says oh, I'm sorry. No, no, no. Only 20,000 studying geology. That's more than all the geology students in the whole country. This is at one university and the other 20,000 are studying chemistry, physics, math. Maybe they have a few kids studying dance or something but they're all studying math, physics, chemistry, engineering.

Then great countries exert moral leadership across borders. Well, I was actually heartened the other day when I watched Secretary of Defense Mattis finally say that maybe Saudi should quit bombing Yemen, killing all those people there. I thought US jets, US bombs, US command and control, you know, but Saudi pilots dropping bombs on Yemen. I mean, get over it.

How about a great country that dominates international communications technology and access? Well, we like to think that we're pretty wired here in the United States but we're also pretty hacked. I mean, a lot of people can hack us and shut down our electric power about that fast, you know?

Dominates the aerospace industry. Yeah, okay we can say that except maybe we don't. I mean it depends what you're talking about. I mean how much of a Boeing jet is made in the United States? Fifty years ago, 97 percent of a Boeing jet was made in the United States. Anymore, like the Boeing 737 I flew down on here this morning, I would say on a good day, maybe 40 percent of a Boeing jet is made in the United States. The rest of it's all parts assembled but it's made everywhere else.

Dominates access to space. Oh that's a good one. That's a good one. How do our astronauts get to space? They ride rockets in Russia, that's how they get to space. We shut down the space shuttle program 10 years too soon.

Dominates the high-tech weapons industry. Well now, there's something. Ra! Ra! America! Oh yeah. I do geology but sort of, it's an old Navy thing, as a hobby I follow the weapons of the world and I assure you that the Russians have really come up with some incredible, incredible things. They can see the stealth. They have, oh my goodness, they have missiles that can go from sea level to low Earth orbit and shoot things down. They're that good. If somebody says well would you trade our F-15s for their F-35s? Yeah, actually I would. I actually would. I'd trade them plane for plane.

So anyhow in every one of these elements, the US is facing competition. The US relative position is in decline. It's under challenge. Russia has the gold. Russia's making deals with the Saudis. China has their South China Sea. They're looking to space. Russia has weapons. I could go on and on and on but I won't because it's too depressing and I say this to just kind of try to get you thinking about it. This is the country on the edge of forever here.

To change the future, we have to, in some respects, change the past except we don't have a time tunnel. We have to change the past now by doing things now today. Part of it which is invest in technology and technology metals and buy gold and silver so that when something bad happens to the dollar, at least there's a few of us out there who have some serious wealth that's sitting in our hands.

Three generations of American power squandered away in what I'd call national decline. We face two nuclear industrial superpowers. One of which fields a world-class armed force, that would be Russia, and a military political as opposed to economic. Russia and China are formalizing a relationship. It's not the unipolar world anymore. It is a multipolar world and the US has to figure out how to deal with it. If you take any photos at all, take a photo of that. Read this book. It's on Amazon. It came out in September. Andrei Martyanov is a Russian naval officer who lives up in Seattle. Losing Military Supremacy, it's a very readable, very, very good book, a Russian Analysis, a Russian perspective of the problems with US power.

And if you can't save the world, find some gold because that's kind of why we're here and then later on tonight, I'm going to go through a whole lot of gold companies that I cover, that I write about that I've been following as we await the monetary calamity whenever and wherever that is, I say gold leads the way. Got to have a strong mining industry, a strong gold industry.

Thank you very much as I put a US dollar and a Russian gold Chervonetz on there for you and I have used up every second of my time and it's over. Thank you. I give you now the next speaker who will talk to us about UEC, Uranium Energy Corp, and then please be nice to Brien Lundoi cause he's going to miss the LSU-Alabama game. Thank you.

Robert Helms: Alright. Good stuff.

Robert Kiyosaki

"Why Debt & Taxes Are Making The Rich - Richer"

Gary Alexander: And now, for a real highlight, we're going to welcome back Robert Kiyosaki who is best known as author Rich Dad, Poor Dad. The number one personal finance book of all time. He's challenged and changed the way that tens of millions of people around the world think about money and real estate, for that matter. He's an entrepreneur, educator, investor who believes the world needs more entrepreneurs as we do and have done from the beginning by our founder and great entrepreneur James U. Blanchard. With perspectives on money and investing that often contradict conventional wisdom, Robert has earned an international reputation for straight talk, irreverence, and courage, and has become a passionate outspoken advocate for financial education. His most recent book came out this year, Why the Rich are Getting Richer, and More Important Than Money, were published spring of this year to mark the 20th anniversary of the 1997 release of his Rich Dad Poor Dad original. To learn more, visit richdadpoordad.com or rather, richdad.com. Who needs the poor dad.

Now, he's going to be joined today by Tom Wheelwright who's CPA and CEO of wealth ability in Tempe, Arizona. He's a best selling author of, Tax Free Wealth, and founder of Provision. He's also a contributor to, More Important Than Money, an entrepreneur's team. I missed that. More important than money, and Why The Rich are Getting Richer. Tom is a leading wealth and tax expert, global speaker, entrepreneur magazine contributor, who is best known for making taxes fun. I'd like to experience that. And easy, and understandable. And specializes in helping entrepreneurs and investors build wealth through practical and strategic ways that permanently reduce taxes. He's a rich dad advisor to Robert Kiyosaki. And he frequently speaks at conferences worldwide to entrepreneurs on all of these topics.

So, the subject today for both Robert Kiyosaki and Tom Wheelwright is why debt and taxes are making the rich, richer. So please welcome both Robert Kiyosaki and Tom Wheelwright.

Robert Kiyosaki: Before I begin, I'll introduce Tom Wheelwright, who didn't get the memo today. He's supposed to wear red, I wear the blue. We look like we work at K-Mart or something. But anyway, Tom really is, he's my personal tax advisor. He's a CPA. And how many people in this room have had bad CPA's? How many people have had great CPA's? Good, thank you. How many people have CPA's that are cowards, who want you to pay taxes? Those are the worst CPA's, okay. But Tom, as most of you know if you're entrepreneurs, or you're tax payers, taxes are the single largest expense. And I've had great CPAs, but Tom is the best. And so I asked him to write this book here tax for your wealth, really as my advisor. Anybody who hates paying taxes, this is the book, and the best thing about Tom, he makes it simple and understandable for entrepreneurs like me to understand. The reason Tom is so good at what he does, he is also an entrepreneur. He starts companies and things like this. I'd like to introduce my advisor Tom Wheelwright. Big hand for him.

Tom Wheelwright: Thank you.

Robert Kiyosaki: Can I see a show of hands, how many people have read Rich Dad Poor Dad? Good, thank you. Who has not yet read the book? Oh my god. I'm always afraid that someday there'll be no buyers out there. Well it's been 21 years, it's still top 10 on Amazon. Top 10, I think it's number 1 in Japan today. It's even number six in France, the communist Republic of France.

The only place that doesn't sell well is in the communist Republic of California. But anyway, the story of "Rich Dad, Poor Dad," I'll quickly draw this schematic here. Okay. The reason Rich Dad, Poor Dad is so successful, it's basically a book on accounting. That's all it is. How many people in this book have studied accounting? Good. How many people have never studied accounting? You're lucky. It is the single most boring subject on planet earth, you know what I mean? So that's why Tom helps me. This is Rich Dad Poor Dad.

I was born in Hawaii, I'm fourth generation Japanese-American, which means I don't speak Japanese, so. A lot of people come up and try to practice on me, I say, "Hey, I don't do that stuff you know. I barely speak English." But Rich Dad Poor Dad is simply a book on accounting. And Tom's been one of the best guides on it, because this is how it started.

When I was nine years old, my rich dad very simply said to me, he says, cause I was flunking out of school. My poor dad was the head of education for the state of Hawaii. And my rich dad was my best friend's father who never finished school. And the reason he never finished school was because his father died when he was 13, and at 13, rich dad had to take over the family business. So this was the difference, rich dad went to school in real school. He didn't have fake teachers. A fake teacher is somebody who doesn't do what they teach.

Rich dad was taught by his accountants, his bookkeepers, his attorneys, his banker, his brokers. Everyday, they are in the business of business. And one of the reasons I dropped out of my MBA program was because the teachers were fake. When I was sitting, I was a marine pilot, I was still just coming back from Vietnam in 1973, and I enrolled in the MBA program in Honolulu, I was stationed at Kaneohe marine corp air station. And I sat in the MBA class, and this teacher comes out, guy was younger than me, cause I was already 27. He didn't know what he was talking about. And I asked him a quick question and said, "Are you an accountant?" He said, "Yes, I have a masters in accountancy." I said, "That's not the question."

Being a marine, how many people remember the Vietnam era, I was not a popular guy sitting in MBA class among all these communist students. They're spitting at me. So I'm sitting there, and these kids are like, 20 years old or whatever they are. And I've just come back, I've had friends die and all this stuff. I've gotta put up with their BS, you know.

So, I'm sitting in this class, and I ask the instructor, "Tell me, are you," I just repeat the question. I'm a marine lieutenant, I just don't like BS you know? And I said, "Are you an accountant?" He says, "Yes, I have a masters in accounting." I said, "That's not the question. Are you an accountant?" He said, "I have a masters in accountancy." I say, "Have you ever been an accountant?" He says, "No." I resigned from the MBA program. He had no idea what he was talking about.

That's one of the problems with young people today, they're going to school with teachers who don't know what they're talking about. I remember I went to military school, the academy in New York, and I asked my calculus teacher, I said, "When will I ever use this calculus?" He says, "I don't know." I said, "Why do you teach it?" "Cause I get paid."

And today, my brain is still messed up taking three years of calculus, I had no idea what I was studying, okay.

Anyway, Tom has really helped me with those things like this. But Rich Dad Poor Dad is about income, expense, assets, and liabilities. That's all it's about. And one more thing, the most important word for those of you who are in real business, is a statement of cash flow. That's all it is. So very simply, Rich Dad Poor Dad, the statement of cash flow says, assets put money in your pocket, liabilities take money from your pocket. That's all the book's about.

So the reason people are in trouble financially is they buy houses they think are assets. But it's really taking money from your pocket. Whereas I buy a piece of rental property and put money in my pocket. That's the difference. So that's all Rich Dad Poor Dad was about. Any comments on this, Tom?

Tom Wheelwright: Now, that's why I love Rich Dad Poor Dad, right? How many world famous books are there about accounting? I think one. What most people don't recognize either is that liability is okay if it's producing an asset, because it's all about the cash flow.

Robert Kiyosaki: The word asset is a noun. A house is a noun. But you don't know if it's an asset or liability until you apply the verb, which is cashflow. So I could have a rental property, and it's producing income one day, but it goes vacant, and now it shifts into a liability the next day. And that's what happened to many people in 2008, they got hammered. Because the tenants moved out, lost their jobs or whatever it is. Basically, all Rich Dad, was produced 1997, 21 years ago. It's very simply about what they should teach kids about money. That's all it's about.

This here, is a second book and it's called the Cash Flow Quadrant. And this is the cash flow quadrant. So again, I am nine or ten years old, my rich dad's teaching me assets versus liabilities, and then he started teaching me about the four people in the world in business. How many people read the Cash Flow Quadrant? Good, thank you. For those that haven't, very simply, E stands for employee. My poor dad always said, go to school to get a job. That's why they're employees. My mom wanted me to be a specialist, like a doctor, or attorney, or a lawyer, or a pizza shop owner. And I said to my mom, I was a C student, I'll never become a doctor. She said, "You're right, you're not gonna make it."

But this is where Tom comes in, is because, and as Tom will tell you, employees pay 40%. All these guys who're becoming entrepreneurs today, they leave their jobs or their colleges of teaching kids to be entrepreneurs. They move into a higher tax bracket, without financial education. And business owner, which is 500 employees or more, these guys pay about 20%. And this is worldwide, right Tom?

Tom Wheelwright: Worldwide.

Robert Kiyosaki: And these guys pay 0%. So when I was nine or ten years old, my rich dad said, "Which one would you like to be?" Well that's easy. Here. So this is Shark Tank. These guys are passive investors. They buy stocks, bonds, mutual funds. Save money. These are inside investors. They're inside the deal. Very different. So Tom's gonna talk quickly right now about the Trump tax cut, and how it affected those here.

Tom Wheelwright: Yeah, so fundamentally, when you look at these different weights, it's just a matter of what the government is rewarding. Cause the tax law is just a series of incentives. It's an incentive for things like, creating employment. So these guys create a lot of employment, they get a lot of tax incentives to do that. Or creating housing, or hotels, or whatever type of investing. Agriculture. So these guys get a lot of taxes.

Robert Kiyosaki: Or oil and gas or food and things like that. Which is right here. See these guys here have really good tax advantages, right?

Tom Wheelwright: Right, because this is what the government wants you to do. They'd like you to put your money here. If you put your money here or here, they're going, "That's fine, we're happy to take your money." The reason these guys are so high is because they're paying not only the employee share of the taxes, but they're also paying the employer share of the taxes. So that's why you end up in such a big tax bracket down in self-employed. That's again worldwide, not just the US.

Robert Kiyosaki: The numbers may vary a little bit, but generally that's the way. Because the government's gotta have these guys as partners, right?

Tom Wheelwright: Well yeah, cause these guys are doing what the government needs someone in the private market to do. But the government doesn't want to do themselves. So they're encouraging people to do this. Now what happened in the Trump tax bill last year, is fascinating. Because these guys, the money had to come from somewhere, right? So these guys ended up losing a lot of their tax benefits. These guys lost a lot of tax benefits, and permanently, by the way. Not temporarily. These guys got to see their corporate tax rate go from 35% to 21%.

Robert Kiyosaki: Amen, George.

Tom Wheelwright: 40% tax break, immediately. So they had a huge tax break. These guys are the only people in the US who did better than these guys. They saw, for example, a real estate deduction on a million dollar property going from $100,000 the first year, to $300,000 the first year. In fact, I was talking to Mike Miceli and I said, "How does it feel to actually have real estate be a better first year deduction than oil and gas now?" That's what happened in the 2017 law.

Robert Kiyosaki: So again, the rich get richer, and these guys should move to California. Well, I don't know, how many people are from California here? Ever heard of allied moving vans? Get out very quickly. But the point here, this is poor dad, and this is rich dad. And again, these guys are insiders. Why do I like real estate? Cause I'm on the inside. I don't want to be on the outside, I don't have any stocks, well I might have a few. Stocks, bonds, mutual funds and ETF's, cause I don't like being on the outside. Plus, I don't get the tax breaks.

And by the way, if I could say something, I've had a pretty checkered career. My background, I went to the US Merchant Marine Academy at Kings Point, New York, and my specialty is oil and gas. I was a tanker driver. So I drove oil tankers for standard oil of California. That's why I invest with Mike Miceli and other oil companies. Let's say I gave Mike Miceli $100,000, what's my tax break, immediately?

Tom Wheelwright: Immediately, $40,000 back in your pocket.

Robert Kiyosaki: Try getting that from Exxon. You don't get it. So why would I touch Exxon mobile or standard, my own old company? And so after I sale for standard oil, that's why I like oil and gas. I'm a resource guy. And that's when I joined the marine corp, cause the Vietnam war was still on. So I went to Pensacola, Florida, which just got hit by that hurricane. And then went to Camp Pandleton and straight to Vietnam. And then I realized Vietnam was not about saving communists, or killing communists, it was about oil. Because China did not want, I mean America did not want China to get Vietnam's oil. That's why we're there. Nothing to do about communism.

But anyway. And then, as part of my career to understand this, I've taken three companies public. They're all resource companies. I took an oil company public through the TSX Toronto stock exchange. I took an Argentine silver mine public through TSX, and I took a Chinese gold company public through the TSX. So when I walk these halls here, I get the same vibes. I love it, because when I'm walking the halls here at the New Orleans investment conference, I'm with real entrepreneurs. First thing I ask them is, are you going public, or when you're going public? Because anybody that knows anything, the money is made before it goes public. I'm not saying anything wrong about guys who already are public, a lot of TSX companies here. Cause Vancouver, the wild west, Vancouver where all the banditos hung out. And TSX, Toronto. That's where the resource guys are.

So I spent about 10 years up there doing these resource deals, just so I could understand the public markets. And I feel for these guys. I have a simpatico with them. And that's why I love the New Orleans investment conferences, because this is where the real entrepreneurs are. But as you guys know, the money is made before it goes public. And I've taken three of them public. I do a lot of business in China as an author, but my company, back in 1996, 1997, we found the biggest gold play in China was in Dalian province. Took it public under TSX, and we did a drill and we came up with about a billion ounces of gold. A billion dollars worth of gold, I don't know how many million ounces.

What Trump is fighting for right now, as you guys now, what's mine is theirs. And my gold mine got confiscated. It's called a country risk. But they don't teach you that in business school, you know what I mean? So anyway, I love the New Orleans investment conference, but it's where we hang out.

Basically, this is my background. I do practice what I preach, I do do this. Tom, do I have assets?

Tom Wheelwright: A lot.

Robert Kiyosaki: Yeah. And the reason I have assets, is my rich dad taught me just playing Monopoly. Four green houses, 1031 tax deferred exchange, red hotels. So I own red hotels, that's how I get up to 500 employees. Of golf courses, oil wells, and gold. Lots of gold. Any comments on this stuff here, Tom?

Tom Wheelwright: Well, I can say, being Robert's personal account he's told me I can say this. What he's done is pretty amazing, because if you think about it. So the more income you make over here, the more taxes you pay, right? But the more assets you buy over here, the fewer taxes you pay. So the more real estate. Robert makes all sort of money selling books and in his business and so forth. What he has to do is push that money into assets or else he's gonna pay a ton of taxes. It's really that simple.

Robert Kiyosaki: So that's where I go into right now, it's called the infinite return. So, 1973, when I came back from Vietnam, my poor dad wanted me to go here and get my masters, get my PhD like he did, and my rich dad said, "Come here." So I went here as you can tell, because I didn't like school, personally. I liked military school, I loved flight school, I just hated academics and school teachers. Because I don't like fake teachers. And Tom and I have taught all over the world, haven't we?

Tom Wheelwright: We have.

Robert Kiyosaki: And the worst teachers are?

Tom Wheelwright: Accounting professors. It's true.

Robert Kiyosaki: They wouldn't know their ass from a hole in the ground. But they don't understand cash flow, right?

Tom Wheelwright: That's the challenge. They don't.

Robert Kiyosaki: Because they go operate on the definition of the word, versus the technical, or the useful benefit of the word. That's the big difference. That's why, as you know, Nancy Pelosi and Obama and many of our leaders. That's why the cash keeps flowing out. They don't know asses from liabilities. And that's why we're going broke as a nation.

Okay, so what we're going to talk about today is an infinite return. And very simply, if you have a real financial education, you'll never need money, and you'll never pay taxes. But they don't teach that in school. And by the way, I've been working with the real estate guys for 20 years now, and Tom and I will be on their summit at sea, and this year the theme is: The Infinite Return. There's only a few spaces left on the cruise, but many of my advisors will be with me, with Tom and I on this cruise. And the whole theme is how you make money with nothing. Because you don't need money to make money. It's one of the biggest lies. And when people say that money doesn't make you happy, well working a job you hate doesn't make you happy. And paying a lot of tax doesn't make me happy. Being on this side makes me very happy. And I'm glad there's people who like being on this side, but I didn't like it here. I wanted to be here.

So this is called infinite return, and Tom will guide ... He is really my adult supervision up here, okay? Tom is the A student, and I was the

Crowd: C student.

Robert Kiyosaki: Not even C. I flunked English twice, and I'm now known as the best writing author. Bestselling author. On the side of teachers. But the teachers that flunked me, one of them my father fired. He just, you're out of here. It was my sophomore year of high school, I was 15. So this guy, Dennis Gibson flunks I think 80% of the class. So my father called him up and said, "Hey Dennis, you're out of here." When my father fired the teacher that flunked me, I suddenly became big man on campus. But the good news is, I did get to one of the best schools, the United Sates Merchant Academy in Kings Point, New York. I got two nominations. One to Naval Academy in Minneapolis, one to Kings Point. I took Kings Point cause Kings Point has the highest paid graduates in the world. Back in 1965, were making about $120,000 a year. And a lot of it tax free. Which, not much money today. But $120,000 in 1965 was a lot of money for a 21 year old kid. And I gave it all up to go fly for the marine corp, which proves not very smart.

But anyway. But thank god, cause I knew I was gonna be rich, I just didn't, I just wanted to have some fun and fly for a while. Initially the Rich Dad company, from 1997 was to elevate the financial wellbeing of humanity, cause ladies and gentlemen, we're in trouble. We're in very, very big trouble. And the trouble is, our kids are leaving school stupid and poor. There is now new evidence coming out more and more, if a kid is born to a poor family, they will die poor. There is no chance for them. That's the problem. Cause family and religion and education has more effect on them than anything else.

So in 1997 we formed this company. Today we're gonna talk to you about infinite returns. Infinity. And it's called an infinite ROI. And we talk about ROI, it equals return on information. Information we don't get in school, and information our political leaders should actually educate themselves with. Trump knows this stuff, but unfortunately Pelosi, Obama and Clintons, they only know one thing. Steal money. That's the problem with them. I'm not republican or democrat, I just don't like people who steal. Trump lies, but he doesn't steal that much. I know some people love him and some people hate him, and I don't really care. We do need somebody who knows money, at least.

This was Reuters. You can see I'm not the best student, I just tore this out of a newspaper. October 13th, 2008. Kushner likely paid little taxes for years. I mean they make it sound like a bunch of crooks for not paying taxes. And it says, "Kushner's tax will reflect the use of a tax benefit known as depreciation." Tom, is depreciation criminal?

Tom Wheelwright: Depreciation is very intentional, and the US has better depreciation rules than any country on earth right now. The fact is that you buy a piece of real estate that's rented out, or used in your business, you're probably going to get to deduct about 30% the year you buy it. So it's a huge incentive right now. And way bigger than most countries.

Robert Kiyosaki: I want you to know we're not saying buy real estate. Because right now I'm a net seller. I've never sold real estate, but I'll explain why I'm selling for the first time. But, it's not a time to buy because of taxes, is that correct?

Tom Wheelwright: Well the tax benefits are enormous right now.

Robert Kiyosaki: But you don't buy because of tax, okay. So Kushner's wife, Ivanka Trump received at least 82 million outside income in 2017. How much tax did they pay on 82 million, Tom?

Tom Wheelwright: My guess is? Zero.

Robert Kiyosaki: And that's what we're going to teach. And so, it talks about Kushner being a real estate guy. Anyway, advocates of financial education are Trump and I. 2006, we wrote, Why We Want You To Be Rich. And then Midas Touch in 2011. I know some people love him, and some people hate him. I think he's a great guy. I learned a lot working with him for eight years. And my wife, who, people think woman hate him. My wife loves him. She says that he's a great guy. Now, he is a womanizer, but he didn't mess with my wife, thank god. I'd have to kill him. What was your impression of Trump when you met him?

Tom Wheelwright: I met him a couple of times. I actually met him back in 2011, and he's, I mean he's brilliant. He's a very smart guy. I think he says really stupid stuff. But he's very extraordinarily confident. Extraordinarily confident. In what he believes.

Robert Kiyosaki: So this is how I got to ROI's. My first real estate seminar was in 1973. Again, I was still under filing for the marine corp. And it was a three day course, I paid $395.00 for it. And the instructor said, "At the end of three days, your education begins when you leave school." And that's what I say to most young people today, especially millennials, "Your education begins when you leave school." And most millennials are finding out, they don't learn anything in school. That's why so many of them are unemployed.

But anyway, in 1973, the deal was, I have to look at 100 properties in 90 days and had to write a one page analysis on the property. Of the 30 something in our class, three completed the assignment. Most people were too busy to get rich. So the ROI. Satori is a moment of enlightenment. So as I was going through those 100 properties, my instructor, who was a rail real instate investor, he showed us his properties, he showed us his financials. He showed us everything that a real investor does. A real I investor. Not one of these BS investors over here. He says, "You will find this property, and the world will change." And a satori is a Buddhist word about not, I'm not pumping religion, I'm not Buddhist either, my sisters are. But I'm not. Buddhist satori means. It's this moment you actually see. Holy mackerel. And what I saw was an infinite ROI, I would never need money again. For the rest of my life. I was a free man. Okay. That's what satori means.

Certain people, I used to get it while reading Playboy, but I got it now with money. You know what I mean? But anyway. The [inaudible 00:29:11] island of Maui, or the hottest properties at the time, was a one bedroom, one bathroom beach condo. Sales price was $18,000, ask for $10,000 down. I paid with a credit card so it was 100% debt, and I made $25.00. That was an infinite return, my life changed. I went holy mackerel. Holy mackerel.

So the reason I can do this is because I'm always going for the infinite return, right?

Tom Wheelwright: Always.

Robert Kiyosaki: Always. So when people say how did you get here so fast, well it's because I don't need money. That's the difference. That's the only difference. If you need money, you're always slow over here. Anything you want to say about that?

Tom Wheelwright: No, not only that but remember, the tax benefits come from more assets, and the more you use other people's money, you get the tax benefits. Banks don't get tax benefits for lending you money, you get tax benefits for borrowing the money. So that's why the tax benefits are so big, because all that money that Robert makes over here, here, and here, all that money can go back into here. And go back into the asset.

Robert Kiyosaki: So get Tom's book, it's Tax Free Wealth. That's why I kept changing, I kept changing accountants, some were really good, some were big name guys, a lot of them are stupid. But anyway. Without Tom's guidance I could not have got there so fast. Because you have to have a good, smart CPA with, as my Mexican friends say, cajones. You know what I mean? You're going up against the government. We're not going against them. Like, a lot of accountants believe you should pay taxes. If some accountant says you should pay taxes, fire them immediately. They're costing you money. Any comments on that?

Tom Wheelwright: Well, hopefully any IRS agents in the room here? If you think about it, and you graduate from college and you're an A student, the IRS probably isn't your first choice of where you're going. To be afraid of the IRS, to me it just means, wow you must not know much about taxes if you're afraid of the IRS. They're good people, they're doing their best, but the reality is, a good tax accountant should know way more about taxes than the IRS.

Robert Kiyosaki: So what's your background? How did you learn not to be afraid of the IRS?

Tom Wheelwright: I have bachelor's of arts in accounting from the University of Utah, and a master's of tax from the University of Texas. I spent seven years with Ernst & Young including three years in their national tax department. Back when the last big law changed, back in 1986, and then I spent 14 years as an adjunct professor in the masters of tax program at Arizona State University. And for the last 25 years have bought and sold and built accounting practices and Robert and I travel around the world talking about this stuff.

Robert Kiyosaki: Get his book. You can get there faster if you can drop taxes. Legally. We're in Russia talking to these entrepreneurs in Russia, what did they say?

Tom Wheelwright: They said that that laws are really just suggestions.

Robert Kiyosaki: And the reason so many taxes is these guys.

Tom Wheelwright: Right, the challenge is, if you're stuck over here, that kind of stands for stuck. If you're stuck over here and you can't do much and you don't have a good advisor that kind of tells you what these rules are, what are you gonna do? Cause nobody likes paying 40%-60% taxes. And so that's where they cheat. When you're over here there's no reason to cheat because you're gonna pay fewer taxes anyway, just by the fact of being here.

Robert Kiyosaki: And people are afraid of audits. These guys are always audited, right?

Tom Wheelwright: Yeah. So remember the last election, and Trump said he would release his tax returns when he was no longer under audit? And I burst out laughing, that was the smartest thing I'd ever heard. Cause Trump's so big, he's always under audit. We will never see those tax returns, folks.

Robert Kiyosaki: I hope there's no democrats in this room. I'm not republican or democrat, I'm a capitalist. I don't like giving my money away when I don't have to give it away. And I would rather partner with the government. That's how I look at it, okay? Island of Maui, 1973. The Rich Dad company in 1996 was founded. I raised, my wife and I, we started the cash flow game, and we raised $250,000 private placement. And we agreed to give the investors $500,000 back, which in three years we paid all the money back. And so we make millions every month. Our return is infinite. Rich Dad's was running purely, not on my own money, okay.

This was Tuscan, Arizona. Tom helped us on this one. This was a real estate play. We had 144 units, 10 acres, the price was 7 million dollars, we had 2.5 million equity. And that was the cash raise, much of it came from my wife and I, but we had two other investors in it. And then we borrowed 4.5 million in debt and 5 million in a construction loan. 144. Two and a half years it went to 108 units. We're now at 252 units. The new appraisal came in at 15 million because of rents. Our NOI went up, that operating income went up. So the bank gave us a 12 million dollar new loan. 12 million dollars and [inaudible 00:35:02] were paid off the old loan. Construction loan which left 3 million dollars. We gave back the 2.5 million to investors, and we split $500,000 each. We're now infinite and we've put money in our pocket.

Tom, that $500,000 that came into my pocket, why was that tax free?

Tom Wheelwright: You borrow money, it's not taxable, is it? Cause at some point you have to pay it back. So all of the money that came out, any time you refinance a deal, that's tax free money. You've borrowed it from the bank, no tax.

Robert Kiyosaki: And the reason for that, was in 71 as most of you know. Nixon took the dollar off the gold standard. And for money to be created, we had to borrow. So when these idiots tell you to get out of debt, that's almost un-American. Money is only created when you borrow, that's why they give you, what's that, united plus mileage plus? We'll give you extra free miles if you borrow money. They want you to borrow money. And these financial planners are telling you to get out of debt. I'd fire that guy, you know what I'm saying? Tell me how to get into debt.

But again, that's the difference between rich dad and poor dad. Debt is good, debt is bad. It's a matter of financial unintelligence. So we split $500,000 in income a year, 2017. $103,000. Infinite ROI. Since then we've gone, I don't know how many units that was but now we have 6,950 units, treading. We can get there faster because we're using debt and we pay no taxes. So the 103,000, I don't know what it is today, but that's how we did. Any comments on that?

Tom Wheelwright: No, in fact, I've seen them do this on multiple properties. This is the formula. Right, this is the formula. It's the formula in real estate, it's the formula in oil and gas. Frankly, it's the formula in business. So if you don't have to pay tax, because you reinvest the money in the business, or you reinvest the money in real estate, then you can use the taxes you would have paid to the government and reinvest those, and you can even borrow money. It's almost an addiction, right? The more assets you buy, the less tax you pay. The more assets you buy, the less tax you pay.

Robert Kiyosaki: It's worse than that. If I don't buy assets, I pay taxes. If I don't borrow money, I pay taxes. So for those of you that have an opportunity to go talk to the real estate guys, the investor crews, next Spring is an infinite return, I'll be there with some of our other advisors. That's what we teach. I don't teach you to go to school, get a job and then put your money in mutual funds. I'm not that cruel. That is cruel and unusual behavior. Okay. So anyway, go talk to the real estate guys for our cruise next year.

Rich Dad was formed in 1997, what does school teach you about money? Go to school, get a job, work hard, save money. Get out of a debt, buy a house and put your money in a stock market, 401k's, mutual funds, ETF's and savings. That's a recipe for disaster. And millions of people, my generation the baby boom generation are about to get wiped out. Because we're the first generation without a pension plan. In 1974, ERISA came in. Employee retirement income security act today is known as a 401k. In 2008, it turned out to the 201k. People get wiped out.

This is the dial for 125 years. You can see that it's been going up. But with a giant crash in 1929. Look at 1929, that was not a giant crash, that was a pimple. But you look at what happened, Nixon took us off the gold standard in 71. I was flying in Vietnam in 1972. I have a new book coming out next year it's called Fake. Fake money, fake teachers, fake assets. That's when the rich, like the guys who own the central banks like the Rothschild. That's when they start ripping us off, was when they got the dollar off the gold standard. Because up until 1971 the dollar was good as gold, cause the Brent Woods agreement was backed by gold. But they don't teach you that in school. You go to school, get a job, work hard, save money, and invest for a long term in the stock market. It is a suicide mission.

So this whole Rich Dad company was formed in 1997 because I could see today's crisis coming. And if you look at this today we're like triple top. We're going down, big time. Anybody who's been an investor, a stock trader, knows a triple top is worse than a double top. A double top was 2008. We're down a triple top. There's a possibility that we're going to be. You know, there's booms, there's busts, there's crashes, and there's collapses. There's I'd say about a 5% possibility the US economy collapses, because of the fake dollars worth and bad education and corrupt wall street and corrupt central banks. We're at a triple top.

As a surfer, I always knew. The third wave was the killer wave. You better not get caught at that one. How did I learn my technical training? I cut school and went surfing. Anyway, next question.

October 11th, 2008, the IMF warns the biggest sort of risks come to the state in local government retirement plans. Simon Black, sovereign man, he talks at the Real Estate Guys cruise also. Spain's pension fund is fully depleted. You think the Spanish people have problems today? Italy isn't much better. Those are the two bigger countries on the EU. The UK has trillions of pounds worth of unfunded public pensions. Switzerland has a public pension that's only 69% funded. Any comments on that, Tom?

Tom Wheelwright: It speaks for itself. Switzerland is what we think of as the safe country, right? And only 69% funded. From an accounting standpoint, that's a nightmare.

Robert Kiyosaki: Martin Armstrong, the biggest, largest pension fund in the United States is a CalPERS. For the state and local government. California's state very serious insolvency. CalPERS is under water one trillion dollars. One trillion dollars. Who's gonna bail them out, because states cannot print money? All they can do is raise taxes. Social security they can print, Medicare they can print, but they can't print for calPERS. The state that's the worst is Obama's old state, Illinois. Their pension fund is toast. So Reuters, PBGC is going broke the pension benefit guarantee corporation is insolvent. Every baby boomer today is in trouble. Because every pension they're counting, including social security and Medicare are in serious trouble. That means, people complain that millennial's are living at home, but what happens when the baby boomers move in with the millennials? Jane was talking about assisted living, I'm in assisted living also. Some assisted living homes are $20,000 a month. That's more than people make a year. In a month.

So, assisted living's a great business. Because it's guaranteed we're going to get older. If you don't die. Dying might be the better way out, really. But anyway. This is the gap in America, the rich. You can see the poor getting poorer. And these are working poor. These guys have jobs. My brother's a property manager in Hawaii, he interviewed these guys sleeping in their cars. The homelessness in Hawaii, California, and Seattle and New York is going through the roof. So my brother being a property manager, to get these guys off his properties, he interviewed these guys sleeping in their cars. Well they say, "I have a job. I just can't afford a house."

And then my brother was at the beach, and he saw one of his classmates living on the beach. "Oh, I'm so sorry you're homeless." "No I'm not homeless, I'm living on the beach." He says, "What's the difference?" He says, "I'm renting my house out, I make more money that way." And he gets tax deductions on that income, right Tom?

Tom Wheelwright: Right.

Robert Kiyosaki: That's why I like the Real Estate Guys' charts. Even the housing prices went down, rents went up. Okay? That's how you think. That's not about, "Oh, is a mutual fund a good investment?" Mutual fund, you put up 100% of the money take 100% of the risk. Take 100% of the losses, and you get 20% of the gains. You're getting screwed. The poor and middle class, this is what happens. They go to school, they get a job, they pay taxes. Goes to the government. It's all cashflow. They put IRA goes to wall street, and they buy a house, it goes to the bank. That's why the poor and middle class are going broke. Because they went to school, they're told get a job, work hard, save money ... 401k. Any comments on this cashflow pattern, Tom?

Tom Wheelwright: What I see is, I look at that and it's all cashflow going out.

Robert Kiyosaki: Yeah.

Tom Wheelwright: There's no cashflow going in.

Robert Kiyosaki: They don't know how to turn the cashflow back in, cause they went to school. That was my poor dad. PhD. Poor, helpless, desperate. That's what it stands for. And they run our school systems. They're teaching your kids. And your grandkids. And we wonder why we're in trouble. It starts in school. No financial education in school. That's why I started the Rich Dad company. This is really simple stuff, you don't have to go to Harvard to understand a little squiggly line. This was all Rich Dad Poor Dad was, this was all Cash Flow Quadrant. Still our best sellers.

This is why the rich get richer. Taxes. Debt. I reinvest 1031 tax referred exchanges, and I buy gold and silver. I do not save money. I save gold and silver. I have millions in gold and silver because I don't need money. I don't need cash. I have cash. But it's short term cash. I'm waiting for the next crash, I can go back in. I save gold and silver. Any comments on that, Tom?

Tom Wheelwright: Well, on all of this, every time you buy an asset, your taxes keep going down. So even if you have income from other sources of business or a job or something else, with the right tax planning, all of those asset purchases over here, all of these assets that you're buying over there create more tax deductions. Which means that you send less money to the government.

Robert Kiyosaki: Yeah. I use debt to buy assets, and the more debt I use the less taxes I pay.

Tom Wheelwright: That's right.

Robert Kiyosaki: And the more assets I buy, the less taxes I pay. Instead of selling, I don't like to sell because that's a capital gain, right?

Tom Wheelwright: Right. But if you just borrow the money out, if you just borrow against it, then that's not taxable.

Robert Kiyosaki: This is not hard, you guys. With a good accountant, a good attorney, and smart advisors, you can get there. I was a C student, I really don't know much, Tom will verify that, right Tom?

Tom Wheelwright: It's true.

Robert Kiyosaki: But I do have a smart wife, right?

Tom Wheelwright: Very, very smart wife.

Robert Kiyosaki: The key to success is marry a smart woman, okay guys got that?

Tom Wheelwright: That's his key.

Robert Kiyosaki: Yeah. My wife wasn't rich either, she just understood realistic. But she says, "When it comes to money, women are much smarter than men." And I'd have to agree. So anyway, that's why she wrote the book Rich Woman. But this here is McDonalds formula, this was my formula as a kid. If I get one million dollars what does that mean, Tom?

Tom Wheelwright: What that means is, I have to go borrow four million dollars to buy a five million dollar asset, so you don't pay taxes on the one million.

Robert Kiyosaki: Tom and I go all over the world. And some moron will raise their hand and says ... What they say is, "You can't do this here." And what I say is, "You have McDonalds?" "Yeah." "Well what do you think McDonalds is doing here?" If you read Rich Dad Poor Dad, Ray Crocks. When my friend from University of Texas asked Ray, Ray asks the MBA class, "What business is McDonald's in?" Answer was real estate. McDonald's owns more real estate than the Catholic church. Because if you saw the movie Founder, it's in there.

All these [inaudible 00:48:28] all the countries we go to, these academic types say, "You can't do this here." And all I say is, "Do you have a Mcdonalds here?" "Yeah." The trouble is, they can't see it. Cause they went to school. Anything else on this, Tom?

Tom Wheelwright: To me, it's a very simple formula. I don't think you can get any more simple than that. That's how you don't pay taxes legally. Cause again, everything we're talking about is how not to pay taxes legally. Do what the government wants you to do.

Robert Kiyosaki: Debt makes you richer. Debt and taxes make you richer. On this side, debt and taxes make you poorer. On this side. Go to school, get a job, work hard, save money, invest in the stock market, get out of a debt. So how taxes make the rich richer. Any comments on that, Tom?

Tom Wheelwright: What's interesting is, this is common around the world by the way. We were in Australia earlier this year, and then South Africa before that. And these are common tax rates around the world. So the US is actually, this last tax law change has actually made us a bit of a tax haven compared to the rest of the world. So we're better. We're still, E and S quadrant are still pretty high.

Robert Kiyosaki: But the problem with the tax breaks, it's making the US dollar stronger, which may bring the economy down. Because if the dollar gets stronger everybody gets weaker, cause China and Japan are in serious trouble. So the dollar getting stronger means our trade defect increases because we don't expect export as much. So we have four problems facing America today.

Number one is rising interest rates. Number two is China. Number three is what was I gonna say?

Tom Wheelwright: Strong dollar.

Robert Kiyosaki: Strong dollar. Number four, retirement. That's why we might come down, those four choices. So this is tax free income here, depreciation. And that's that Jared Kushner thing. "Oh, he's cheating using depreciation." What is that, Tom?

Tom Wheelwright: Depreciation is really just basically, supposedly the wear and tear on a building. The difference is, if you buy a chair, or you put in carpet, it really does wear out. Whereas buildings tend to last a lot younger than the depreciation.

Robert Kiyosaki: Is this depreciating right now?

Tom Wheelwright: You can watch it.

Robert Kiyosaki: It's accelerating. I can see it, can you see it depreciating in front of you? Carpet depreciates, right?

Tom Wheelwright: Actually, carpet now we get to write off the first year, we don't even have to depreciate it.

Robert Kiyosaki: Are the lights depreciating?

Tom Wheelwright: First year.

Robert Kiyosaki: Furniture?

Tom Wheelwright: First year.

Robert Kiyosaki: Why is appreciation tax free?

Tom Wheelwright: Appreciation, remember, we don't pay tax until we actually recognize that gain. So we can appreciate all we want in gold and silver and real estate, oil and gas, if we don't sell it, we don't actually pay the tax. So we can keep it appreciating, we can borrow against it, not pay the tax.

Robert Kiyosaki: Amortization.

Tom Wheelwright: Amortization is great because you've got debt that you used to buy this over here, but that debt is being paid for by your tenants, customers, etc.

Robert Kiyosaki: And this is what the New York times says is some kind of criminal offense. So anyway, ROI, satori, moment of enlightenment, ROI, infinite, can be created with any asset. Once you see it, you can do it with anything. That's what we teach in the real estate guys, you can do it with stocks, bonds options, avocados, anything. But you have to have the education. And that's what our school systems are not teaching us. And that's why we're in serious trouble, because we're run by idiots. So thank you, thank you very much.

Mike Larson

"The "Uber Bust": Causes, Consequences, And Profit Opportunities"

Lindsay Hall: So, up next you're going to hear from a gentleman who has those answers for you. His name is Mike Larson. He's a senior analyst at Weiss Ratings, as well as the editor of Weiss' Safe Money Report and Under-the-Radar Stocks newsletters. He joined Weiss in 2001, with the same organization for the last 17 years. He's been an analyst, editor, trader, and writer during that 17 year career. Mr. Larson has also been a frequent guest on CNBC, CNN, Bloomberg, and the Fox Business Network. A fantastic analyst up next, Mike Larson.

Mike Larson: Morning, good morning. When I found out I was on the early slot, and I'm thinking, you know they got the LSU game the night before. I didn't know how many people were going to be awake and ready. It's unfortunate outcome of that game, but it is what it is, right?

Anyways, I appreciate everybody coming this morning. The title of my presentation is, "The Uber Bust: Causes, Consequences and Profit Opportunities." In the limited time that I have, I'm going to try and cover why I'm nick-naming this environment, and I'm giving it that uber name, and some of the ways you can still protect yourself and profit, from a generalized perspective, not necessarily as a gold bug, but just sort of general markets guide.

We'll start with the big picture, right? We've had this extremely favorable, and you could arguably call it, artificial market environment, that began in March 2009 and lasted through, by my reckoning, about January 2018. I think, earlier this year the clear bull market trend that we had, began to change. There's a number of reasons for that, but I'd argue that it starts with monetary and fiscal policies that are increasingly diverging around the world. You have a greater split between the winners in the market and the losers. You're seeing other cracks in the market facade, that are growing. Again, unlike what we had for that nine year period leading up to January of this year. When you throw in herd-like investor behavior, record high levels of risk-taking, extreme overvaluation in multiple asset classes, and you kind of, stir it all in a pot, and I think that it tells you that we've reached an important inflection point for the markets overall.

All this starts ...I mean, I'm a monetary guy, an interest rate focus guy, not necessarily a gold bug. Don't tell Brien, if he's here. So, a lot of my focus in what I do is based on what's happening in those markets. I think you have to start from square one, with the fact that we've had this interest rate policy, which is unlike anything this world has ever seen. You never before had central banks, both here in the U.S. and abroad, doing what they did with interest rates, cutting them as low as they did, and keeping them that low for so long. This chart here just shows you the major world regions, monetary regions, the U.S., the Euro area and so on. You can see, we had an unprecedented eight or so year stretch where interest rates were essentially pegged at zero. The cost of money was free, and negative territory, as you may know, in other parts of the world as well.

During that same time that we had this incredible rate stimulus being thrown at the market, you never before had central banks engaging in quantitative easing on such a massive scale. This chart here, looks at again, the major regions, what the Swiss National Bank, the Bank of England, the U.S. Fed, the ECB, and so on, did with their balance sheets. You can see the big spike at the initial stage of the credit crisis in 2008, and then how we just kept on going. We were printing more and more money, more than 20 trillion dollars globally, while roughly about 45-50% of world GDP, in terms of central bank balance sheets. So, truly unprecedented, not just in what they took in the immediate aftermath of the credit crisis, but in terms of keeping that going and going and going, kind of like the energizer bunny.

Now, when you have this sort of monetary stimulus being thrown at the asset markets, what I think it has done on some degree is, destroyed that rational, traditional way of valuing assets. In my mind, it's really ignited this speculative orgy, if you will. What's unique about this environment is, unlike in the late 1990's, when it was clearly the manic behavior was centered in dot-com or tech stocks or, even unlike in the mid 2000's, where it was the residential real estate market, that was at the core of this. I've been doing a lot of research for this book I'm working on, and you're finding how this bubble, this bubble-like environment, this easy money has infiltrated almost every market and every place. You have stocks of all types. You have high risk bonds, commercial real estate again, housing again, but even esoteric assets we don't think about a lot. I mean, modern and classic artwork, baseball cards, the billionaire's row penthouses in New York City, things I call garbage IPOs, which I'll get to shortly. The list truly does go on and on.

That's why I think that when you argue, what have we done this time? We've created this "Uber bubble." The uber term is sort of a play on the meaning of uber. This is being a great, large example of a bubble, but also on Uber the company. I use their services, many of you I'm sure have used an Uber before. The company that has literally never made a penny of operating profits in nine plus years, is now valued at $120 billion, as of the most recent reporting. That's up about 2 million, 200 thousand percent in that nine year period.

You have many other companies, especially in the private tech space, that have absolutely ridiculous multiples too. It's very much, with some of these food delivery companies, and other things like that, it's very much similar to what you saw in the public tech markets back in the late 1990's. So that's where the name comes from.

We'll start with, probably what everybody's most interested in, and that's the stock market. Obviously, a number of different ways you can value the equity markets overall, but the CAPE ratio, which is the Cyclically Adjusted PE ratio, is helpful because it smooths out PEs over the economic cycle. That ratio's at roughly 33, which is essentially, double the long term average of 16.8. As you can see on this long term chart that goes back many decades, the only time we were higher was at the peak of the dot-com bubble.

Now, it's interesting, when you hear on television and so on, analysts talk about the price to earnings ratio of the S&P, and they say it's relatively reasonable, especially after it's come down. What I never hear people talking about is, valuing the market on a price-to-sales or price-to-book ratio. I don't think that's accidental because when you do that, and you look at comparison-to-revenue and comparison-to-book value, the ratios look pretty ridiculous. This shows you here, your red line is your S&P, roughly price-to-revenue ratio there at 2.13, essentially above where we were at the peak of the dot-com bubble. Also, part of this chart shows you U.S. equity market capitalization, so you're stripping out foreign issuers, and you're looking at a ratio of nominal GNP, gross national product, and it's roughly the same story. Again, price-to-sales is on this chart. I didn't include a table of price-to-book, but very similar levels of overvaluation.

As I mentioned earlier, it's not just the stock market, right? It's many, many other assets. Ironically enough, given that we came out of the biggest housing bubble in history, now you have house prices, this chart shows you the S&P/Case-Shiller index of U.S. home prices, that have clearly eclipsed. You can see the original run up, the slide down there, the recession shaded in gray, and then as prices bottomed out, what happened? We took off again, and now on a national basis, home prices are above their peaks, at pretty much what we all agree, was the biggest real estate bubble in U.S. history.

As I mentioned, not just stocks, not just residential real estate, also commercial real estate. This is a Green Street Commercial Price Index, so it tracks a broad category of commercial values. Everything from, apartments to office buildings and so on. You can see at this most recent reading, we're at an index level of about 130, which puts you essentially, closing in on 30% above the peak of the 2007 cycle, which again was, arguably, the worst real estate overvaluation situation we've had in U.S. history.

When I talk about the potential for a bust or potential for overvaluation and bad behavior, so to speak, it's not just on a quantitative level. You have to look at qualitatively what's going on. Frankly, investment bankers and corporations, in my opinion, have to some degree, been going wild. If you look at total corporate debt, last time around the focus was what was going on in the mortgage industry, total corporate debt now is running at 6.1 trillion at the end of 2017, which is up 84% in just a decade. That's not just the quantity of corporate debt, it's the quality of it. Sub-sectors of the corporate borrowing market, things like higher risk leverage loan lending is at all time records.

What's going on with that money? What are the companies doing? Well, in a lot of cases, it's leading to financial engineering, stock buy-backs and things like that, but also M&A. Mergers and acquisitions can be a bullish factor in the short term, but when activity gets really, really far out on the spectrum, it's actually kind of a warning sign. Everybody can probably remember the AOL-Time Warner deal, which happened right at the peak of the dot-com bubble. Deal funding for deals is up about 23%, year on year, probably going to hit a record $250 billion.

The next bullet that I point out is SPACs, special purpose acquisition companies. I don't know how much you know about them, but they're sort of like a vehicle that is created just to go out there and buy companies, based on the reputation of a manager. You did see the activity, the money raising of SPACs hit a record in

2006/2007, the last easy money cycle. Now, we're above those levels now. What's happening in the acquisition market, especially amongst private equity buyers, is that they're paying all-time record multiples in these acquisitions. Just like you can pay a high PE for a publicly traded stock, you have PE firms that are doing deals at 11.2 times EBITDA average at the end of 2017, which is an all time record and up from a multiple, on average of about 7.7, in the last bottoming out cycle we had in 09'.

Visually, here's a couple charts that sort of illustrate what I just pointed out. This is total corporate debt. What's interesting about this, beyond the fact that it's been sky-rocketing the last several years, is that we had an economic expansion coming out of the 01'/02' cycle. You can see corporations borrowing increased, but it wasn't very remarkable, a few years of gradual increases. That was all centered around mortgage borrowing and residential activity. This time around, I think more of the excesses that you're seeing, are stayed on the corporate versus consumer side. This just briefly gives you an idea about what's been happening, again at the lower tier of corporate credit quality. Leverage lending has gone from 3.5 trillion, in terms of overall outstanding, to around 8.7 trillion in this cycle. Whereas, the amount of junk bonds outstanding, high yield bonds, has doubled, from around 1.5 to 3 trillion.

This here is an illustrative chart about what's happening in terms of the quality of those loans too. It's interesting, it's not just that more lending has been done at the lower end of the credit spectrum. It's that what's also happening there, not just in terms of lower ratings tiers, but the individual deals. A lot more deals these days have been done on a covenant-lite basis, which just means that the corporate borrower is not facing as many restrictions when they go out to get their loan, whether it comes to things like, having to meet certain targets with earnings or certain corporate activities they're not allowed to do if they take out these loans. Covenant-lite, essentially gives the lender much less protection. In the event of a default, covenant-lite borrowers tend to, if you're making these loans, you're going to get back a lot less money on the dollar. The fact that 76%, give or take, of these loans are now being issued on a covenant-lite basis, is amazing, at this stage in the credit cycle.

This chart here just gives you basically, the last 10/11 year history of multiples, like I said, when it comes to private equity buying. You can see it's been gradually stepping up, stepping up, and as of 2017, we're at that sort of 11 and change, multiple EBITDA. So, pretty extraordinary, extraordinary prices being paid by private equity buyers.

This is a great one, again that's more qualitative type chart. A lot of times, you've gotta justify these deals if you're going to make them. So, what happens when you're going out there to potentially buy a company is, you look at what the target's underlying earnings are, EBITDA and so on, and depending on how aggressive you want to be, you can make adjustments to that. You can say, "Well, this quarter was lousy, but because company x is doing this over the next year, we're going to adjust for that. We're going to say that it's going to be better next year and so on." That's one example, there's other ways you can do it.

The percentage of deals with EBITDA adjustments, to make them essentially pencil out, as you can see, is off the charts. 27 some odd percent of deals today, are now using this number fudging to make the deals look good. Whereas, back in 2009, what? you're talking about 3/4 percent, at the bottom of the last cycle.

Even compare to 05'/06', it's truly astounding to see how much massaging is going on at this stage in the game.

Now, I mentioned earlier, I want to talk about what I called garbage IPOs. We've clearly seen the IPO fever start sweeping through the markets this year. If you look at the overall volume of deals, 180 companies through the third quarter are raising about 50 billion dollars in the IPO market. That puts this year on track to be, essentially the second busiest for IPOs, behind 2014, since the peak of the dot-com bubble. A lot of activity, a lot of money being raised.

What about the quality of the deals? Well, let's talk about that. June was an extremely busy month for the IPO market. A lot of tech companies, a lot of bio-techs, and so on. There were 37 IPOs overall that priced in June, but once you strip out some of those SPAC names and a couple other exceptional cases that are a little bit different, you had 26 traditional companies that were going public.

I should probably make sure the second bullet's blacked out, and then I could ask, what percentage of those companies do you think actually made money, but I've given it away already. So, four, four out of those 26 companies were actually generating operating profits in the year leading up to the IPO, so 85% were losing money. Every single one of those companies that lost money in 2017, also lost money in 2016, so this isn't like a short term hiccup before their IPO. They've been losing money for two years consistently. If you net the losses of the money losing companies out against the handful of companies that actually made money, you get a negative balance of $754 million. That gives you an idea. This isn't sort of the cream of the crop that Wall Street's dumping on Main Street. It's really junk.

This is my favorite way of illustrating it. If you look through the first nine months of 2018, and this chart goes back to 1980. This is on a percentage basis. There's fewer companies that are coming public now, than were in the 90's, so this is on a percentage basis. It adjusts for that. 83% of the companies in 2018, that have come public, were losing money at the time their offering. You can see the only time in recorded history we got ever close to that, was 99' and 2000. Not exactly great years to be buying IPOs, and that was a peak of 81%. Again, this is the kind of companies that are raising money in this market.

I mentioned earlier herding behavior. What do I mean by that? Well, you turn on CNBC, what do you hear about? FANG, FANG, FANG, Facebook, Apple, Netflix, all day, everyday. It's incessant. What's interesting is, when you look at the overall market, in terms of what people have been investing in, there's been an incredible rush into growth stocks, right? This chart here shows you a ratio of the Russell 1000 Growth Index versus the Russell 1000 Value Index. Growth index, as you imagine, contains lots of tech stocks and other things like that. Value is your boring stuff, your utilities and so on.

This chart goes all the way back to the late 1970's. There's two big green peaks, which show the points when you had absolute extreme sentiment buying growth over value. Want to guess when the last peak was from? One year period bracketing the peak of the dot-com bubble, and we essentially are right there again. There's lots of ways to illustrate what's going on, but this is one of my favorite ones. When you get in an argument, "Oh, it's different this time. It's not like it was in the dot-com era." Well, yeah it kind of is.

If you look at asset values relative to GDP, another way of valuing the asset markets right? There should be some kind of tie between what's happening in the real economy, and what's happening in the asset economy. This chart shows you household net worth, so again, the value of things like, your homes, your stocks, and so on, and you compare it to GDP. At the dot-com bubble peak, we had assets valued at 4.45 times underlying GDP. The housing bubble peak, we're at about 4.85 times. Now, because we have so many assets that have been swept up in this, you're at 5.24 times underlying GDP, something we've again, never seen before in this country.

Now, I don't know how many of you guys know the Yertle the Turtle book. It was one of my favorites growing up as a kid, Dr. Seuss book. The general idea is, this turtle gets tired of being stuck in the mud and swimming around, so he decides he wants to be the king. He starts getting all the other turtles to stack themselves on top of each other, better and better view, higher and higher thing. In the end, Mac, if I'm not mistaken, is the name of the turtle at the bottom, he says, "To heck with this," and the whole thing comes tumbling down.

The moral of the story, at least from a market perspective, is that we've been stacking risk upon risk upon risk. You're making high risk loans to high risk companies. You're adjusting earnings at a never before pace, to make these deals look better. You're not requiring your borrowers to meet certain loan covenants. There's nothing wrong with making risky loans if you're being compensated for it, you're earning high spreads, you're earning high yields. But, up until very recently, we've seen record low spreads, in terms of junk bond yields versus treasuries or even investment grade yields versus treasuries, and we're charging record low rates. You're doing record volume of this stuff, nine plus years into the greatest, easy money cycle in history. From all those standpoints, it's really just stacking that risk upon risk. That's what I think is one of the major issues for the market.

So, what's changing, right? We've had these risks building for a while, but the market hasn't cared or didn't care, arguably, until January. What's happening now, obviously, is that the policies that helped enable this, are now starting to be withdrawn. This is the Fed's balance sheet. They've been talking about their version of QT, quantitative tightening, to unwind some of the QE. Fed assets on the balance sheet are now down about 350 billion from their peak. We're still talking about huge numbers, in the four plus trillion dollar range, but certainly we're up around 4.5/4.55, give or take, around the peak. The balance sheet is beginning to shrink, and the pace of that shrinkage, is increasing.

It's not just something that's happening in the U.S.. This policy of QE is gradually being unwound, or at least steps towards that are being taken in the Euro zone. The Bank of Japan is going to, probably, print til' infinity. They never do anything, but you are seeing some of these other regions, where interest rates are starting to go up, QE's starting to be unwound. You can see here, this just shows you the rolling pace of QE, in that at the end you're forecasting out, and you can see that that pace is going negative, or will be very soon. Again, when you lose a little bit of that QE prop, it's going to have an impact on markets. It's not just, as you remember from that earlier chart, it's not just the U.S. Fed that is starting to raise rates. You're seeing the Bank of England tentatively going that direction, the Bank of Canada, and so on.

So, what's happened is ... and I'm a Patriots fan, so A, don't hate me for that and B, I'm sorry, that's why I use this color scale for my chart here. This just compares the yield on the two year treasury versus the S&P 500 dividend yield. When I made this a few days ago, you're talking about a 96 basis point or so, advantage to just parking your money in two year treasuries, if you're yield seeking only, not capital gains, versus the S&P 500. Clearly, for many, many years, the balance was swung in the other direction, so that's another change.

One of the benefits of working at Weiss Ratings is that, we've been issuing independent ratings on stocks, mutual funds, ETFs, for many years, as an investment standpoint. We've also been rating banks, credit unions, and so on, from a safety standpoint. Is this bank going to fail? What's it's risk and so on? On the investment side, I had my team pull a ratio of buys-to-sells. Now I will say, our rating system's a lot stricter than what you'll typically see from other places, other firms or other Wall Street firms and so on. The numbers on a absolute basis are relatively low, in terms of the distribution. We have a lot more sells than you'll find in a traditional company. If you look on a ratio basis, it doesn't really matter what the absolute level is. It's, are you getting more buys versus sells or more sells versus buys? It tells you what the model is seeing behind the scenes.

The left chart is the shorter term one. The right is the longer term trend. We can stay focused, for our purposes, on the left. What's interesting is, our buy-sell ratio is showing relative strength behind the markets, was the highest in the summer of 2017. We actually made a lower peak, in terms of this ratio, in January. Not by much, but slightly lower in January of this year than we did in July of last year. Then, you can see, we made a third lower peak on this most recent rally that we had in the summer of this year. What it tells me, and what the signal is, is that this unbiased model, which is designed to pick up on what's happening behind the scenes, has been seeing weaker and weaker activity behind the scenes, even as the market, especially the S&P, made a marginal new high a few months ago. I don't think it's any surprise that after the marginal new high, we had what happened in October. Pretty much, a short-term collapse.

One last thing that I think is worth pointing out too is, Goldman Sachs has this indicator that they put together, it's their bull, bear, market risk indicator. It kind of throws all this stuff into a pot. It's looking at things like, the ISM index, which tracks manufacturing activity. It's looking at the slope of the yield curve, obviously, the flatter the curve, the more it signals potential future risk, inflation, and so on. They've set this up on a back tested basis, seeing how it's behaved over history, and essentially according to them, and Goldman Sachs is Goldman Sachs, their indicator had the highest bear market risk reading, just a few weeks ago, that they've ever had or not ever, but back since 1969. You can see that past peaks of this have tended to work out fairly well. They've preceded the shaded blue areas, which represent bear markets for U.S. stock. Again, it's not just, I think what I'm seeing, both on a quantitative and qualitative level, it's what you're seeing in other places as well.

If I had to bottom line all of this. What does this mean for you as an investor? Well, in our Safe Money Report, a year or two years ago, I was pretty much fully invested in the model portfolio. The types of things that were recommended, it was stocks like, Texas Instruments or 3M. Growthier companies, multi-nationals, plays on a stronger economy and a stronger market. Starting with what happened in January, I think a lot of these simmering concerns that I've had for a while, have come to the fore. You've seen more of this actually matter, for lack of a better word, to the broad averages.

Beginning in the February/March timeframe, I've gotten much more defensive. In the model portfolio, went from essentially being 100% invested to about 50%. Me personally, and again, I share this in my column, so I don't mind. I slashed my 401k stock percentage or allocation to the lowest level it's been, essentially ever. Many, many years. Within that portfolio, and my recommendation to everyone here, is that you want to be reallocating to that safer, higher-rated stuff.

The earlier chart, you can see that the Growth Over Value trade is so extended. It is absolutely at the extremes. We've only seen one time in history, which was a one year period bracketing the dot-com peak. Now, it's been going on for a while, and there's no way to know exactly, when is this trend going to change. You have to look for technical signals.

Well, what have we seen so far this year? What happened in July? Facebook, favorite growth investment, lost almost $120 billion in less than 24 hours. Through this previous Monday of this week, before we had that bounce, the FANG stocks collectively lost $570 billion in market cap from the July peak. The overall U.S. averages were down about 2.1 trillion, and globally, loss market cap was around 5ish trillion dollars. This is not normal activity. This is not what we saw in the previous nine year run-up to January. I think that that is the market, technically speaking and confirming some of these risks that have been simmering for a long time, are starting to change.

As a matter of fact, sectors like utilities, [inaudible 00:24:10], consumer staples, on a three and six month basis up til' recently, have actually started to out-perform. You're seeing money start to come out of what is overvalued, over-hyped, and over-loved, and rotating into stuff that is undervalued, under-hyped, and under-loved. I was joking at a previous conference that I was at, I said, "Forget greed is good, the advice here is, boring is good. You want to own the boring, undervalued stuff, at this point in the market cycle." Maybe it's boring, maybe it's not great for cocktail speech, but it does actually help protect and make you money in a changing market environment.

Finally, a couple last things. Like I said at the outset, I'm not a gold bug, per se. There's times when I like gold, there's times when I don't. It really depends on what's going on in the markets, interest rates, and so on. As I've been discussing with other people at Weiss, including Sean Brodrick, one of my colleagues, this seems to me like a time when gold is beginning to make that turn. It's beginning to bottom out. Some interesting patterns on the charts and so on. I think that gold as, for lack of a better term, chaos insurance is the kind of thing you want to own here. More so than you may have wanted to for the last number of years. I think that this is an environment that you're going to see more market events. More things like what we saw in January and February, with volatility and so on. I think that that increasingly chaotic market environment is what we're going to be dealing with for the next couple of years. That's a reason to own gold.

Lastly, I think I wouldn't have talked about inverse ETFs or downside options positions very aggressively in the last several years, because, obviously, the trend's been up. That's been changing. Whether you're looking to hedge or you're looking to be more speculative, I think there are some opportunities in some of these growthier sectors that have been under-performing. You look at that secondary high we had in the S&P a few months ago, and what happened? As the S&P was making a new high, you had everything from financials that were lagging badly, investment grade credit spreads did not reach a new tight to treasuries, as they were previously doing for ever S&P peak.

The volatility, the VIX index did not make a new low, even as the market made a new high. There were a lot of divergences, and those, again, are signals that, some of these sectors, in my opinion, I mean look at semi-conductors for example or financials, they've behaved terribly. You have a chart of a company like AMAT, applied materials, that looks like it's breaking down, just like it did after the '99/2000 boom.

Those are the types of sectors and stocks you want to be avoiding, or if you're looking to hedge and so on, those are the kinds of sectors you may want to be looking for downside protections. That's what I'm doing. I think that, again, the market is telling you that this is a change, this is a different environment. It's like the old saying, adapt or die, right? You have to adapt to it, and not keep continue to follow the same strategies that you did for the last nine plus years.

That's all I have. Thank you very much for coming out this morning. I'll have more on a panel later this morning.

Sean Levine

"The Oil Story Is Just Getting Warmed Up"

Robert: Alright. We're gonna switch gears a little bit and talk about oil. In fact, Sean Levine is gonna share with us - the oil story that's just getting warmed up. Sean's Director of Research and Product Development at Energy Capital Research Group. He's an energy, securities, and policy analyst with nine years of experience tracking the oil and gas industry. Prior to cofounding the ECRG, Levine spent four years as a senior analyst at PLS, Inc., a middle market land brokerage and oil and gas data analytics firm. While at PLS, Levine's coverage areas included oil and gas prices, capital markets, and oil field services and he authored all content and oversaw production of the firm's three newsletters on those topics.

Before PLS, he spent four years conducting policy and equity research at DeMatteo Monness, a boutique primary research firm and broker dealer, culminating as Senior Research Director and Levine holds Series 7, 63, 86, and 87 securities licenses and he holds a J.D. and is licensed to practice law in West Virginia. Additionally, Levine is co-founder of a privately held Appalachian oilfield services-focused trucking concern, for which he has served terms as Chairman and CEO. Please welcome, Mr. Sean Levine!

Sean Levine: Hi everyone. Thank you, Robert! Just wanna give everyone a heads up. I've been a little sick, so if I start sounding like a cartoon character or a muppet, bear with me. So, I get to talk to you about oil today. One of the few folks at the conference who's gonna be doing that, which is great for me because compared to most commodities, oils had a heck of a run over the past year. So, if I want to be excited or enthusiastic, I don't even have to fake it. As far as the retail investment space, oil is so volatile, I can make wild claims about the future potential outlook for oil and there's a pretty decent chance I might be right.

So, we've got ... we've had a pretty good run here for oil. Since the bottom, roughly tripling in price. Now, is that gonna continue in a healthy fashion? Is that gonna develop into a healthy pattern like we saw in the early 2010's or is this gonna do some kind of a web saw things like we saw with the financial crisis? It definitely would not be a good outcome. The bottom line for me at this point in the cycle as an oil investor is, it doesn't really matter which one of those does as long as I'm confident it's gonna continue to rise from here. We can try and figure out the top later. I think it's gonna keep running.

Jumping into the supply picture, there are several key OPEC producers that are either very volatile or having serious problems. Libya has never normalized since Gaddafi was removed. It has come back some recently from the very bottom levels, but it is by no means stable. There's a lot of risk in the area. There's a lot of internal strife and... Sort of reversion to the main idea, we don't really think that that's destined to stay where it is. Similarly, Nigeria, there hasn't been a single event, but it's been more of a death of a thousand cuts scenario where, again, lots of internal strife and disruption and supply had come down. It has recovered somewhat, but again, law of averages dictates probably not to be for that much longer. Venezuela is essentially a failed state. Production has been collapsing. We fully expect that to continue to do so with no solution in sight. Iran had brought its production back quite a bit, post the deal, but with the new sanction regime kicking off here in a few days we're gonna see significant fall off and as you can see, we've already, in the months leading up to today, seen pretty significant fall offs.

This jumps into The prior slide was supply. This was exports, specifically with lower number cause they consume some at home. We've seen already down 1.1 million barrels a day or 40% just since April. We think there's another million barrels a day or so easily in the cards to come. So, here's ... The blue line at the top is global demand chugging along nicely. Still continue to expect to see gains over the next few years and beyond, driven by developing markets. We may see some economic risk coming down the pike, but it still should continue. It's more a question how much growth not whether it's gonna turn into corrective territory and start declining any time soon.

At the bottom we've got OPEC spare capacity, that's the red line. Kept those in absolute terms so you can see how much ... how small the buffer is relative to how much supply there is. The most interesting aspect of this is if you divide the one into the other, you get that ... the bar graph which is the percentage of spare capacity relative to global demand. As you can see, that's been shrinking, shrinking, shrinking. We're down to ... For next year, those 2019 projections at the end there, down to about 1%, near record lows.

The other thing is, this was all ... These projections were made prior to the recent Khashoggi events and the death and the fury in the states and sort of Saudi's effort to mollify by saying, "We're gonna open the taps and produce as much as we can. It'll be all right." That gets us back to kind of where we were. You can see in 2015, right around there. Gets us back to that level in terms of spare capacity, but the market, while it has been selling off ... Probably, we see support around sixty. Pretty strong support for these and additional reasons we'll get to, but it hasn't imploded like it did in 2015 because the market needs the supply.

Here, we've got unplanned outages. If you look toward the middle of the chart, the blue is OPEC, the green is non-OPEC outages. So, largely OPEC. If you look at the middle of that range, 2013, 2016 running around three, three and a half million barrels a day, on average outage. That's come down. That's come down over the past couple of years, but guess who that's been due to. That's Libyan and Nigerian production coming back online. So, again, law of averages suggests sooner or later we're gonna see move back toward two and a half, three million barrels a day, but this time, no spare capacity to alleviate any of that. Out of the countries we're talking about, we haven't talked about Iraq, which is pretty much near record production levels. Not exactly the most stable place on Earth. Saudi Arabia, itself, is waging a proxy war with Iran via southern border where the Houthi's are firing missiles periodically at their production facilities. So, there's plenty of potential tailwinds that could lead to a tightening of supply while we're already producing almost all we can.

The U.S., meanwhile, has been sort of the success story and saving grace for a lot of the disruptions. Now, these are all in percentage basis which you'll understand why here in a second but U.S. production over the past couple of years has risen very nicely, up 30%. Record 11 million barrels a day and sometimes beyond and the Permian has been the growth engine for this. Permian production is up 70% over the past two years to 3.5 million barrels a day. No small feat. Very impressive. However, they've produced so much and so aggressively that all the take away capacity has been wiped out. There is no additional, there's no additional pipe. So they're now using trucking and doing whatever they can to try to get more out, but it's gonna stymie additional growth efforts. Give you a sense, by proxy, we look at drilled, but uncompleted wells.

So, the operator will bring in a rig and to save money, they'll go ahead and drill four/ six wells on the location. They'll only frack one of them and produce one of them. They save the rest. Get to it later. So that's a DUC. So, DUC's in the U.S. have increased 50% over the past two years. That's nationwide. There's been a decent growth of them. Just sort of back log overall. In the Permian, it's tripled. There's 3,500 hundred DUCs in the Permian now, waiting to be brought on line because there's no point, there's no reason to-

Speaker 3: What are DUCs?

Sean Levine: Drilled but uncompleted wells. So, they ... Again, they drill the hole. They don't frack it. They don't start producing it. They've got the rig there. They want to save money. They don't want to have to bring the rig back. They're big and expensive so they just go ahead and drill while they're there.

So, here's what they're trying to do about the Permian. They've got a lot of pipes coming on line. However, ultimately this is going to lead to more U.S. supply, but we're not there yet. This happened so quickly, everybody's scrambling to deal with it. See, in the upper right there. That Q319, third quarter of next year is the earliest that any additional take away capacity is gonna be online. Even when it is, it's not gonna resolve the whole problem. So, everybody's gonna be sitting there and waiting and trying to produce what they can, but when you look at the U.S. supply growth projections that all the agencies make and everybody ... all the analysts, they were a little over optimistic because a lot of them did not take into account this dynamic. It's gonna slow down U.S. growth, which again, is kind of bullish on a global scale because it keeps that extra supply from coming online.

This is sort of a macro point here. So, you think of global conventional production. The stuff that has been supplying, providing the world with oil for generations. Massive multi-billion dollar mega projects. National oil company stuff. Saudi stuff. Everything. That production ... that supply loses, on average, 3.5 million barrels a day, off the top. Existing supply gone. That's the decline rate globally. It's about 3% of total global supply. Every year when you're increasing production ... anybody who want to see ... You want to see production growth globally? You gotta hit your three and a half million a day first. Just to tread water before you can start to bring on supply.

Now, what drives that? Where do we get all that? Where do we get the additional barrels? It's the global capex cycle. The oil industry's capex cycle. Ultimately, again, it's a multi-year cycle, planned years in advance. Go out ... It's not like shale. It's a lot quicker. It's been a more recent development. The capex cycle ... If you see a reduction, It does have ripple effects. So you look at the financial crisis, '09, '010, only lost 14% year on year from global capex. Took two years to recover and then from 2010, 2011, 2014, we happen to see oil prices escalate to above a hundred barrels a day even though U.S. is growing production like crazy. We don't think that's a coincidence. It has an effect. It has a ripple effect. It takes some time to bleed through, but it does eventually bleed through and start to drag that global supply depletion rate down. Well, when oil prices collapsed in 2015, blew that financial crisis number out of the water. Fell over 50% over two years. The expiration piece of the capex budget was hit even harder and fell 60% over two years. So, this stuff has already happened and it has not bled through to current supply. It should do that over the next few years.

U.S. shale is ... or shale just generally, is providing a little bit of a band aid on that. You don't necessarily have to get all the way back up to where you were, but shale production depletes at a much more aggressive rate. You know it talked about 3% for the global, kind of background radiation rate. Shale will produce ... the first couple years a shale well will produce a bulk of its production, like 80% of its production. So, you're gonna see aggressive decline rates. So again, you might get it cheaply upfront, but it's sort of elusory because later you're gonna have to pay more and more and more to keep drilling. So, it's all gonna come out in the wash. Nobody is really talking about this and it's gonna happen. I've spoken with several of the lead energy economists at some of the Seven Sisters major oil and gas firms and they agree with me. It's an issue and it's just not getting any traction. It's pretty much the core of my long term bull case for oil.

Futures data, this is CFDC stuff that looks at how different parts of the financial markets and hedgers and everybody ... how they're putting their money to work. Pretty good case for oil as well. We have seen a pull back. Speculators in the upper left, they drove the move. They drove a lot of the action last year. Leading up in to this year, they did pull back pretty aggressively and that does play in to some of the declines that we've seen more recently, but there is some support right around here. That light blue line, that's sort of volumetric support, net longs and we're getting close to that line and we think... that support is gonna hold and we also see, again, $60 a barrel WTI, that probably gets you to about that level. I don't think it's breaking below that any time soon. There's no reason for it to. So then you move over to the upper right, you got refiners and other crude consumers. The light blue line there has been rising, because they are more concerned about future outlook. They don't want to pay that much for oil in the future. They want to control those costs so they protect.

The bottom, that's oil producers hedging. They shorted and that short, that pushes things down, but they hedged like crazy as prices rose. But if you look, that's about from mid 2018 onward. They've been letting some of those positions go. They've been winding down some of those positions. Even though theoretically, They don't want to leave money on the table. When you put on hedges, you limit your upside. They don't want to limit their upside. So, we think the two more fundamental focus, the commercial focus sides of the futures market kind of get what's going on a little bit better. Speculators are a little more fickle and once those impacts start to bleed through, the financial bullish items start to bleed through, we think that the speculators come back and that gives it a nice pop ... rationalizes the next leg up.

A couple ways to play some of this. We like OILU. It's a tripled levered oil ETF. Essentially, every 1% that WTI rises, it rises three. Inception March 2017, so that's why we start the time series there. It's been doing a pretty good job of that. Right now may be double of what it was because oil's up maybe 40% from a year and a half ago, but when oil was up about 60%, it was up almost 200%. Pretty solid way to play it if you're bullish. Disclaimer, I own OILU.

This is a widget that we created called Secmo. I won't get too deeply in to the math on it, but it basically tracks momentum and it looks at a security relative to a benchmark like the market. So, the midpoint of these graphs, it's the market, it's the S&P. Those are, In this particular graph these are the sector ETFs for the S&P. What we normally look at ... The securities move in a clockwise fashion and the entry point that we really try to zone in on is this area right around here. This is the sort of lagging and losing steam quadrant and this is still lagging, but reversing and showing positive momentum. So, it's sort of like the perfect buy low point. Energy is the bluish line here. So, it's looking pretty positive and pretty supportive. We think that's an interesting spot for the sector to be.

This is getting into the equity level. Looking at some specific ... It's not ... The whole industry, picked about a dozen representative securities. Some of the conventional and there been a lot of pull backs cause oil has come down and a lot of the industry as well. A lot of the conventional oil companies like California Resources and Denbury, like smaller conventional focus guys have fallen off. They're over there on the far right. The yellow line is Continental Resources, there in the middle. It's kinda circling around, not doing a whole lot. Valero is that brown line, down here, that's a refiner. Refiners were doing really well for a while, but oil prices rose and eventually started ... they kinda came out of vogue a little bit. What we do like and again, eluding to that sweet spot, positioned around here. The one on the left, that's Halliburton and a little further over the pink line, that has had a very nice run over the past several weeks, is Mammoth Energy Services. That's a U.S. focus. Halliburton's an international services firm. Mammoth is a U.S. focused services firm. Services tend to be one of the last legs of the oil and gas value chain to get the real wind at their back. So the timing also seems right just from a sort of sectoral cyclicality standpoint.

Little bit on gas. So, not exactly the worst of times, but not great, particularly when compared to oil. Had a decent run up from the bottom, up about 50%, but then where oil regrouped and continued to run higher, gas has done really nothing and if anything, it's done a little bit of the opposite. If you plotted out a trend line there, that'd be to the downside and the spikes that it sees are seasonal winter demand. There's some good reasons for why that's falling.

Global supply is the green line, running higher. It's supposed to run between this year and next year 18% U.S. supply growth. That's like sixteen and a half billion cubic feet a day. That's a lot. Meanwhile, demand ... This year, domestically, that's the squiggly line cause it reflects on a seasonal, winter is the peak and summer is the lower bottom part, demand growth, domestically this year, yes, six, seven BCF a day. Next year, flat lines. No real growth expected and you see that gap. I try to look at that gap. You see, that gap has just been getting bigger and bigger year after year. That's a problem. Next year, the saving grace is ... Down at the bottom those are gas exports. So LNG, liquefied natural gas particularly, but also some pipelines to Mexico. Things like that. Supposed to see a very nice pop next year for that. About five BCF a day. It's still net not losing in terms of more and more over supply, but that's gonna be help. Only problem is, next year is the last year we have this huge wave of investment in LNG several years ago and all those projects are finally coming to fruition.

Again, multibillion dollar projects. They're getting wrapped up. After that, there's no more. Companies are discussing right now the second wave in getting that process started all over again, but that's a three year process, easily. So with additional demand growth uncertain domestically and inability to export after next year, supply growth will continue to rise. Part of the reason for that, here's Appalachia. Marcellus, just an ocean of gas. Dirt cheap ocean of gas. Just over the past month or so and through the end of the year, we're looking at another four BCF a day and new pipelines that'll help debottleneck that area and help get that supply out in to the rest of the country to compete with Henry Hub. That ... Into the Midwest and the southern markets, gonna create additional pressure and we think there's more projects coming. As a result of that we think again, some of these growth estimates ... The Marcellus continually just knocks it out of the park and beats on expect ... Compared to expectations, we think it's gonna continue to do that.

Future side ... People have got ... The upper left ... Speculators have gotten out of this trade. They used to be 20% of the market ... That dark blue bar at the bottom. Now they're just down to ten. Utilities in the upper right are propping up the market. They'll buy gas up to $3, but probably not above that so it makes for a floor, but it really doesn't make much of a bull argument above it. Note, the hedging ...the producer hedging at the bottom, still very strong. It's not selling off like it did with oil because gas producers are not nearly as confident about the future outlook. Secmo, touch on this just a little bit. Hard to find gas plays, but we again like LNG. Golar is a shipper and Tellurian is ... they're part of that second wave that's coming along. Disclaimer, I have some Tellurian. They're early if they can get final investment decision, if they can get their financing together. Which they've done in the past. The guy ... The folks that started this were very successful. They built out Cheniere, which was the original first wave leader. They can get this going, lot of potential upside. Maybe a ten bagger.

Again, there's some risk. Trade risk with what's going on in China right now. So it's a little bit speculative, but it has a lot of potential. Appalachian operators who were smaller and get to ride more of this additional supply or this additional take away capacity coming online. This is Antero over here. The yellow line and the green line is their midstream division which has also done well. So again, kinda right around that area that we like to see.

Last couple comments on LNG cause it's really the only good story for gas. The shaded greenish line, that is the spread between U.S. Henry Hub gas, the dark blue line at the bottom and the Asia price at the top. Before prices collapsed, very nice spread, very profitable and that's what enticed the first wave of LNG exports in the first place. You can see, over on the right, that spread's improving again. It's coming back and it's gonna continue to come back and there's a very good reason for that. There we go. So, the dashed green line, that is the projected expected outlook for demand growth for LNG, globally. The developing world needs lots of power. They're relying on natural gas. China needs lots of power. They are not only ... they not only need more power, they're shifting away from coal because they can't breathe. So, it's this double whammy. Gonna be huge amounts of LNG demand and that blue bar, that is the culmination and the end of the current development cycle. There's nothing. There's nothing to fill this gap and there's not gonna be anything to fill this gap for several years to come. That's gonna push the price of LNG high. It's gonna rationalize additional projects and it's gonna help existing exporters like Cheniere clean up.

So, that's my time. Hope it's been helpful. Thank you very much and I can take questions out in the hall.

Brien Lundin

"What's The Next Multi-Bagger From Gold Newsletter? Top Opportunities In Junior Mining Stocks"

Robert Helms: With a career spanning four decades in the investment markets, Brien Lundin serves as President and CEO of Jefferson Financial, Incorporated, a highly regarded producer of investment-oriented events and publisher of Investment Newsletters and Special Reports.

Under the Jefferson Financial umbrella, Mr. Lundin serves as the publisher and editor of the Gold Newsletter, the publication that has been the cornerstone of precious metal advisory since 1971, and is the host of the annual New Orleans Investment Conference, the oldest and most respected investment event of its kind.

As editor of Gold Newsletter, Mr. Lundin covers not only resource stocks but also the entire world of investing from small caps of every type to macroeconomics and geopolitical issues that ultimately effect every investor.

As the host of the New Orleans Investment Conference, Brien has annually brought the giants of investing, economics and geopolitics together in an intimate presentation, a scenario with many of today's most sophisticated private investors.

In all of these endeavors, Mr. Lundin has driven to burnish the brilliant legacy of the late James U. Blanchard III, his great friend and the founder of both the Gold Newsletter and the New Orleans Investment Conference, and his spirit is alive and well tonight.

Please welcome your host, Brien Lundin.

Brien Lundin: Thank you, sir.

Thank you, Robert. First, a quick comment. Yes, Byron King, LSU is playing Alabama Saturday night. Yes, I do have tickets, and no, I will not be using them, I will be here. The sacrifices I make. But, hopefully I'll be able to watch the game somewhere in the hotel.

Yes, as Robert mentioned, when I finish, we will have the reception, so if I start to go over, don't hesitate to start throwing paper at me or whatever you need because we have a wonderful fare set up. We have open bar, great food and I hope not to run over. So, let's go through this really quickly. I will be going into this in more detail in my workshop later tonight.

Why are higher gold prices inevitable, and what do you need to do about it? Well, this in a nutshell is why the higher gold prices are inevitable. The gross federal debt, it is too large right now to be managed by any other means other than some significant degree of depreciation of the dollar. That's the only thing that can happen. They can't raise taxes. They can't cut spending, obviously. They can't grow their way out of it. We can't grow our way out of this debt. It's crushing.

But let me tell you a few dirty little secrets on the federal deficit and the federal debt. These are things that aren't widely known and they don't tell you.

First off, the federal deficit for 2018 is projected to come in at only $793 billion. That's up a good bit under Trump. $793 billion, yet somehow, for the fiscal year ended 2018, our fiscal year 2018 ended on September 30, the federal debt had grown $1.2 trillion over the previous year. Now how is that possible if the deficit is only $793 billion? That's because there's about $400 to $500 billion of off budget spending that the Congress and the government and the treasury has decided to put off budget. If you and

I decided to do off budget accounting like this in our businesses, we'd go to jail, but they make the laws, so they can do it.

As a result, the debt is growing much more quickly than most people realize, and the growth in the debt is accelerating. The debt grew $1 trillion in just the last six months of fiscal year 2018. Now, if you look out there, there's a lot of analysts that are yelling and talking about doom and gloom, how the federal debt will grow to $30 trillion in the next 10 years, but if you look at the chart I did earlier with the historic trend line growth rate, that's 8.79%. Since the Federal Reserve was ... Actually, since 1900, the trendline growth rate for the federal debt is 8.79% a year.

At that rate, the federal debt will grow to $30 trillion by 2022. That's the end of Trump's eight year term if he gets that. The point being, the federal debt is already out of control. So what does this mean? Is this unprecedented? No, it's not. This has happened over and over again throughout human history. It happened in ancient Greece. It happened in every instance of recorded history. It happened in ancient Sumeria.

You know? Back in ancient Greece, there were probably Peter Schiffs and Rick Rules and James Grants walking around in their robes and saying, "Debt's outta control. Spending's outta control." It's always happened. Due to wars or entitlements, governments overspend, and when they do, they make that debt cheaper. They make it essentially go away by depreciating the currency or defaulting on the debt. That's why Cicero said, "To be ignorant of what occurred before you were born is to remain always a child."

But Cicero was speaking on deaf ears, because this is what happened about 100 years after Cicero was alive. The Roman Republic had gone away. We had emperors in Rome, and emperors had bread and circuses and wars to maintain the empire. They overspent. This is the devaluation of the Roman denarius. Now, if you looked at the last part of that, the steepest part, if you look at those red dots, those red dots are emperors that left office feet first, essentially. They were not voted out of office, and that is what happened during that steep drop in the Roman denarius. The steepest drop happened over a period of about 50 to 60 years.

Again, this is not unprecedented, but we think it can't happen here. This is what's happened here. This is the purchasing power of the consumer dollar. This is what's happened to the dollar since we took silver out of US coinage in 1965. It's lost about 87% of its value, of its purchasing power. And of course, this is by the government's own measure. This is by their estimation of inflation through the CPI and we know how trustworthy that is. We know that there's an inherent bias to under report inflation. So it's actually worse than this.

But, if you look at it, if you ... Hundreds of years from now, historians will look back and say you and I right now are living through the destruction of the dollar. And as you know, it can go lower.

So what happened over that same period? We had the purchasing value of the dollar going from the upper left to the lower right, and generally, we had the relative value of gold going from the lower left to the upper right. Now obviously, it wasn't a straight line. It doesn't work that way. People will tell you. Pundits will tell you that gold is a lousy inflation hedge, and they'll bring up oil. They'll bring up something else, or tips, and how that's a much better inflation hedge. Their correlation is much better.

It doesn't work that way. There are periods. If you can pick your beginning and ending points, you can prove any fact. If you allow me to pick data points of 11:00 p.m. and 4:00 a.m., I can prove to you that the sun never rises. What I'm telling you here is that over the general wide sweep of history, when the dollar goes down, gold goes up. Sometimes, it's much more quickly. Sometimes, it's not as quickly. But if you're looking for a way to hedge against the eventual, the inevitable destruction of the dollar, then you need to be in gold. And silver.

Now, let's look at it a little more closely. Let's look at what higher rates mean, what this debt means today, this out of control debt in an era when interest rates are rising. It's very difficult to get a handle on this. You can get, in the government's budgetary statistics, you can get the interest payment cost in the federal budget. Now this is not the interest payment cost on the federal debt, because as we know, or actually on the deficit or the debt, because there's off budget spending.

So, you're not really dealing apples to apples, but we can get a close approximation. Here, we see that federal government interest costs are rising much more quickly here as the debt is rising very quickly. Eventually, these interest rate costs ... And this again is in a very low interest rate environment. So what's going to happen if we get higher rates?

Well, here we see the effect of interest rate burden, and I calculated this by simply taking the interest cost annually with the size of the federal debt that year. And you can see the effective rate. We're coming now off a very low period. In fact, an historically low period, even when interest rates and the federal funds rate was at zero, our effective interest rate cost was about 2% to 2.5%. Right now, it's about 3.5%.

Historically, as you can see, though, it's been in the range of 6% to 7% as recently as 10 years ago. And of course, if you go back to the 1980s and late '70s, you can get up to ridiculous numbers of 16%, 18% interest rate burden on the federal debt. But now, we're coming off again, a bottom in interest rates. Rates are rising.

So what happens if we get back to even these levels of 10 years ago? Well, this is what happens. Now, if you take the current debt, the current debt, which is debt held by the public, which is about $15.7 trillion, and you apply these effective interest rate costs, interest costs, at these rates, this is what happens.

Typically, it bounces all over the place, but in a normal environment, the effective interest rate is about three to four points, basis points. Actually, in the three to four points above the fed funds rate. So, if the fed gets to 3% to 3.5% on the fed funds rate, which they'll probably get to by about mid year next year at this pace, then that means the effective interest cost burden on the federal debt is going to start rising toward more normal rates, which will be in the 6% to 7%.

And as you can see, that means the interest rate, the burden, the interest payments paid on the federal debt will rise to over $1 trillion. Right now, they're a little bit over, about $350 billion. So we're talking about, in the relatively near future, over a couple of years, if the fed gets the fed funds rate up to 3%, 3.5%, we're going to be paying over $1 trillion in interest every year. That's more than defense, more than entitlements, more than just about anything else, and a large portion of that is going to be sent directly to China.

Now you tell me what the political probability is of that going over. So, the bottom line here is that we're going to have to reduce the cost of that debt through a significant depreciation of the dollar, or have some degree of default on that at some point. The bottom line is we're going to have a market that's very similar to what we had in the early 2000s, when we saw the gold price go up tremendously, when junior mining stocks leveraged those gains and multiplied in value and you had four and five baggers, even 10 or 20 baggers in leveraged gold stocks. That's going to happen again.

And when it does happen ... Let's take a look at what that means. This chart, I like to put in all of my presentations, shows real gold, inflation adjusted gold. If you get to the $850 level of 1980, that corresponds to about $2,758 in today's dollars. So just to equal the 1980 high in gold in current dollars, you're going to be $2,700, $2,800 in the gold price.

So just imagine if things get as they were in the late 1970s, a bit out of control, people nervous, interest rates out of control, inflation rising, and the fed has to come in and clamp down on things. If you have that degree of monetary unease in the markets, then we're going to have gold prices approaching $3,000.

So what do you do about it? Let's get into some companies. I'm going to, in a little bit, go rapidly through the companies that are recommended in Gold Newsletter that are exhibiting here, that you can actually go talk to them. But here are about four or five companies I'd like to pay particular attention to.

GT Gold, as you may remember, I recommended last year. It's a discovery play in the Golden Triangle. It's had a tremendous move. It's come back a little bit since this chart was written. I think it's at a good buying opportunity now. They're finding a porphyry where they had an underground high-grade deposit that was getting too deep. Now they found what appears to be a very large porphyry deposit.

Great Bear Resources. I didn't recommend that last year. I recommended it a couple of months after the conference at about 33 cents in our alert service. It's gone up about 10 time since then. This is a high-grade red lake type deposit. I would buy this one still on weakness. It's the only junior discovery play out there that has this kind of potential to develop another red light deposit. I highly recommend that.

By the way, I do not own GT Gold. I do own Great Bear Resources.

Revival Gold is another recommendation of mine I like a lot. In Gold Newsletter, I do not own this stock. I hope to, if I can get some money clear. But it is a company that's developing a deposit in Idaho that's about two million ounces right now. Well, it looks to be within reach of two million ounces. The goal is to make it three million ounces. What's interesting about this play is the management team wants to develop a mid tier gold company eventually, and use this project as a stepping stone. There's a very talented group, and I'm very positive on them.

Sojourn Exploration is, you may know, was a company that I was a co founder of. I've stepped off the board over the past year. They've completed revamped themselves, got in a management team, a new management team that brought with them about a half dozen properties in the Golden Triangle in BC. You'll see a number of these Golden Triangle properties talking about the red line, which is the key marker, geologically, in the Golden Triangle, for the very large scale world class deposits that are being found. The guy that developed that red line ... It's actually called the Kyba red line, after Jeff Kyba. He is the Vice President of Exploration for this company.

I own a lot of Sojourn, so let me be very clear about that. I am very conflicted on this one, but I like the team. You will have time on this, because they're not going to be drilling this year. It is a prospect generator. But it is one I would advise you to accumulate on weakness, and hold for next year's exploration season.

Thunderstruck Resources is another company that I am intimately involved in. I am a co founder and the Chairman. This is not recommended in Gold Newsletter, precisely because I am an insider of the company, and as you can imagine, I do own a lot of this one. But I think you should go by the booth. Thy put out two news releases in the last two weeks of really significant discoveries on the property in Fiji, and most likely, will have more news coming. I do recommend that you go by the booth and talk to them, and that's precisely why I have the chart up right here.

So I'm going to run through ... Well, one more company, Vendetta. This is a special situation. Vendetta has a pegmont zinc lead deposit in Australia. They are about to complete a PEA, a preliminary economic assessment on the project. Once they do that, it's kind of widely regarded in the industry as the starting point for the company's availability for a takeover. There are about two or three companies uniquely, or well positioned, to make bids in this company, and I would say ... I think they're trying to get the PEA done before the end of the year, so that's kind of a near term opportunity over the next month or so. I like that one. It's a potential takeover play.

As you know, as you can see, in Gold Newsletter, we like gold. These are gold companies we like. Atlantic Gold, Aben Resources, Allegiant. These are all companies, again, that are here, that you can talk to the management teams. Auryn Resources, Cabral, Contact, First Mining, Golden Arrow, Golden Predator, GoldMining, Gold Play, Great Bear again, Klondike, Lion One, Medgold. Medgold's a new recommendation of mine. Integra, New Dimension, Nordic Gold, San Marco, Skeena, TerraX, Torq, and Triumph. They are all here. I advise you, I recommend that you go talk to them. All these companies are recommended for important reasons in Gold Newsletter.

Silver recommendations that are exhibiting here. Avino, Excellon, Great Panther Silver, New Pacific Metals Corporation. There's a lot of news on all four of these companies. You can get updated at the booth, but all four of these companies have made news recently.

Base metal recommendations. I like Copper Mountain Mining, Fireweed Zinc, Group Eleven Resources and Trilogy Metals. These are all in the base metal space, of course, but they're ... And that's really the only common thread between all four. They all have unique stories to tell, and I think ... I won't put any of those four ahead of the others. You should talk to all of them.

Uranium is recovering, as we know. There used to be about 500 uranium companies in the uranium mania. Now there's about a dozen that are worth looking at. These are the four I'm recommending that are here at the conference. Energy Fuels, Fission, GoviEx, and Uranium Energy Corp.

And prospect generator recommendations. These are the companies that go out, find early stage prospects, and they garm them out to majors to do the heavy lifting and expensive exploration. Avrupa, Eagle Plains, EMX Royalty, Midland Exploration, Millrock Resources, Riverside Resources, and Sojourn again. These are companies ... In particular, the prospect generator sector are companies that you should buy and put away due to the management teams. They like to get other people to drill, but these are companies that their business model is one that keeps you in the game for the long term, and you're really looking for a good management team for those companies. All of these companies have management teams that I like a lot.

Large scale resources recommendations. I developed this category because when gold begins to move, these companies move first. Typically, and an opportunity Is coming up. Typically, when the fed raises rates in December, as they're expected to do once again, you have a rebound into late January, February, even going into late spring in the gold price. This rebound since December of 2015 has resulted in these types of companies multiplying two or three times in value from their December lows. These are all companies you should look at as a buying opportunity in mid December.

Altius, Bluestone, GoldMining, First Mining Gold, Revival Gold, Sabina Gold & Silver, Sandstorm Gold, SSR Mining, and Triumph Gold.

This is how you can find me. Neworleansconference.com. Twitter, @Brien_Lundin. Goldnewsletter.com Podcast. Please listen to our podcast. I would like to say, "And now, off to our welcome reception", but they gave me something to read in that regard, so I have to go over that to make sure I don't skip over anything important.

Please go visit the company booths at the welcoming reception. They're all set up there and will have food and drink to make it a lot more fun. In your registration packet, you'll find a conference survey. Additional printouts are also available at the registration desk. Please take time throughout the conference to answer the questions and give us your feedback.

We truly do read through each and every survey received, and our goal for each year's event is to bring a conference to you based on your expectations and your needs. Your assistance is vital in order for us to accomplish this. We ask that completed surveys be returned to the registration desk here on the first floor no later than 7:00 p.m. on Sunday, and as an incentive for you, we will be holding a drawing of all surveys returned, with one lucky winner to receive a one tenth ounce gold coin, compliments of American Gold Exchange.

Before you head across the hall to meet our sponsors and exhibiting partners, please be sure to bring any notes and belongings with you as the general session room will be cleaned by the hotel. After the welcome reception, speaker workshops can be found on the second floor.

Speaker workshops will be held by ... And that is listed on here somewhere. By Byron King, by Adrian Day, by Mickey Fulp, and by yours truly. So that's right after the reception. Head up to the speaker workshops, please.

Tomorrow morning, there are sunrise sessions being presented by EMX Royalty, Excellon Resources, Sabina Gold & Silver Corp, and Midas Gold. That's all on the second floor from 7:15 to 7:45. We'll resume back in this room tomorrow morning at 8:00 a.m. We have coffee service provided prior to the official start of the conference.

So, that's it. Let's go. Open bar, and food. Let's go. Thank you all.

Mining Share Panel

Rick Rule (MC), Brien Lundin, Nick Hodge, Lobo Tiggre, Byron King

Robert Helms: And Brien Lundin at the mic, ladies and gentlemen, from Gold Newsletter and Jefferson Companies, Brien Lundin, your host, knows a thing or two. All right, excellent. There's Nick Hodge from the Outsider Club.

This is the order that they're miced. That's the order that we are picking this up, all right, next, he's ready to go, welcome back to the stage, Byron King from Agora Financial. Excellent. This would be a really good time to give credit to the amazing AV team who is just banging it up back there and back here and back there and let's give them a hand. They're doing an awesome job. The video, the audio, it's all coming together. All right and there is Lobo Tiggre from Louis James and I think those are our panelists, let's welcome the moderator of the Mining Share Panel, Mr. Rick Rule!

Rick Rule: Good evening ladies and gentlemen, this is a tough crew. Brien started you off at about 7:30 this morning and I noticed some of you are still here. I need to say to begin with that we're flattered by your attendance. We know it's possible to have some fun in New Orleans and the fact that you chose to join the early part of the evening with us as opposed to the rest of the city is very pleasant.

It amuses me, the segue from the last talk into this talk. You'll remember that the last piece of advice was to consider buying Greece because it was down 88% in real terms. I wonder how many people in the audience know that the Toronto Stock exchange venture resource index, which is the preeminent junior mining share index in the world, also down precisely 88%. I wonder if Greece is a buy if the junior minors are a buy. We'll explore that fairly thoroughly tonight.

I don't think my panel needs any introduction, particularly, because they were already introduced, they've all spoken to you so I'm going to pass all that. I'm going to begin by asking them each a few questions. The first couple questions, gentlemen, I want you to be nontraditional, which is to say that I want you to answer briefly. Okay, I want quick answers to the first couple of questions which I understand isn't your want.

I'm going to begin on my immediate left, it's interesting to hear Brien being described by anybody as to the left, but anyway, the first question which I'm going to ask every panelist is the following, risk to reward, right now, okay, November 2018, would you see new money going into large cap, mid cap, small cap or micro cap mining stocks. This is a mining share panel, not necessarily the Penny Dreadful share panel. So if you were talking to a range of investors where do you think the best risk to reward parameter, coming out of a bear market into a bull market is? Brien, you first.

Brien Lundin: I don't know if I'd define it like that. I think the money is already, we've seen over the last couple of weeks in some of these downdrafts in the broader equity markets in the US, we've seen the miners, the broad large cap mining indexes, we've seen those really go up in one of the big downdrafts, the big selloffs in the stock market, we actually saw the miners go up about, and the indices, go up about five or 6%. I think that's where the first money is going to go but I don't think that's the biggest gains you can go.

One of the sweetest of sweet spots in the sector is, and has been over the last few years, is that typical downturn in mid-December, right when the Fed comes in and tries to squeeze in one more rate hike before the years out. That's usually when we see a bottom in the market and gold usually bounces off of that and usually lasts, this year it didn't last that long, only about a month and 1/2 or so, or two months. But even at that, if you can buy the companies that don't exactly fit the size but the character of those companies, the juniors that have large scale identified resources. They might have economics in the ground, they're define somehow, you know that they've got what is likely a deposit in the ground. They tend to move more quickly and from the bottoms in December, they usually go up %100, even 200% over that 2 to 3 month period into the new year. If we do have that kind of decline, that's the risk here is that we don't have that kind of a decline into December.

Rick Rule: So juniors with large resource spaces. Is that right?

Brien Lundin: Yes. Gold and silver.

Rick Rule: I was terrified with that long answer, that you weren't going to get around to answering the question. I'm delighted that you finally came back around.

Nick. Large caps, mid caps, you're a generalist, small caps, micro caps. Where do you want to be in the mining space? You can do anything.

Nick Hodge: I think the mid-caps are attractive right now. I think you're seeing a kickoff to an M&A boom, we've seen some significant transactions in the past, call it six months from Barrick to Northern Empire to some other ones that you've seen. Pogo went away recently and so I think that the mid-tier producers, I'm talking 100 to 250 thousand ounces, lowest cost quartile, I think these are going to be the targets that are going to supply the next round of reserves and productions to these majors who are so desperately looking for it. Look there's Sean Boyd from Agnico Eagle said last week, "There's just simply too many players out there looking for too few projects." And so if you look at quality projects, I'll throw names now like Terrango, or Atlantic Gold, for example. I think these are assets that have to be acquired in the next round of M&A and at that it's relatively safer than the juniors at this point because they're actually generating revenues.

Rick Rule: Thank you. Byron, same question.

Byron King: Same question, similar answer to Nick's. I think a lot of money's going to flow into the midcaps. I would add to his points that, where is this money coming from, this money is coming from people in the big part of the stock market who are watching their Apple stock and their Facebook stock and their Google stock crater and they're taking it off the table and they're saying, "Where can I go with this stuff?" and somebody says, "Oh, gold-miners," and they say what is gold, what is a gold-miner, they have no idea what it is. But when they look at the large cap guys, they say, "Ooh, I don't know about that." They look at their last history of the last five years and they're scared off, and then they look at the small and the micros and they say, "I have no idea what these guys do." So I think by the process of default, much of the money would flow quickly into the mid cap gold players.

Rick Rule: Lobo.

Lobo Tiggre: Uranium. Size doesn't matter. High margin uranium.

Rick Rule: Large cap, mid cap, small cap.

Lobo Tiggre: I'm obeying your prime directive to be brief. I'm not omitting your instructions on the side.

Rick Rule: But evasion doesn't count as brief. There's all size uranium companies. Big ones, medium ones, or small ones?

Lobo Tiggre: I said high margin. I don't care what size.

Rick Rule: Okay. He ducks. That's fair enough. We'll get back to, well we'll do that right now as a matter of fact. We'll go backwards. I'll give Lobo a question that he has a chance to answer.

I want to ask each of you to describe what your favorite commodity theme is. And why. In other words, mining stocks cover all sorts of flavors. Which commodity attracts you and why? Lobo, I think I know the answer, but let me ask you the question. What would be your favorite commodity at this point in time in the market?

Lobo Tiggre: That's the title of my talk tomorrow morning, everybody gets to sleep in, you get the sneak preview. I think uranium's absolutely baked in the cake, the production cost cuts that were just mentioned by the previous speaker are huge. When you shut down one of the highest grade uranium mines in the world, that really tells you something on the supply side what's going on. At the same time the demand has turned around, The Chinese, I just saw a report in Reuters that they're expected to increase their consumption by ninefold. Ninefold. Consumption. Never mind the leverage you get on the equities. By 2025, not 2050, or 2100, 2025, ninefold increase. And the Japanese restarted and are continuing to restart. So I'm extremely bullish, I do think the technical support fundamentals, and I'm looking for high margins. It could be exploration with high margins, it could be production with high margin, I want something that's going to make money.

Rick Rule: With the caveat of course that at today's uranium prices, with the exception of Kazakhstan, there is no margin. No margin.

Lobo Tiggre: Yes. Yes.

Rick Rule: So we're assuming a higher uranium price.

Lobo Tiggre: Right.

Rick Rule: Byron, same question. Favorite commodity theme. Which commodity do you want to be in to the exclusion, not the exclusion, but what's your favorite commodity?

Byron King: Well I think that the arc of supply/demand right now is bending towards copper. Towards the red metal. Because really if you look at the next five years to eight years of the copper industry, you pretty much know where all the copper's coming from. The mines have been built and you pretty much know what's happening to a lot of those mines and that is that they are in terminal decline if not they're going be closing in the next five to eight years. I see a real shortage there, so I see support for the price. I see some new projects coming on, but you've got all sorts of operational and commissioning risk with that, and I see very strong demand from so many different ways, world economic growth, the whole electric vehicle thing, and so I see a supply issue, I see a demand boom, and I think that the big copper guys have to refill the pipeline with some quality smaller companies that they're going to buy up.

Rick Rule: I'm interested in this. Let me ask you one follow on question. In terms of playing this theme, would you be buying the Rio Tintos of the world, would you be buying the dominant copper producers, or would you be looking to buy more leveraged companies or the ones that the big guys would buy?

Byron King: I wouldn't really go for the big guys, not the Freeport McMorans or the Rio Tintos of the world. It would be more like companies that have something that you can put into development, can I mention names, are we okay with that?

Rick Rule: Please.

Byron King: Excelsior Copper-

Rick Rule: Please, nobody here wants to make any money.

Byron King: Excelsior, down in Arizona just Southeast of Tucson, just got the final holy water on their final permits from the EPA, holy water, that's a pun, I didn't even realize that, because it's an injection permit, and they just committed to the 75 million dollars of funding that they need. These guys are ready to go operational, build their mine which tells me that they're either going to build the mine and make some money for the shareholders or somebody's going to come in, buy them out, give the money to the shareholders and somebody else will worry about building the mine.

Rick Rule: Nick, same question.

Nick Hodge: Is there a time frame or just until I'm right?

Rick Rule: [inaudible 00:11:13] long because I'm old, if you were going to tell people, in the context of their mining investments, what your favorite commodity was, reflected in mining stocks, what would it be?

Nick Hodge: I think I'm going to go with uranium as well, no one is making money right now as Louis said. McArthur was just shut down, the Kazakhs are IPO-ING their uranium production arm, which controls some 30-40% of the market, which means they actually have to act like western capitalists and not just flood the market with their uranium. There's been a series or new funds created, whether that's the Uranium Royalty Corp that's out there now or the Yellow Cake fund that's going to be absorbing supply off the market, Cameco is out there buying supply off the market to fulfill their contracts, there's the section 232 petition that's working its way through the US Commerce Department on which the President's going to have to make a decision in the first or second quarter of next year that I think will go positively and so there's just a cadre of catalysts in the uranium sector that are too positive to ignore.

Rick Rule: And finally, Brien.

Brien Lundin: I think we all agree that uranium is next year's really big story, and I think that makes it five years running that we've said that.

Nick Hodge: That's why I asked about the time frame.

Brien Lundin: I can't disagree with that. It is a story that's powerful, inevitable, and hopefully imminent, so I don't disagree with that one. But I would say that I tell people all the time, if you like gold you have to love silver, and I like gold, so I guess that makes silver my choice, because it offers an innate leverage to gold, I think there are a lot of factors that are pointing toward higher gold prices, and if that's your thesis, then you want to get that leverage. So you go to silver and there are a few companies out there in that area. But they'll be much more leveraged than a corresponding gold company.

Rick Rule: And in just a moment, well, a couple moments, I'm going to give you a chance to name some names. So be ready for it. The next question I want to ask is a fairly complex question, so I have to explain it a little bit. In my own talk today, I talked about sectors within the mining share market that were attractive to me. Those sectors were take-over candidates in the first instance which I think is timely. The royalty and streaming companies where I think that the value proposition is misunderstood by investors and prospect generators.

Knowing what I think, I want to know what you guys think. Not about those sectors, but if you had to find a sector theme away from commodities. Which sectors, would they be drill hole plays, would they be take-over targets, and I'll give you guys a chance to think about this because this is a complex question. But I want to know what kind of sector themes you think are particular attractive, particular sector themes that you think other people aren't thinking about for various reasons. Remember that this audience didn't come here for sort of mainstream pablum advice, but they have a specific interest in information about mining shares from people that make their living in mining shares. And Brien, of course I go backwards and forwards, and we're starting that question with you. Sector themes in mining shares.

Brien Lundin: Yeah, I don't know why I got seated on the end, I'm supposed to have some pull around here. Just to repeat myself, I think short-term, I think companies with large resource bases that are selling at near low-levels, if we do have a decline in the overall area by December, and really even if values stay flat, I think there's a very good chance those companies, those being the Almadens, the Sabinas, the Midas, the companies with a lot of resource, Skeena is another good one that has a lot of high grade resources. The list is fairly long right now, there's probably a half dozen or eight companies out there that qualify, but those are the kinds of things that I think will move first when the metal's prices start moving.

Rick Rule: So Brien, just to make sure that I and the audience understand your answer, are you talking about the optionality plays where you have a large resource base that might not be economic at this price point?

Brien Lundin: I think that's a subset within what I'm talking about. I'm talking about a large group of companies that have identified resources, I know that a lot of people, well, Brent's not here so that's one less person that doesn't like the optionality plays on this panel. But I do like the optionality plays. I think there is an argument for that. I don't necessarily think they're going to be as leveraged to the immediate move as the companies that have actual economics on their projects, but I think over time if you have an extended bull market in gold, you have those resource bank plays will be really big winners.

Rick Rule: It's probably appropriate to acknowledge here in New Orleans that the best early proponent of optionality that I know of, in 1990, was one James U. Blanchard, responsible, among other things for causing me to finance the Bob quarter Main and Silver standard, encouraging the formation of Vista Gold, Seabridge. Jim Blanchard was a guy who believed in higher gold prices, and he sure got the optionality play right in the 90s if you'll recall.

Brien Lundin: I remember that meeting, I was in that room.

Rick Rule: Stunning. Nick. Sector themes in mining. What's attractive to you particularly, or unattractive to you if there's an overbought theme that you want to talk about, we can talk about that too.

Nick Hodge: If you missed Rick's talk, he's interested in M&A and he's interested in royalty and streaming companies, and he's interested in exploration via prospect generation, and I believe he'll be putting some list up January 15th. I'll plug you. Cause I took notes. If I'm answering the question, I think I'm going to say brown field assets that are being revived in some way that we know there's been a history, or a legacy, of past production and we have some infrastructure built out that can reduce the capex and that are somewhere on the road to permitting or restarting that mine for a couple of reasons. One, they'll have a known resource base, I mentioned a company like Midas as well, something like six million ounces of gold, and no, they don't have to be optionality because if you look at Midas' PFS, it's something just under or just around 600 dollars all-in sustaining costs.

And so you've seen over the past couple of years, mid-tiers and even some majors have shedded some of their non core assets, but that doesn't mean that they're not good assets, it just means they weren't getting attention in those mid-tiers and major's portfolio and I think in the next cycle, you'll see those projects restarted, and it's good to bet on something that was already a mine as opposed to trying to build something from scratch, it's cheaper and it's less risky. So I would take a look at some of those brown field companies out there, Midas is one, Revival is another that's reviving the bear track mine in Idaho that they got from Yamana for example, and so assets that have been in production before, have some sort of infrastructure built out, a resource tied to them, and are maybe in some of that boring part of the life cycle of a mining company chart that you see so frequently, because while it's boring now, I think we're going to be coming out of that for some of the reasons we've discussed about M&A and things like that.

Rick Rule: Byron.

Byron King: Well I think if we want to look at, say between now, right now at this conference, and a year from now when we're all back here, which I'm sure Brien will let you sign up for next year now, towards the end of the conference.

Brien Lundin: Thank you for that.

Byron King: I think the thing that will reward everyone who gets into it would be any company that has a very strong, advanced stage development that is ready to roll over into production inside of the next year. I'd look at a company like McEwen Mining, M.U.X, MUX, they have the gold bar project in Nevada that is almost ready to go. They should be moving rock and moving machinery and pouring some gold in six months.

A company that I've been following for a while that's doing absolutely just on a tear, up in the Yukon is Victoria Gold. I was talking to the CEO a couple weeks ago and I said, "How's it going up there," and he says, "Oh we're working," I said, "Well when are you gonna quit for the winter?" And he says, "We don't quit for the winter." And I said, "You've gotta be kidding, it's gonna be 60 below zero," he said, "we're working". And they're gonna get that mine up and running and built and it's gonna be a happening thing by next year.

I like Midas, I like what I see in Revival, on another angle I strongly suggest that if you haven't yet, you pay a visit to The Great Panther. I just had a wonderful talk with the CEO there. They're not building something, they're buying something that's already built and they're buying it for quite a steep discount. So again, it's not quite a development but it is a serious addition to the volume of production that you're going to see very soon. And it's going to mean a lot of money at the bottom of the cash register.

Rick Rule: Note to Byron, when you visit with those development stage companies, you remember to tell them that your friends at Sprott Inc are the largest and finest providers of development finance on the planet.

Byron King: I never fail to talk about you behind your back Rick.

Rick Rule: Thank you. Ladies and gentlemen, take note.

Byron King: In a nice way. Always in a nice way.

Rick Rule: New Orleans has been wonderfully commercial over 31 years which is why I do fine here. Lobo.

Lobo Tiggre: I agree with Byron, though I very narrowly define it as what my former employers used to call the golden runway. As longtime readers know, I sent some brave bright young fellows to dig into the data on this, we found over a 100 cases of first-time mine builders. So it's not just any development, it's not additional, but when you make the transition on that famous chart, right from explorer to producer, we found, much to our surprise that the average gain, crossover a 100 cases, was over 100%.

From the bottom of the trough in the boring engineering phase when you decide to build your mine to that first pour, and by the way, they typically came down again a bit after the first pour. But I was gobsmacked. I did not expect that rise to be so great, and that happened in bear markets, that happened in bull markets, it's extraordinary. In a bear market the rise was not 100%, it was around 30%, if you look in the bull markets, the rise was higher. And here's the real amazing thing, is that if you take the top performers, the top five first-time mine builders in the data set, they averaged around 700% gains That's around the order of magnitude that you'd expect from a discovery, right? A ten-bagger. Okay. 700%, not quite ten-bagger, but it's close enough. I'll take the money and run. But what are the odds of making a discovery? Even the best in the business take years if they succeed at all. But the odds of completing a mine-build, 95% of the companies that started to build their mine completed it. That's extraordinary. 95% odds on a double or better.

Rick Rule: Lobo, I found that study to be very, very interesting when you first wrote it up. Do you still have that study available?

Lobo Tiggre: It is property of my former employers at Casey research.

Rick Rule: So you can't give it away.

Lobo Tiggre: So that data, I don't have. I'm rebuilding it. It was my idea, and I'm expanding on it.

Rick Rule: I was just going to suggest that if people wanted that study I found it to be an extremely interesting study and also well-written. If people-

Lobo Tiggre: And I have an idea for what makes the top performance too.

Rick Rule: If people wanted to access it at some point in time, you may be able to provide that.

Lobo Tiggre: Yes. There will be a new and improved version on my website. Thank you very much. Independentspeculator.com

Rick Rule: So I'm going to move now into sort of a much more speculative venue, in the sense that the answers that you're going to give are almost certain to be incorrect, but I think it'll amuse the audience greatly.

My experience in terms of the cyclicality in the junior resource sector has been that, in down markets, the sector as represented by a broad index is down anywhere between 50 and 60 percent. This down cycle being the exception, down 88 percent. I've also found in my career that bear markets are of course the authors of bull markets and my good friend and mentor, Ned Goodman told me that after the cycle has been down 50 percent, in the next five or so years, it can be counted on being up 400 or 500 percent. Now, I think you're going to have some fun with this answer. And depending on the answer you give, this will be the most popular panel of the session. in a circumstance where the normal down cycle is 50% and this down cycle has been down 88% or 90%.

Do you believe that past is prologue? And that the up cycle will reflect the depth of the down cycle. So the first answer, the first question, it gets answered yes or no, but the second part is more fun. over the next five years, how high do you think that the up cycle goes as the consequence of the down cycle? Lobo since we ended with you, we're going to start with you. Is past prologue, yes or no?

Lobo Tiggre: Yes.

Rick Rule: If yes how high?

Lobo Tiggre: Hesitant to say sky's the limit, but I think not only ... I wouldn't go on the it's down 88%, therefore it has to spring up higher. I just, I'm a fundamentalist. I look not at the chart, but all these crazy things that have been done since 2008, all that stuff is going to come home. The piper has to be paid. I think we're going to see a broad resource boom for the record books. I mean we will not have seen anything like this before and I think the precious metals, when the panic mode really sets in are going to blow past most people's wildest expectations. That's the big arm waving statement. I'm happy with my first time mine builders that gave me good market, bad market, odds are a success. But you asked me a question. I think all of you are going to see something you've never seen before in that market.

Rick Rule: As your former employer Doug Casey would say, "Your lips to God's ears." Byron, is past prologue, first of all. And if so, how high is high?

Byron King: Well, the past is prologue. Yes. I think that when the dam breaks, you're still going to have to have been a stock picker in the sense that you want to be in the right kind of the best stocks. And if you're here in this room, you're already there, you're all special for being here as opposed to being out there not caring about this whole sector, but the sector is going to go up. It's going to lift an awful lot of boats. The good, the bad, the ugly, the good boats are going to get lifted a lot higher. Five to 10 baggers are going to be the norm for quite a few of the better companies and some of them are just going to be absolutely stunning. You're going to be ... If you haven't retired yet, you will, if you haven't figured out how you're going to pay your kid's tuition to Yale, you will, it's all good.

Rick Rule: As far as the audience is concerned, We're two for two. Are you going to fail us Nick?

Nick Hodge: Yep.

Rick Rule: Have at it.

Nick Hodge: I have no idea. That's a crystal ball question. The previous questions were opinion, so you simply can't know the answer. What I would say is that if you study the market and you study the history of the market. Let's take a slice of uranium, for example, when the mine flooded in 2006 to 2007, we had stocks running some 10 to 30,000 percent uranium stocks. And so yes, I believe you can see that again and on the precious metals side I've been talking a lot lately about Jim Dines and then he says at some point we could see %3000 to $5,000 gold based on the amount of fiat that has been printed in the amount of debt that the world has racked up both public, private and sovereign. And so yes, I think you could see a drastic melt up in which you will see fantastical gains. When that will come? I have no idea.

And so my advice would be invest in the most quality companies you can when you're speculating, invest in people that have done it before and invest in the lowest cost coretile of production because as we know, the market can remain irrational much longer than we can remain solvent.

Rick Rule: Finally, Brian.

Brien Lundin: I agree with everything that's been said, but I think, yes I do think past is prologue. Yes, I do think we're going to have a really big, probably the biggest ever extended bull market in gold. I hope we don't have a blow off. I think there's a lot of evidence that we will, because of all the things I talked about in my speech and my workshop last night, all the monetary issues, all of the debt that's out there and the stresses in the world financial systems, but we should hope that it isn't a really rapid buildup and blow off. We should hope that it's an extended market run like we had from 2001 to 2008 and in a bit from 2009 to 2011. Because during that period we had a lot of companies that went up four or five times over.

We had some 10 baggers. We had some 20 baggers, but what happened was, the people at this conference and other conferences really involved within this sector. They'd educated themselves and what the best placed were, they'd have a stock that would go up four times over. They take the money off the table, put it in an another one that might go up go up only three times over. They'd deploy that in another one that might go up 10 times over, but you get the point. It's that kind of exponential gains that was possible during that period and ithento key ... Just to get a bit off topic during that is to take money off the table and that's a whole nother story. I hope we get the chance to get to that. But we do want a longer term bull market. I think we've got a real humdinger on the way.

Nick Hodge: I would echo that sentiment of it, but I would also say careful what you wish for you, Rick you and I discussed last week $3000, $5,000 goal. You have a lot more problems on your hands with the rest of the economy?

Rick Rule: Sobering statement, which I happen to believe in. So far I think the panelists have done a great job of educating folks on a very wide variety of subjects related to the mining share panel. And I have to say the audience has listened very politely and astutely. Now the audience is going to get their pens out because the education part is over. I say every year in this panel, the panelists believe their job in a biblical sense is to teach everyone how to fish, but that's not what y'all want. You want the panel to catch some fish for you and clean them and serve them up perfectly done with appropriate garnish. So we're not teaching folks how to fish anymore. We're delivering them some fish. I want each of you to name a couple of names. At least one of them has to be an exhibitor here and another one.

Brien Lundin: Thank you.

Rick Rule: And by the way, you can say that this company that's exhibiting here is a total piece of garbage and I think you should short the hell out of it. I'd like to see Brien do that just for fun.

Brien Lundin: And yet I keep inviting him back.

Rick Rule: I'd like each of the panelists to name at least two stocks. The audience would accept three and I'd like one of them to be an exhibitor here so that the audience can practice the lessons that they learned earlier in the setting in real time with exhibitors tomorrow. Brian, I ended with you. I'm going to start with you. I'd like two or three stock picks and I'd like at least one of them to be an exhibitor here.

Brien Lundin: Oh, you can count on that. In fact I'm going to give you seven quick names and of those all but one is an exhibitor. One of the things you want to do when you go around to talk to companies is gauge the width of their smile. If they are an exploration company, that smile index. I think if you go see Gina Roger at Midland you can't wipe the smile off his face. So I like that story. They've got a great discovery. The Mithrill discovery and I think news is forthcoming on that, Nordic Gold is a company that will join the ranks of gold producers by the end of this month. I think it's undervalued right now.

Thunderstruck, I can't say much about, I just think they've got turned the corner and making some good progress on their properties in Fiji. I'm also the chairman and a big shareholder. So there's that disclaimer, I'm a big shareholder of Sojourn, love that management team that's running it, it's a prospect generator, and I just had a chance to go by their booth and they have some samples that they got from some properties that I knew well over the last few months.

I haven't heard from them over the last few months, but it seems like they've made some really big advances. Vendetta is a company that will, I don't think will be around in six months. There's a good chance it won't be around in six months. They're getting a PEA done on their zinc lead project in Australia and they have a lot of likely buyers. Great Bear is up about 10 times. Is already a 10 bagger from our recommendation in a gold newsletter alert last December. Hard to recommend a stock at that level, but I don't think there's another junior out there that has the kind of upside that it has. You should really talk to them and listen to their presentations and get the story. Revival is another company has a sizable resource right now. We'll build that resource and I think the management team is not satisfied with that project. It's a very good management team and I think they are going to go ... they are already on the hunt for other projects right now and that's my list.

Rick Rule: Nick.

Nick Hodge: I'll just start right on Brien's heels with Revival Gold, who I've already mentioned during this panel. RVG in Toronto, RVLGF in the United States. The resource Brian mentioned is 2 million ounces. They're targeting a resource update, 3 million ounces. There's a couple hundred thousand ounces sitting on the leech pad there from the project when it was in the Amanas hands, and again ill echo Brien, I think they're on the hunt for something else. Midas Gold we've mentioned on this panel and the MAX in Toronto, MDRPF in the United States, 6 million ounces in Idaho, bipartisan support in the state, an important antimony credit, which we've now deemed a critical metal here in the United States. They're going through permitting now. I would argue there's much, much more exploration upside on that project than, than anyone could imagine. Barrick came in earlier this year for a 20 %stake.

There's something going on with Barrick's ore at gold strike. They need to sulfur content to help their processing go better in Nevada. And so I think you could see Barrick make a swipe at Midas. I'm going to keep going down the list of sponsors. Energy fuels. We talked about uranium. They are the largest US uranium producer. That doesn't mean much because it's only 500,000 pounds. But nonetheless, the stock has nearly doubled since January. They've got a vanadium credit now. They've got the only mill in the United States that can process both uranium and vanadium. UEC is an optionality play for uranium. They've got fully permitted polygon and operations in south Texas, completely leveraged to the price of uranium. They've got no production going on now. Fission uranium is over in the hall. They've got the independently ranked best undeveloped asset of uranium in the world.

Some hundred and change million pounds likely growing from their updated metrics due out on that project by the end of the year. And I'll give you one that's not over there. That's an exploration play in the fast heating up district. The Puno belt in Peru is Palamino. That's PA in Toronto. It's run by Andrew Thompson. He did well by his shareholders to sell his previous company Soltoro to Agnico Eagle, Agnico Eagle in 2015 during the previous downturn. The project he's on to now has been ground-truthed by local artisanal miners. There's visible gold. He just trenched over 600 grams per ton down there. They just finished flying it last week and he's got a very, very serious land package that is now able to be accessed because of roads that have been built in that country.

Rick Rule: Did you take a breath?

Nick Hodge: I don't breathe.

Rick Rule: Byron.

Byron King: I've mentioned a few names already. Ill mention them again real quick just in case you didn't get them, McEwen Mining, Mucks, Victoria Gold, Excelsior. I mentioned Great Panther. Take a look have a talk. I like Midas very well run company, wonderful company. Integra Resources. Riverside Resources is a prospect generator. Wonderful. John-Mark Staude is just first class. If you haven't met him, please do. Auryn, they're here, please have a talk with them. Take a look at Golden Arrow. They have some interesting things going on down in Argentina. There's probably more but my brain sort of a busy processing so much going on here.

Rick Rule: Lobo?

Lobo Tiggre: I'll keep it simple. I'm well known as a proponent of, advocate of, champion of the Pretium guys. Super high grade, super big, permitted, up and running. There's been all this controversy. I think they're starting to finally show that they really do have a mine. It really is there. And if that's true, it's deeply discounted. Could easily double all by itself without gold going up with nothing changing. Simply the skepticism falling away and then stock could double. And I think it gets taken over and that kind of high grade, large asset with huge blue sky still out there in a safe mining jurisdiction, that doesn't stay outside of our majors. If they can prove that it's there, de-risk it, in the last sense, I think that gets taken over. I own stock, full disclosure PVG on both in the US and Canada.

But I believe that one has extraordinary potential in the near term regardless of what happens with metals prices. Another stock I like a lot, I think of as the… No, maybe I won't make that comparison. I like Silver Crest a lot. I do not own the shares right now. I just sold them because I made a bunch of money. It was very quick win in my portfolio. But I think they have a project. It's high grade silver in Mexico in an area where the same team has done the same thing before and sold the deposit to a larger company. And this one's bigger and better and it's wide open. They keep discovering more veins.

It's SIL.V, I like that one a lot, but I made a bunch of money so I'm no longer long long and if it got cheap enough with nothing bad happening in the company, I would buy it again, if market melts down, I look at that as a buying opportunity. And finally, I've talked a lot about uranium, I have to mention an exhibitor that's here. So I guess I'll mention Blue Sky Uranium is here. They have that vanadium lining that I like. I like the vanadium story. I get it. I'm long-term bullish. I'm concerned that it's gone up too quick. But if I could have a vanadium tailwind on a uranium story that I believe in already, and I liked that combination a lot. So Blue Sky is BSK and I believe they're here. So you can ask them about that. I do not own that one.

Rick Rule: Actually, many of you don't realize this, but history was made on this panel. This was the first time in 20 years in moderating this panel that the panelists actually gave brief enough answers that we finished on time. Normally, people talk about climate change. This panel has been responsible for climate change off in the hot air that's emanated, in fact from the diocese has changed the ambient air temperature in New Orleans, but we've actually finished on time on budget. So I get a bonus question, which is unusually fun. It might be that the consequence of this bonus session is that we wreck the panel in the eyes of the audience.

So far as I understand it. we have said risk to reward. All stocks are going to go up. So it doesn't matter what you do as long as you do something. We've decided that our favorite commodity theme is everything except for Uranium is our extra favorite. We've decided that our favorite sector is… "yes." All of us at plethora of stocks that are going to go up. I mean, how could we screw this up? This is exactly what an audience slung gold stocks wants to hear. So we have one final chance to screw up the panel. One final chance. What I'm going to ask you briefly is what could go wrong with our thesis? We're in a bear market. Bear markets are the authors of bull markets, the US dollar's going to go to the toilet eventually, US treasury is going to be great.

This is all the good stuff, right? If we're unlikely the stocks are only going to, go up 300 percent, but if they do what they should, they're going to go up a thousand percent. Okay? We've all heard all this pablum. What could go wrong, Brien? What could go ... Not everything that could go wrong. What's the one thing that really keeps you awake at night? In that next sort of 12 month timeframe?

Brien Lundin: Well, nothing's going to keep me awake at night after this conference is over, I assure you. But you mentioned and haven't mentioned global warming and that's because Brent wasn't able to make it this year. So Brent, cook us in here. So we have a dearth of global warming commentary and also I need to swear the audience to secrecy because Brent and I always had this bet every year about whether the gold price is up or down from the last panel and it is down. So I lost the bet. So everybody keep really quiet about that because I don't have a bottle for Brent.

Rick Rule: I accept bribes.

Brien Lundin: Okay. And you'll accept them in the bar. What could go wrong? I think my thesis is that there's no real dollar strength. There's a long-term dollar bear market that will resume very soon if it hasn't already. However, there is an argument that there is a dearth of dollars out there which you might find interesting or contrary to your way of thinking after all the debt and money that has been created. The issue there is that there's been so much dollar denominated debt that has been created. So to pay off those debts, there has to be dollars to pay those off. So to me that in effect may put a bid under the dollar and lead to some dollar strength. And that's one of the things I've been thinking of recently that might run counter to my thesis. Might go wrong.

Rick Rule: So consequence of my greed of course. I've always had a dearth of dollars. That's an Interesting circumstance to contemplate. Nick. What could go wrong?

Nick Hodge: Another high profile nuclear incident for me, for the uranium space, Fukushima completely decimated the uranium market for the past seven years now, while nuclear, as I often say, has been the safest form of electricity generation per kilowatt hour that the human race has ever seen. There's always that risk that you wake up and there's a three mile island or another Fukushima. And so that's one thing that, that I really worry about in the uranium space. The other thing is that, the Fed just finds more bullets. We often say the Fed is now out of bullets, but there could be some unprecedented thing. You've seen some main street pundits talk about minting a trillion dollar coin, for example, to pay off the debt. And so someone, that's serious, man, that's like Bloomberg commentators say in that. It's some unprecedented event that, that the government takes as a step to evade what we all see coming.

Rick Rule: That was a great answer. Byron?

Byron King: I'm going to look overseas for my great black swan type of event. But I do hear the wings fluttering I suppose. I would say that the great thing that could pull the rug out from under everything would be a total and complete Chinese crash. They are highly indebted, over leveraged, dead cities, dead banks, dead banks walking, all that sort of thing. If China had its own version of the US great depression of the 1930s, because it all just fell apart. All of a sudden all that demand for oil, all that demand for copper, all that demand for cement, all at demand for the commodities that we all so love. I could see that crashing the prices and chopping the legs out from under, from under things.

Rick Rule: Lobo, what could go wrong?

Lobo Tiggre: I agree with all of the above and I would say maybe one thing that injects a little terror into my night time dreams would be the next Bre-X. We keep hearing that this could happen and there've been some questionable things, but nothing really on that scale. With my luck it will be the one stock I just plugged. But a lot of expectations were that Pretium was going to be the next Bre-X. I don't think so. I think they're showing their thing, but if that happens, just think about it. We could be right, we could be right about the economic trends. We could be right about the fundamentals for uranium. We could do everything right and we could pick the best companies and they'd still all go down because some you know? so that's ... And it's completely out of our control. We can't be the best stock picker and avoid that. We'd all get hammered if that happened.

Rick Rule: I'm going to answer my own question on the last one. We've been in expansion now for nine years. A tepid expansion on occasion, a rotational expansion, but we've been in expansion for nine years and we haven't had a liquidity crisis of any kind since 2008 and I would nominate an economic slowdown, a globally synchronous economic slowdown after nine years of expansion. My experience in financial markets for 45 years is that you very seldom get nine straight, pretty good years, and my gut feeling is, this one's a little long in the tooth and if you combined a slow down with a liquidity squeeze, irrespective of the cause of the liquidity squeeze.

What you learn is that stocks or stocks, when stocks go down, all stocks go down including resource stocks, tertiary assets, when there is no tertiary asset in the world, more marginal than mining stocks go down in liquidity crisis. So my own answer to my own question is a global economic slowdown accompanied by a liquidity squeeze. Ladies and gentlemen, the key to having a good panel is to have good panelists. And I had spectacular panelists and I'd like you to join me in a round of applause for my panelists. Thank you very much.

Peak Prosperity

"The Crash Course: Our Unsustainable Future"

Lindsay Hall: What's coming next: the Crash Course, our Unsustainable Future. Put your seat belts on please. Up next, Chris Martenson and Adam Taggart are the co-founders of peakprosperity.com where they've been educating millions of readers about the risks in our economy, energy, and environment systems since before 2008 and that financial crisis.

With degrees from Duke, Cornell, Brown, and Stanford between them, both held executive positions at companies such as SAIC and Yahoo! before consciously opting out of the corporate life for a more meaningful purpose, to build awareness of the looming changes the next 20 years will bring and to help individuals concerned to take prudent action in advance.

They both moved their families to more rural, self-sufficient locations with strong community engagement and launched the website peakprosperity.com. The website is visited by four million people each year and its video series “The Crash Course” has been viewed over 15 million times and translated into 12 different languages.

If you would please, a round of applause for Chris Martenson and Adam Taggart, two fantastic fellows.

Chris Martenson: Thank you, good morning, good morning everyone. It’s just fantastic to be here at the New Orleans Investment Summit, if anybody’s having any trouble seeing some charts, please feel free to move forward. I’ve got a few charts to go through here.

So I retitled this, One if by Growth, Two if by Tears. You’ll see neither Adam or I are wearing ties today, that shows how we ducked out of the corporate environment, we gave it up.

But something happened to me along the way and I lost my ability to believe in endless growth as something that’s going to cure us or is good for us. In fact I now see it as harmful, particularly given what’s happened in the monetary space, and the monetary policies that have been going on in this country, and in the world, are going to be incredibly destructive.

So I want to set this up, One if by Growth, Two if by Tears, we’ll see where we go with this. We’re going to be visiting the booth on your right, this morning. Please bear with me, it’s going to be okay. We’re just going to look at a couple of things here that I think are kind of unsettling at first, but they represent enormous opportunities when we get through them.

One of my favorite quotes is from Leonardo Da Vinci who says, “learn how to see, realize that everything connects to everything else.” So I don’t know how to talk to you about just monetary policy without connecting it to what’s happening in the larger world around us, I\in energy and in the environment.

So I have these three E’s, I put them all in one spot. Once they get in one spot, I think the future becomes clarified and where we’re going becomes a lot easier to see. There’s another E in this story as well, which is this thing called “exponential growth”, how many people here are familiar with my story and have seen this particular part?

Good, a lot of hands didn’t go up as well, I love seeing that, so we can step through this. Alright, this is the headwaters of the Nile. This is the birthplace of the coming crisis. What we’re looking at here on this chart are year over year changes in the balance sheets of the major central banks.

I put little oval-ish circles under those to show you sort of the area under the curve. I didn’t really have a lot of complaint about bailing things out in 2008 and 9, a little, but not a huge amount.

And then we saw that everything sort of came back down to the zero line at the end of 2009, and then what happened? Well, 2011 sort of scared the central bank so they printed some more, they dialed it back, they printed a little more again, but look at the largest area of printing. 2016 and 17, what was the crisis?

Every central bank was telling you that everything was okay, unemployment is falling, we're looking good, but they did the largest printing in the entire series in 2016, 17. You know what scared them? What you saw in Bob Prechter's work where 2016 beautiful head and shoulder tops, financial markets started to sell off, and the central banks freaked out.

And they printed the most amount of money in all of human history. That's a big moment. That's unwinding right now. This is probably the most important chart you'll ever see if you care about the direction of prices of things.

And what did we get for all that printing? Well, we got the most expensive stocks ever. This is a measure of the Wilshire 5000 against gross domestic product. Most expensive ever.

We got the most expensive bonds ever. This is showing a European area high-yield junk bonds that were trading at one point in 2017 way below U.S. ten year treasuries. This is nuts. How'd we get there? Well, Mario Draghi was buying bonds like crazy across the Euro zone.

There are still five trillion dollars of negative yielding sovereign bonds out there in the world right now, that means you give your money to the government and you pay them for the right to lend them money.

How nuts is that? We don't know how nuts, but we don't have any historical precedent, but I'm here to tell you, it's really nuts.

We are the most indebted ever. We went from roughly a 147 trillion in global debt before the crisis to 247. What did we get for that? How much incredible, amazing, awesome, sustainable growth did we get in the world economies for that? Not a lot.

So this is where are, we're at the tail end of the largest monetary experiment in all of history which is actually a political experiment and it's a social experiment, and we're feeling the bite of that right now.

Politically, the Catalonia break away, Brexit, the person who was just elected down in Brazil, Trump, all of these things are just reactions of people saying, "this isn't better, this is harder."

And so this is the context that tells us, "okay, look," If we're gonna get out of all those things, including in the United States, the most unmet promises ever, so this adds up. Under funded, unfunded, entitlements, pensions, all of that. Plus the straight up and up debt that we've got: Corporate debt, household debt, student debt.

And you measure that against GDP and you discover all those IOUs in the United States add up to 1,100 percent of GDP. No country has ever dug out from under a load that large.

So how are we going to get out from under this? When I was talking with the former Director of the Pension Benefit Guarantee Corps, I asked

Brad, how do we get out from this chart? And he said, "well, we have to grow, we need really fast growth."

That's everybody's answer in economics and monetary policy, to getting out from all those charts, growth. Alright, so if we don't grow, what happens? Well, there's a lot of tears on the back end of that, right? Pension promises that are unmet, end in a lot of tears for a lot of people, for example.

So let's look at this one more, this exponential growth piece, 'cause this is really the key to the story. Once you understand this, a lot of things really begin to snap into place. So this exponential growth, what're we talking about? Well, this is a chart of something that's growing exponentially. It looks like a hockey stick, right? Goes a long fairly sedately, turns a corner and shoots straight up.

All you need to get a chart that looks like this is something growing by some percentage over time. Ten percent a quarter, three percent a year, one percent a decade, it doesn't matter. So as long as something is growing by some percentage over time, you get this.

Alright, so this is a hard thing to understand, though, because we're humans. We're all wired for simple linear things. If I give you two erasers and I said, I'm going to score you on how evenly you bring them together, you're going to score very highly, but if we replaced them with magnets, really strong magnets, you would come along and that would happen, because the magnets attract exponentially. It's very hard to wire that up with our brains.

So I have a thought experiment to help bring this home and help us understand what this means. And this thought experiment goes like this, I have a magic eyedropper and into your left hand I place a drop of water and it's magic because every minute that drop of water doubles. So after one minute you have two drops of water, another minute passes you have four drops of water. After about five minutes you can fill a thimble up.

So here's the question, we're going to go, I'm from Massachusets, I had to pick a stadium randomly that gets destroyed in this story. We're going here, and two things are going to happen here. I'm going to make it water tight, okay, put a wall across the back, and I'm handcuffing you to the highest row of bleacher seats.

Here's the question, we start at 12:00 this afternoon, twelve noon, you're handcuffed to the top, we put the magic drop of water down, it starts to double. How long do you have to escape from your handcuffs?

Think of your answer. You have 50 minutes. And if I've underestimated the volume of the park by a 100 percent, you can think 12:51 if that feels better to you, alright?

However, that's not the important question. Here's the important question: at what time was this park still 97 percent empty space and how many of you realized the seriousness of your predicament?

Answer is 12:45. So now let's take a look at this and put this into perspective. For all of human history until 1960, which is about when I was born, the first 3 billion people came in. In the next 40 years, we put on 3 billion more people. We're at 7.6 now. We're headed to nine billion or ten, we don't know.

This is an extraordinary moment in human history, I'm going to be alive during a full tripling of the population. We're way past the carrying capacity of the planet, in terms of all sorts of critical resources. That's why I love coming to these resource conferences because this is both the place where we're going to see a lot of the trouble and a lot of the opportunities emerge.

We're coming out of an extraordinary period of human development and I mean human, not United States. We are surrounded by all sorts of examples of things that are increasing exponentially. Here's some from the ecological space, but I could talk about airline miles flown, I could talk about miles of road paved, we could talk about the amount of fish coming out the ocean. All of these things, they're all being driven by an exponential process, which is human population.

And that's just the nature of the times we happen to live in. The one thing I want you to take away from this idea of exponential growth, though, is that they speed up. Who has the sense that things are going faster and faster today, right?

They really are. In many ways technology increasing exponentially in some really amazing beautiful ways, but other things are happening, it's a mixed bag. It's impossible to get our minds around it, 'cause it's happening so fast and it's not just one. Multiple processes are happening at the same time.

So my shocking claim today is this, this thing is a stadium. It has limits, it has a volume. It has a fixed amount of stuff, and once we get our minds around that, then we get into some difficulty because the longer version of this that I present, includes a complete breakdown of how our monetary system works, and how our money and debt systems operate in a debt based fiat money system.

And here's the shocking conclusion, those always have to constantly grow. Unless our credit marks are constantly growing, they're threatening to collapse. If you agree with me you say that's not a very good system, right? But that's the system of money we all live in. 2008 was the first time credit markets actually went backwards in 45 years, and what happened?

The whole system almost broke down. So we have a system of money that's either growing or it's threatening to collapse, so where does growth come from? So now we have to talk about that for a second. Here's your bonus chart of the day, there is one bright spot in all of this, which is that commodities are super cheap right now, relative to equities. We've only been here two other times in my adult lifetime.

So this is a really incredible time to be checking out what's happening in the resource spaces. Alright, growth, what do we mean by growth? Well, economic growth always means what? Four percent more houses sold, ten percent more cars this quarter, we have six percent profits growth, whatever.

When you sum all that up, what we're really talking about is stuff being pulled out of the earth, transformed, shipped, sold and then finally disposed of. So when we talk about growth, we're really talking about more stuff. And when you look at that, you have to understand the relationship between the economy and energy, because energy is the master resource. No energy, you don't have anything else.

And I understand energy really well because my past life was as a scientist. My degree is in neurotoxicology and I looked at neurons on plated glass and I would grow them, and if you fed them you got these amazing complex, beautiful things. You could plate out neurons on a plate and get axons and dendrites and they start talking to each other, it's amazing.

But then if you forget to feed them for a day or two, what happens is they ball up into these little uninteresting things. And so the thing that I learned really sort of in my gut level from watching this happen over and over again is that order and complexity come from having energy, in this case, glucose or a lack thereof.

And so the order and complexity that we have in our larger economy is due to the energy that's flowing through it. So energy is really important to understand and we have to look at this really carefully, so naturally you can trust me, I'm a scientist, I just told you that, right?

So energy, this was the worst traffic jam in history so far, it was in China. 60 miles long, took 12 and a half days to resolve. I would have been very unhappy if I was stuck there, 'cause I don't even like a ten minute delay.

But look at that, I see energy now. Look at all the energy on display in that story. Look at the energy as you look out across this city tonight, and we're just consuming energy like crazy. From space you can see it. This is all energy. This is how we operate ourselves as a society.

And so if we back up a little bit, very important chart to understand here. This is looking at total energy on the Y axis, the total energy that the world is consuming. And then on the other axis we have total real GDP of the world. Why world? Because you can export your energy consumption to another country and then tell yourself a fancy story which is that your country is now running a more energy independent economy.

So we have to look at it on a global basis to get rid of that little artifact, and what we discover, this is the most robust chart I have in all of economics. You get one more unit of this, you need one more unit of that, right? Whatever those units are, but this is a straight line, that's very easy to understand.

Here's the summary, if you want more economy, you're going to be burning more energy. That's what 65 years of data tells us. Maybe something will change in the future, but I'm going with what we got. This is an astonishing, robust chart.

Alright, so if we need more energy to have more economy, let's look at energy use over time. And look at the shape of this chart. Do you see is that linear or is that one of those fancy exponential charts we've been talking about? And what's really important in this chart is this is looking from 1800 on through, these are decade long periods of time and it's looking at the energy use of humans across the globe starting with coal, crude oil, natural gas, hydro, nuclear and biofuels.

So all that on the left was all biofuels: peat, wood, dung, stuff like that. Biofuels, right? And then look what happened, all of the sudden, people discovered this stuff called coal. And coal is way better than wood. You can run steam engines on it, and it's amazing, so we started to use coal.

To this point right now, though, just to make it easy, that's still the part there in orange, just to show the scale, that's the fossil fuels that we're using right now, okay? It's about 80 percent of the mix, give or take. So the first thing I want to point out is coal, we start using it back here about 1860 it appears on this chart, and then look how long it took before we got to half, where coal is half the mix.

I mean I just told you it's a much better energy source, right? So we would switch immediately away from biofuels, right? Nope, didn't happen, do you know why? Because all the people who had those clipper ships with the sails on it, they didn't just trash them the minute they saw a steam ship come along.

They waited for that embodied energy, embedded capital, to rot away and then they replaced. So it took four decades to get to half, where coal went to half the energy mix. And then we went to crude oil. Oil is amazing, it's way better than coal. It's more dense, you can do more things with it, you can make plastics out of it. It runs a better engine, you can get jets, it's just a much better energy source.

It really starts showing up on this chart right about here, in about 1910, and then wow, 60 years later it's a third of the story. Why? Why didn't we just immediately switch away from steam ships to oil based bunker fuel ships? Heck, same reason. It takes a long time for market forces to sort of transition from one energy source to the second.

A more subtle point to make here is that we were moving from worse to better energy sources. Wood to coal, worse to better. Coal to oil, worse to better. More dense, more compact, right? Well, this is where the story gets kind of fascinating. There's a number of studies out there that say, "well when does the total energy content from fossil fuels, when does that peak?" That's the bottom blue line.

And by peak I didn't say run out, I said somewhere around the year 2030 there's going to be this long flattening process where it's going to get harder and harder to get more energy out of fossil fuels, right? We're already seeing that with coal, we're starting to get there with oil. The

United States shale story is going to peak out by 2022 according to the EIA.

It peaks at some point. Doesn't run out, I didn't say that, but somewhere around there, and if this is off by 10 or 20 years, it doesn't really matter. The substance is the same, eventually that happens, and what's interesting is the implication to that top yellow line, that's how much the world economy needs to grow in order to support it running as it has.

The implication is those two sort of boxes I put on there, pink-ish boxes, those are the same height. And what the implication here is that a 100 percent of the complete output that we're going to get at peak from fossil fuels will have to be replaced by other means in 25 years.

A: humans have never done that sort of a transition, ever, it usually takes 40 to 60 years. B: we're moving from better to worse, and I'm not here to say that alternative energy is bad, but we're moving from more concentrated to less concentrated. From smaller capital to higher capital energy sources, we're going to do it, I'm not saying we shouldn't, but I'm just saying to underestimate the magnitude of this is a big giant mistake to make, right?

And then, oops, we have to do it one more time, and it's gonna take 20 years. We have to replace 100 percent of the output from fossil fuels in order to keep the growth story going. In order for our capital markets, our stock and bond markets to have the values that they have, this story needs to keep going.

All the studies say that we're moving onto alternative energies, but at the current pace it's going to take 400 years to transform our systems using market forces. We don't have 400 years. And so I'll give you a few super duper charts that are really important out of oil.

First, we're not discovering it. We have now the worst, this is slightly out of date, we now have four terrible years in a row of oil discoveries. You have to find it before you pump it. Second, this is China, they admit that they're at peak oil right now in 2018, I think they hit it last year in 2017. Doesn't matter.

Their oil pumping is the bottom big curves, on top is showing their imports. If you look at where they're going to be, the dots show how much they have been importing, the green is an extrapolation. By 2030, according to this chart, they're going to be importing close to 100 percent of all available oil for export. Trust me, it won't happen.

Something will happen before then. It probably rhymes with bore, something like that. The shale miracle is topping out already, we're starting to see interference between the parent and the child wells in the largest, bestest field in the entire world, in the universe probably, called the Permian Basin.

This ends at some point in time, but that's what it looks like. It's incredibly destructive in terms of its overall footprint. And this chart show how shale, all the shale wells currently drilled by year, how they behave. Each one of those is a year, so mentally remove some of the ones to the right, and look at just one color and you'll see that if we stopped drilling for shale, it would deplete very very rapidly. It's about 40, 50 percent on a year over year basis for that first year or two.

So as long as we keep drilling more and more wells, it's great, when you run out of spots to drill, this happens very quickly. So my conclusion is that when we just look at the oil story and it's a huge long story, and I could really break it down, conventional, offshore, alternative sources like the tar sands and things.

Once you get in there you discover the easy stuff is gone. Talk to anybody in the oil business, they'll confirm this. The easy stuff is gone and we're doing some amazing, astonishing things to get the last bits of it out. And I'm not saying we shouldn't do that.

But if you understand the need, the imperative for constant exponential growth of our credit markets which are claims against the real source of our economy, which is the energy. Those are departing from each other. That's why things are getting uncomfortable. This begins to explain why people are so anxious and upset, it's because our story is breaking down. Our narrative is not working anymore.

More to the point, come on, infinite growth on a finite planet is just not possible, actually it's a very bad idea. We're starting to see the impacts of that. In my own lifetime, the amount of animals on the planet has been depleted by about 60 percent. And that can't continue forever unless we end up in a very bad place. And less politely, I will tell you the collapse is what lies at the end of that, unless we take other steps.

So One if by Growth, Two if by Tears, either we grow our way out of this and I'm completely wrong, or we don't and it ends in tears. And so what do you do about that, right? A good quote I love is "you never change things by fighting the existing reality" to change something, build a new model that makes the existing model obsolete. This is where we come in and this is everything, all that other stuff is set up. Adam Taggart is going to tell you about probably the most burning question in your minds which is "well, what do I do?"

We don't believe in data for its own sake, we believe in data that leads you to actions. And actions that will make your lives more meaningful and more purposeful, so with that, I will turn it over now to Adam Taggart.

Adam Taggart: Alright, so I have the enviable job of going after Chris just depressed the whole room entirely. If you're like most people, you've just seen the economic and energy data that Chris just went through, he didn't even go through the environmental data, which trust me is the scariest part of this.

And you're probably asking yourself, "what the heck should I do about all of this?" Or probably more to the point, you're probably feeling like this guy right here, right?

Alright, so it is not all darkness. We call ourselves Peak Prosperity for a reason, there actually is a very optimistic part to the story. As Chris mentioned it's all really about finding better models, better ways of doing things.

So just quick thought experiment, if there was an investment you could make that could guarantee that you would healthier, wealthier, safer, happier, living with more purpose, and being more valued by those in your life, who would make that investment? I think all of the hands in this room would go up, right?

There really is such an investment. It's developing personal resilience and I've only got a couple quick seconds, I'll just give you a quick dial through. But resilience is really the ability to recover from an insult no matter what that insult is or more succinctly said, the ability to recover readily from adversity.

And this is something that nature has already found out, it's already solved. We see it all the time. You see it in a spider web, right? One strand is broken, there's many strands still there to hold the shape. More predators move into your area, it's the species that have multiple young that typically weather that introduction better because they've got diversification among their progeny.

Nature develops solutions like wetlands, that are capable of holding millions of cubic feet of storm surge, and if we have anybody here from Texas who went through Harvey, they can show you what happens when you remove these natural resilience safeguards and have to deal with a major storm.

So basically we're just borrowing models from nature. First and for most, yeah, it's really the ability to do this. No matter what life brings your way, it's not how many times you get knocked down, it's not how hard you get knocked, it's how you get up, it's how you recover.

So how do you develop personal resilience? We're borrowing again a model from nature, this comes from permaculture. It's called the "Eight Forms of Capital" it basically says, look, if you're looking to develop true wealth in your life, yes, money is important, financial capital is important, but it's just one element.

And there are seven other elements out there that are equally as important. I don't have time to go into all of them right now, but we do have time later on tonight, I'll mention that in just a moment, but quickly it's your money, it's your personal health and wellness and the natural systems you depend on, your food shed, your water shed. It's the knowledge that you carry around in your brain on how to do things, it's your standing in your social community, and what those who know you are willing to do for should adverse times arrive.

So dialing through all this, you want to make sure that you are developing resilience and excellence in each one of these and not just over investing in one or two, and obviously, at a conference like this we see people that are heavily focused on the money part, which again is important.

Our core message, though, is it's not the entire spectrum of wealth. And the nice part about this is even if we are totally wrong, even if everything Chris just told you about the trends that are going to drive the future. Even if that is completely wrong and the next 50 years look just like the past 50 years, you're still better off making these investments. You're not going to look back later in life and say, Jesus, I wish I hadn't gotten into better shape. Man, I wish I hadn't become respected in my community. God, why was I such a good steward of my financial wealth?

Right? These are not things that you are going to regret, they're life enhancing in and of themselves. And even just in the short time that we've been here there's a number of people who have followed our material, read our book, who have come up to us and talked about some of the big changes they've made in their lives and the universal feedback from all them is: I'm so glad I did this, my life is so much better now.

And if you have a chance to talk to some of those people, we're doing a workshop later on tonight. I highly encourage you to hear it from them and not from us. How some of these changes are really transformational in a positive way in your life.

So very quickly, I only have a couple of seconds to direct you to how to solve all the issues that Chris just put on the board in the slides earlier. So I'm going to give you four simple steps. One, we're doing a workshop tonight, it'll be at 6:30 p.m. in the Churchill room upstairs. Chris and I go around the country, conducting workshops on how to develop personal resilience, we're going to give you kind of a crash course version of that, tonight.

Secondly, we have our book "Prosper" that goes into depth on how to build each of those seven forms of capital, we're going to be doing a book signing for that in the exhibit hall across the hall, right here, right after we talk here, there's going to be a break.

A few lucky book buyers are going to get an actual gold bookmark for their book, this is an aurum created by the folks from Valorum who I think are perhaps here this year. Number three, educate yourself, lots of great speakers here, lots of resources, websites that they run, we run our own peakprosperity.com.

Most of our articles and reports are available for free, but our most directive and most instructive guidance is behind a subscription paywall, because you're all good friends of ours, we're going to give you guys the opportunity to be a subscriber, a premium subscriber for free for 30 days, so write down this URL, peakprosperity.com/free30, and you'll be able to be brought behind velvet rope at the site, and if you're currently a subscriber you can share that URL with a friend and gift it to them.

Lastly, we partner with a financial advisor who develops a portfolio strategy with these large macro trends in mind that Chris just mentioned. They're here with us today, the folks from New Harbor Financial, Mike Preston are you in the room? Here's Mike right here, he's going to be at our book signing and at our workshop.

So make sure that if you're interested in getting a free audit, a free crash audit of your portfolio, talk to Mike. The folks at New Harbor will do it for you at no charge. If you can't make our workshop, you can go to graylockpeak.com, there's a quick little form there, you can fill that out and they'll get in touch with you and still perform that audit for you at a later date.

So very quickly, just a reminder, come to the workshop tonight in the Churchill room, get the book, we'll sign it for you. Get that free premium subscription, read our material, again read all the other sites for the other speakers here, but the core thing is to get educated and lastly get yourself that free portfolio crash audit.

Thank you very much.

Chris Powell
"Gold Market Manipulation Update"

Albert Lu: Now without further ado, please allow me introduce our opening general session speaker. Our first speaker is the Managing Editor of the Journal Inquirer, a daily newspaper in Manchester, Connecticut where he has worked since graduating high school in 1967. He writes a political column published in newspapers throughout Connecticut. He is also the Secretary/Treasurer of the Gold Anti-Trust Action Committee: A non-profit organization that aims to expose and oppose the manipulation of the gold market and related markets by central banks. He is a member of the Board of Directors of the Connecticut Council on Freedom of Information and was its Legislative Chairman for many years. Please welcome Chris Powell.

Chris Powell: Thank you Albert.

Since we met at this conference last year, much new evidence of manipulation of the gold market by central banks and the region bullion banks has been compiled and published by the Gold Anti-Trust Action Committee. For example, a month ago, a major bullion bank, the Bank of Nova Scotia, admitted to the US Commodity Futures Trading Commission that it had manipulated the gold and silver futures market from June, 2013 through June, 2016. Ironically, in September, 2013, the CFTC had closed its long running investigation of silver market manipulation announcing that the Commission could find nothing actionable. That was three months after the Bank of Nova Scotia now admits its market rigging began.

In January, the US government charged three other banks and eight traders with spoofing the monetary metals futures markets. The banks paid 47 million dollars in fines. Also in January, GATA published the price discounts given by CME Group, operator of the major futures exchanges in the United States, to governments and central banks for secretly trading all major futures contracts in the country. Not just monetary metals futures, whose trading discounts are highlighted in the red box on the screen, but even agricultural futures. Have you ever seen mainstream financial news organizations report that governments and central banks get discounts for secretly trading all major futures contracts in the United States? Even cattle futures?

CME group's filings with the US Securities and Exchange Commission and the Commodities Futures Trading Commission acknowledge that its clients include governments and central banks, but otherwise the surreptitious trading is a state secret preserved by our timid press.

In September, the second quarter report of the US Office of the Controller of the Currency showed the notional value of foreign exchange in gold derivatives held by US Banks and Savings Associations that soared from about four trillion in 2001 to nearly 40 trillion this year. Perhaps, not coincidentally, the chart shows the value of the foreign exchange and gold derivatives and the derivatives for other precious metals jumps markedly in 2010 just before the seven year smashing of monetary metals prices that began in 2011. The value of those derivatives increased steadily from 2010 through this year.

So, who are those commercial banks and saving associations and what are their connections to the US government? Are they, for example, lots of community institutions like the famous Bailey Brothers Building and Loan of Bedford Falls, New York in the 1946 movie that romanticized locally based banking, It's A Wonderful Life? Or are they mainly primary dealers in US government securities, banks that are formerly agents of the Treasury Department and the Federal Reserve?

After all, who besides the US government and other governments might have the money to take on so much risk in the gold and currency markets, and who besides governments has the interests in doing so?

Last month, GATA reported that intervention in the gold market by the Bank for International Settlements, the gold broker for central banks worldwide, had declined substantially for two months. Shown here is the BIS's statement of account for September with the gold and gold derivatives line item highlighted. This two month decline in gold derivatives trading by the BIS corresponded with a steadying of the gold price and then it's substantial move up. That is, the more the BIS got out of the gold market, the higher the price went.

Why is the BIS trading gold derivatives and for whom? Last year, GATA put that question to the BIS. The BIS cordially explained that it doesn't explain what it does in the gold market nor for home. Other correlations involving the gold price in recent months also have implied interventions by governments and central banks. Newsletter writer and fund manager Jim Rickards reported a few months ago that for the last two years the gold price seems to have been closely tied to the International Monetary Fund's valuation of its central bank currency, the special drawing right. The top line of this chart tracks the gold price in US dollars for the last two years. The bottom line tracks the gold price in special drawing rights.

The leveling and tightening of the gold price in SDRs in the bottom chart began when the IMF incorporated the Chinese yuan as a component of SDRs. Others this year, particularly the Zero Hedge internet site noticed a tight correlation that began in May between the gold price and the Chinese yuan. In this chart, the upward trend signifies loss of value for both the yuan and gold. This correlation snapped apart last month as the yuan continued to devalue but gold rose.

Of course, some central bank and government connections were officially announced over the last year. Russian has continued to buy gold in substantial amounts every month. Even western-oriented governments like those in Poland, Hungary, and India recently announced purchases for the gold reserves as the United States increasingly has been weaponizing the dollar to coerce the world in trade and foreign policy. China doesn't regularly announce its gold purchases anymore, but almost certainly has continued accumulating.

An equally telling development may be Barrick Gold's formally becoming a business partner with the Chinese government. In September, Barrick's CEO, Mark Bristow, announced that Barrick wants a, "distinctive and preferred relationship," with China and Barrick exchanged a huge block of its shares with Chinese government owned miner, Shandong Gold. Barrick is now partly owned by China.

While mining entrepreneur Pierre Lassonde, founder of Franco-Nevada and a former chairman of the World Gold Council, says central banks don't care about gold, his former organization keeps contradicting him. The Gold Council keeps holding annual seminars for central bankers about gold reserve management. As you can see on the screen, another seminar will be held this month in Singapore. Perhaps the most interesting item in the seminar's agenda is Gold Market Operations and Accounting for Gold.

So central banks are in the gold market after all. But, what are they doing with their operations? They're certainly not accounting for them much. For the secret March 1999 report, the staff of the International Monetary Fund noted that central banks refused to distinguish their gold loans and swaps from their gold in the vault because an honest accounting would compromise their secret interventions in the gold and currency markets. This memo is perhaps the best smoking gun that GATA has collected over the years.

Of course, only central bankers and other government officials are invited to attend the World Gold Council Seminar in Singapore. The public and the markets aren't supposed to know what central banks do in the gold market. The public and the markets aren't supposed to know even what the World Gold Council is doing helping central banks and governments in the gold market. Not even gold investors themselves are supposed to know what the World Gold Council is telling central bankers about gold, even as the Gold Council purports to represent gold investors.

Because control of the gold price is the prerequisite for control of the markets and control of all of capital labor, goods and services in world, the location and disposition of national gold reserves are secrets more sensitive than the location and disposition of nuclear weapons. For nuclear weapons can only destroy the world. By determining currency values and interest rates, gold can control the world. But maybe the most important development in gold market manipulation over the last year is that it increasingly is being recognized and questioned at high levels, as indicated by the more frequent purchases by central banks.

Over the last year, GATA has peppered central bank and government officials with questions they won't answer. GATA hopes that mainstream news organizations, fund managers and governments will take notice at some point. The mainstream news organizations are as timid and useless as the monetary metals mining industry itself, but some fund managers and governments are watching and catching on.

In June, GATA questioned the US Controller of the Currency about the explosion and the use of a supposedly emergency mechanism called exchange for physicals to sell gold and silver futures contracts on the New York Commodities Exchange. Suddenly the delivery of hundreds of tons of metal purportedly was being shifted off the exchange to somewhere else, presumably London.

So where were those metal deliveries coming from and what were the financial risks for the investment banks that had sold the futures contracts, banks regulated by the controller of the currency? In August, the Controller's office replied to GATA dismissively and evasively, stating only that it has plenty of skilled professionals regulating the banks. The Controller's office did not address the point GATA had raised. So, increasingly, the exchange for physicals mechanism seems to be cover for some kind of accounting fraud.

In July, GATA wrote to the public relations department at JP Morgan Chase and Company about the bank's involvement in the monetary metals market. That involvement occasionally has been controversial in recent years. GATA's letter ready, "In April 2012, Blythe Masters, then Chief of the Banks Commodities Desk told CNBC that the bank had no position of its own in the monetary metals market and was trading only for clients. Can you say if this remains the case and if the banks clients in trading the monetary metals markets include governments and central banks?"

Morgan Chase did not even acknowledge GATA's inquiry. Of course, Morgan Chase might have to acknowledge such an inquiry if it ever came from the Wall Street Journal, Bloomberg News, or even a gold or silver mining company. Fortunately for Morgan Chase, the journal and mining companies are not interested in the manipulation of the monetary metals markets. In July, GATA wrote to each member of the Commodity Futures Trading Commission about the huge new use of the exchange for physicals mechanism to settle gold and silvers futures contracts. GATA asked for an explanation from the CFDC about what is happening with the mechanism.

GATA also asked the commissioners about the tight correlation then prevailing between the gold price and the Chinese yuan. Was the US government, GATA asked, allowing a foreign government to control the price of the commodity whose trading is regulated by the CFDC. The CFDC did not reply. But now questions about surreptitious government intervention in the markets may become harder to ignore. For a member of Congress, US Representative Alex Mooney, Republican of West Virginia, has drawn on GATA's research and is asking the federal reserve and the Treasury Department to explain what they may be doing in the gold market and other markets.

In April, Representative Mooney asked Treasury Secretary Steven Mnuchin and Federal Reserve Chairman Jerome Powell to describe the US government's policy on gold. Mooney cited documentation from the US State Department archive, documentation provided by GATA, showing that US policy long has been to drive gold out of the world financial system.

Mnuchin replied through the Treasury's Acting Assistant Secretary Brad Bailey. Powell replied directly. But neither acknowledged and answered Mooney's policy question, what are the US government's objectives with gold? The Treasury's reply denied that the department trades gold through the Bank for International Settlements, Bank of England, and other central banks or governments. Powell's reply denied any involvement by the Fed with gold swaps. But in July, Representative Mooney followed up with another letter to the Treasury and the Fed. Mooney's new inquiry calls attention to minutes of the Federal Open Market Committee from 1995 wherein Fed General Counsel, Virgil Mattingly said the Treasury's exchange stabilization fund has engaged in gold swaps. Mooney's new letter also calls attention to the admission GATA got in 2009 from Fed Governor Kevin M. Warsh that the Fed had secret gold swap arrangements with foreign banks and insists on keeping them secret.

Mooney's new letter asks Powell for an explanation of what seems like Powell's contradiction of the Fed's own records. Mooney's new letter also asks if the Treasury trades gold through its exchange stabilization fund, through any other government agency, or through commercial banks and brokers. Mooney's new letter also notes the recent close correlation of the gold price with the Chinese yuan and the valuation of the international monetary fund's special drawing rights. The Congressman echoes the question GATA recently put to the CFDC without result. Mooney writes, "Do these correlations reflect surreptitious intervention in US currency markets by China and currency manipulation by China? What do the Fed and Treasury think of these correlations?"

Perhaps most satisfying for believers in free markets and limited and transparent government, Mooney now has asked the Treasury and the Fed to come clean about everything. Mooney wrote, "What markets if any are the Fed and Treasury trading in and through what mechanisms? If the Federal Reserve and Treasury are engaged in trading, what is the objective?"

Mooney's latest letter to the Fed and Treasury was sent July 27th. More than three months have passed and the Fed and Treasury have not yet replied. All this information has been dutifully provided by GATA to major financial news organizations in North American and Europe. Last November in London, I managed to get 45 minutes with a reporter for the Financial Times, the newspaper's headquarters. I provided him with the major documentation of market rigging by government that was available then and since then I have often updated him by email.

While the Financial Times has done nothing with GATA's information, the newspaper has more or less explained why it won't touch the story of market rigging by government. The explanation came September 7 in a column by the FT's Chief Markets Commentator Associate Editor John

Authors. Authors' Column was headlined, In a Crisis Sometimes You Don't Tell the Whole Story. He wrote that during the financial crisis of 2008 he was working for the FT in New York and came upon a bank run at Chase, that Citibank and Chase Bank in Manhattan with nervous depositors, people from the financial industry rushing to withdraw their money from their accounts. Authors wrote that when he got to the front of the line at Citibank he found a helpful manager who explained that instead of withdrawing money, Authors should just transfer some money by opening additional accounts in the names of family members.

This would increase his coverage by government deposit insurance. The manager, Authors wrote, explained that Chase was encouraging to do the same thing that he was now doing at Citibank.

Authors wrote, "using bullet points she asked if I was married and had children. Then she opened accounts for each of my children in trust and a joint account with my wife. In just a few minutes I had quadrupled my deposit insurance coverage. I was now exposed to Uncle Sam, not Citi. With a smile, she told me she had been doing this all morning. Neither she nor her friend at Chase had ever had requests to do this until that week."

I was finding it a little hard to breathe. There was a bank run happening in New York's financial district. The people panicking were the Wall Streeters who best understood what was going on. All I needed was to get a photographer to take a few shots of the well dressed bankers queuing for their money and write a caption explaining it. We did not do this. Such a story on the FT's front page might have been enough to push the system over the edge. Our readers went unwarned and the system went without that final prod into panic. Was this the right call? I think so. All our competitors also shunned any photos of Manhattan bank branches. The right to free speech does not give us a right to shout fire in a crowded cinema. There was the risk of a fire and we might have lit the spark by shouting about it. A few weeks later, the deposit protection limit was raised from a hundred thousand dollars to two hundred and fifty thousand via an emergency economic stabilization bill passed by Congress."

Remarkably, Authors admits in this column that he took care of himself but left his readers exposed until weeks later. The government took care of them by increasing deposit insurance. Would disclosure of surreptitious government intervention in the gold market and other markets collapse the world financial system? The Financial Times and all other mainstream financial news organizations seem to think so. But what if that financial system is built on fraud and deceit? Does such a system really deserve protection by news organizations? The system is really a policy of suppressing all commodity prices comprehensively. Through the shorting of commodities in the futures markets, the creation of a vast imaginary supply of commodities in favor Western Government currencies, governments bonds, and other financial assets. This system has destroyed the free and transparent markets the West purports to advocate.

So the rest of the world, especially the commodity producing developing world, the part of the world most exploited by the financial system may prefer the policy expressed by the old legal maxim in Latin Fiat, justitia ruat caelum. That is “Let justice be done though the heavens fall.” Thanks for your kind attention today. GATA will have a workshop tonight at 8:05 in the Churchill Room up on the second floor. GATA Chairman Bill Murphy will be there with me. There’s our internet site and my email address. We’ll be delighted to hear from you if you’ve got any questions about gold price suppression, the documentation we’ve compiled, what we are trying to do about it, why we think it’s important. Enjoy the conference and thanks again.

Robert Prechter

“Three Key Markets Are Due To Reverse Trend”

Lindsay Hall: So next up is Robert Prechter. He has a book 1978 Elliott Wave Principle, which forecasts a 1920 style stock market boom. His 2002 title Conquer the Crash predicted the global debt crisis. His firm, Elliott Wave International elliottwave.com forecasts stocks, commodities, and currencies from intro date to long-term. Prechter has co-authored academic papers on financial theory and predicting election outcomes, which you can access at ssrn.com. Feel free to read more at robertprechter.com. Now up, Robert Prechter.

Robert Prechter: Good morning, thanks for coming out so nice and early. We’re going to cover a full five, all five major market sectors in the next 19 minutes. So we’ve got a lot to do. So we’re going to dive right in. I’m going to talk about two sectors that I don’t think are turning right now, but I’m going to give a little history on them and see how those are set up to affect the other three that we’re going to talk about.

The first sector is commodities. Now commodities, in my view, are not making a major turn right now. And I’m going to show you why. This is a history of commodity price changes, it’s the CRB index of commodity prices reconstructed back to about 1749. And you’ll see a very interesting shift in the way commodities behaved from the 1700s all the way up to the year 1933. They were in cycles. You can see that on the lower left hand side area of the chart. They would go up, they would crash back to about where they were, they would go up again in a boom, crash back where they were, go up again, come down, go up again, come down. Why was that? Because commodities were priced according to money. And money back then was gold. And gold is a commodity. Commodities don’t change much in relationship to each other. So you’d have cyclical booms and busts and go back to where you started.

Something very important happened after 1933. And I’m sure a lot of you know what that was. In January 1934, President Roosevelt and congress decided that gold should no longer be the nation’s money and that we were going to have a new money based on accounting units put out by the Federal Reserve. That of course, allowed inflation and it allowed the inflation of credit on top of the inflation of the base money. So the purchasing power of each dollar got lower and lower. So we got out of this range where commodities were going up and down in cycles, and got into what we call an Elliott Wave. In other words, a five wave structure, a much bigger boom, and ultimately a bigger bust. That boom started in 1933, and went all the way up to 2008. That bull market is way over, in my opinion.

Now we were on top of this move, and I'm going to show you what we were saying about oil at the time, as one of the major commodities and one of the major components of the CRB index. We were showing this from 1998 at the time, here's another five wave structure under Elliott Wave, another boom that's coming to an end. Our headline at that time was a spike top is due in crude oil in the 160 to 189 range. This was in June 2008. The very next month, it finally ground to a top at $147.50 a barrel, and then had one of the biggest collapses of commodities ever. That was Wave A, the first wave down I showed you on the first chart of commodities.

Now let's look at a closeup of the bull and bear market from 1933 to the present. You can see that nice five wave structure on the upside, that's the spike top in 2008 we were talking about. It occurred virtually across the spectrum in commodities. They've been in a bear market ever since, and this is despite the record inflating by the Federal Reserve, the QE that was going on 2011, 12, 2013, 2014. And we said, "No, we're in a bear market, it's going to continue lower," and it's nearly over. The way we follow these structures is we're going to get the A down, the B up, which occurred in 2011 and 2014, and then a final five wave structure to a low.

That I have projected out to about 2022, we'll see what happens. Now you might think, "Okay, big deal. There's only one more wave down. Why is that important?" It's important because the last time that happened, when commodities had been going down for quite a while and finally had one more drop, was in the 1929 to 1933 period. They had peaked at a much higher level back in the teens, shortly after World War 1. And they were going down in a bear market, we had the big boom in stocks, and then when they had their final leg down into 1933, stock market collapsed and we went into the Great Depression. I think we're setting up for something very similar, so this is an important sector.

Another sector I don't think is turning right now but had a very important turn recently is the bond market, in other words, interest rates. Here we have a long-term picture of interest rates going back to the 1940s. Notice that from 1946 to 1981 we had 35 years up in rates and from 1981 to 2016, 35 years down in interest rates. That cycle, in my opinion, is over. Rates have begun to rise, they've been going up for more than two years, which means bond prices, which are the flip side of rates, have been going down. And I'll show you, if you want to do your own predicting on interest rates, there's a great way to do that. Just keep up with the consensus opinion of economists.

So here's an example. At the high in 1984, that was three years after the ultimate peak at 16% in the interest rate. They were rising again in 1984. The Wall Street Journal ran a special four page section so that they could interview as many economists as they could find, and ask them what they thought interest rates would do. To a man, they said they were going to continue higher. The headline in the article is, "Higher Rates Predicted for the Rest of the Year and 1985's First Six Months." One of the people interviewed said it would take a miracle for rates to fall. That was virtually top tick at that time.

You'll notice the biggest collapse in rates, the biggest drop, occurred exactly in the time that the headlines say they were predicted higher into the following year. Well they continued lower into 2016 and another headline came out at the bottom, "Why Ultra-Low Interest Rates are Here to Stay." That's another example of a great way to use contrary opinion. And of course our opinions were the opposite at both times. Near the top in rates, where we said bonds are the buy of a lifetime, and at the bottom, the current juncture is the flip side of what happened in 1981.

Okay, this is a more recent closeup of what we were talking about in 2016. We said that the high in July, this formation is typical of a peaking process for a top in bond prices and a low in yields. And the odds now favor rising long-term interest rates. Now this is a picture of the bond markets, so it's upside down from interest rates. As rates go up, bond prices go down. And it's been a bear market in bonds for the past two and a half years. Ultimately, I think the rising rates are going to have an effect, or at least coincide with the decline that is coming up in the stock market, which we're going to talk about at the end of this talk.

Okay, now I want to talk about the three markets that I think are at a major juncture. So you've got a little bit of history of how we think, and I'm going to show you what we're thinking right now about some very important markets. The first one is gold. This is a history of gold, going back to its top in 2011. You'll notice another five-wave structure, the way we label things, a bear market occurred into late 2015. Now when I was here at the conference in 2011, it happened to be that gold was making all-time highs right then. And I put up four charts saying this is a major top and you can get out of this. And a year later, 2012, gold was holding up near that two in parentheses there. We also said this is a top for all the reasons that we use. And one of the reasons I'm going to show you right here.

Now look at the bottom chart. This shows you how many futures contracts managed money accounts are holding. You'll notice at the major top in gold in 2011, they held a lot of futures contracts long. They were very very bullish. These kind of managed money accounts love to own things when they're expensive, and they hate them when they're cheap. They do it over and over again and they will never stop. You notice that that line worked its way lower during the bear market, and then right in the middle of the graph, the bottom graph, you'll see it went below the dotted line. That meant they were net short at the low in gold in late 2015.

So they were wrong again. So what happened? Gold rallied, we were very bullish at that time and we said, "We think gold is going to go up to $1550 as a major partial retracement of what we've seen in the bear so far." So it had a first leg up, and look what the people did at that time. They loaded up on futures contracts. So at the top of that rally they were record long. They had more futures contracts than they have ever owned ever. That was the top of the first wave up.

Alright look where they are now. And this is the most important thing. They are record short. This is the bottom graph toward the bottom right.

They are record short. 103,000 gold contracts, and gold hasn't even gone to a new low. So all of that pessimism toward gold right now is so powerful against a higher price. It's a very rare event, it's very bullish. So we think gold is ready, probably already has started its move up to that $1550 area, at least that's our estimate. We'll see how far it gets before things turn bearish again. But I can virtually guarantee that that bottom line is going to be way up near where it was at the top of the last rally by the next time gold is ready to top out.

Okay a second big area that I think is making a major turn is real estate. Now people recall in 2006, one of the greatest real estate booms in this country's history topped out. The setback from 2006 to 2012 was the biggest since at least 1926. The biggest since the Great Depression. Well, in some areas of the country, prices went to even higher highs. You can see the 2006 peak. And the big setback, and a few areas such as San Francisco, Las Vegas, Seattle, went to new all-time highs. I think they're topping right now. Now why do I think that? Here are some recent headlines. "Home seller/Prices especially in California." Next headline, "New York City home sellers cutting prices like it's 2009 and then selling." Third headline, "Atlanta home sales dive from September 2017." And the last one, "The first of the entire country, the U.S. existing home sales fall to lowest in almost three years."

Now this is the volume. This is not price yet, for the most part. It's the volume of home sales. But the volume always peaks before price. Because sellers are reluctant to lower their prices. And they hang onto their ask prices until they aren't getting any bids, and they finally start to lower them. I think we're right there at the time when people are going to start lowering prices on their houses. This is a picture of the rate of change of mortgage defaults. You can see the big soaring rate of change in defaults in 2008, when the housing market was really falling hard. Since then, it's bottomed out. But you notice it's starting to pick up. I think there's a head and shoulders bottom, I think it's interesting that the neck line comes right about at the zero line. When that line pops above zero and pops above the neck line, I think we're going to be in our next big round of defaults in real estate.

And the last one we're going to cover today is the stock market. This is a fascinating area right now, and I'm sure many, many people are interested in stocks right now because the world seems to be, again, as they were in 1999. So I'm going to show you three different things, and they're going to point to why I think stocks are making a major top, probably we've already passed it. Here we have a picture of two stock indexes. The top one is the Dow Jones industrial average. The one underneath is the New York composite index. That is the aggregate pricing of all stocks in the New York Stock Exchange.

Well in January of this year, prices soared up into a peak. And then they had an extremely sharp drop from late January into early February. And of course the big question was is that the end, or is it just a pull back? But most people said it's just a pull back, and in some ways, they were right. The Dow Jones industrial average, the SNP composite, the NASDAQ, all manage new highs in the September 2018 period, plus or minus a week.

But look at the bottom chart. The New York Composite did not do that. The New York Composite couldn't get above its January high. That means the experience of the average stock holder, for someone who owns stocks in the New York Stock Exchange has been negative since January. A few very hot issues, they call them the FANG stocks, Facebook, Google, Netflix, and Amazon, were helping carry many of the blue chip indexes to new all-time highs. But if you didn't own those, you weren't doing very well. This is called a non conformation in technical terms, when one of these sectors of a market goes to a new high in a bull market and another important sector is failing to join it.

This works in all kinds of sectors. You might remember, back in 2011 when gold was topping, I believe it was October. September/October that year, silver was not making a new high along with gold at that time, and it had already peaked earlier in the year. So when you get these non conformations they're very very important.

Now the top chart shows you what's happened since the third of October. Actually, mid-September in the S&P, it was only the Dow that made it to the third of October to a new high. So in the last five weeks, we've had a pretty strong setback with several rallies along the way. And again, the question has arisen, is this just a correction in a bull market, or is this the start of a bear market? And I'm going to show you a couple charts that say unequivocally which one of those we think it is.

Now the middle graph here, you'll see a bunch of bars, and the headline, "Large Speculators." This is a group of people that are always wrong at the turns. You would think that's smart money, large speculators. But they're not. They're just as wrong as the small speculators when it comes to buying and selling futures contracts in the market. Notice toward the left of that middle graph, where it was in negative territory, you see those lines pointing downward? That means they were net short back in 2015 and 2016 when the stock market was bottoming out. And the commercials, which are the bottom graph, these are the smarter ones. These are the people buying low and selling high, were very long in 2015, 2016 at those lows.

Now look where they are. Ever since that time, the large specs have been getting more and more excited about owning stocks, and the commercials have gotten shorter and shorter. So the dumb people are as long as they can get, and the smart people are as short as they can get. Which one is going to turn out right? Well, it's even worse than it might look. If you look at that note up there, you'll see that the large speculators were buying more futures contracts as the price fell. They said, "This is a golden opportunity. It's only going to be a pull-back in the market."

So they are still virtually record long as we speak. This has a long way to go before we can see a bottom in this indicator. And the commercials are going to have to go back to the plus side before there's a bottom this indicator. We're talking months on the downside before this is over. Too much confidence, in other words. The sentiment, the psychology. Too much confidence. Well let's look at another area, an area we call momentum. This is how much weight is behind the market. There is an index called the trading index. We shorten it off and call it TRIN, for trading index. This is a 40-day moving average on the bottom of the chart.

It tends to get oversold when the market is near bottom, and overbought when the market is near top.

So you'll see that it was very overbought over on the left side of this bottom chart, it was very high in January when the market was topping out. By the time we got to late March, the S&P had had two legs down, and by then it was very oversold. Now what does overbought and oversold mean with respect to this particular indicator? It means that the amount of volume going into stocks up on the day is greater than the amount of volume in down stocks on the day. That gets you overbought. When it's the reverse and people are putting a lot of volume into the down stocks, it means they're panicking. That's how you get oversold.

So this thing has been rising ever since the late March low. And you'll see that it was getting higher as we got into the top in September, but look what happened. It stayed there. People are still putting more volume into the up stocks than the down stocks, despite the decline in prices. So just like the optimism that is continued among these futures contract owners, people involved in the market are trying to buy it all the way down. I don't think this market is going to make a low until that line is at least back to where it was in March of 2018. That's a long way down. So the stock market, I think, is at a major, major juncture, even though this looks like big decline on here, we're only looking at a daily chart. If you look at a monthly chart, you can hardly see it. It's a blip on the chart. I think we're going to see it on the monthly chart by the time we're back together here next year in October/November 2019. So put that note on and come and slap me if I'm wrong.

Now I always get this question, "Can the Fed prevent deflation, depression, bear markets, and all that sort of stuff?" Well it certainly didn't prevent the Great Recession that occurred in 2008, 2009. They didn't prevent the run-up in interest rates from four percent to 16% back in the 70s, so no, I don't think they can prevent it. I don't have time to make the whole argument here, but I'd like you to know my argument. So what I've done is I've pulled a chapter out of my book, Conquer the Crash, the 2018 edition, and I've posted it, no charge. I want you to read that. Because so many people believe the Fed is in control of the markets, and I'm hoping to disabuse you of that idea. I'm going to leave it up for one week. So if you want to go read it, you're welcome. Just go to elliottwave.com/fedchapter, that's two L's and two T's in Elliott, slash fedchapter.

Okay, we've had to barrel through five major market sectors. There's much more to say about each one of them. If you're involved in any of them, I urge you to go see my colleague Steve Hochberg tonight. He's doing a workshop from 6:30-7:30, second floor, Churchill room. Go see Steve, make your dinner reservations for 8 o'clock, go see Steve at 6:30, you can ask him questions, he's got many more charts than I was able to show you here today. And I know you'll enjoy him, he's a great speaker and a great presenter. So hope you have a wonderful day, enjoy New Orleans, and I'll see you next year.

Gary Alexander: Now our very good friends for the last decade or so. They've been enlightening us, the Real Estate Guys. They're the group that speaks on podcast. I hope you've downloaded them because millions of have done so and enjoyed. They're fun and their educational. The topics include economics, the strategies, practical tips for building and protecting wealth in real estate and all kinds of other real assets in your portfolio. Their guests include literally the who's who of the investment world, from Steve Forbes, to Donald Trump when he was a businessman, Peter Schiff, Chris Martenson, Brien Lundin here, James Rickards, who's been at this conference, Robert Kiyosaki who is up later on this afternoon and many other notable experts.

You can listen online and subscribe to their free newsletter at www.realestateguysradio.com, or you can listen to them right now as they keep it real in an unreal world. First up from the Real Estate Guys, is Robert Helms.

Robert Helms: Sir. Thanks, Gary. Gary Alexander, ladies and gentlemen, that's a tough job emceeing, so I hear. How's everyone doing? How many of you wish that you owned more real estate than you do? Who would like to own more real estate in the future than they do now? Here's the great thing about the next 20 years. It's going to be here 20 years from now, whether you do anything about it or not. We're going to share some ideas about how you keep it real understanding that we're at a resource conference. We believe that real estate is maybe the ultimate resource. I mean, where does oil and gas and gold come from? The ground, right? Before we're done today, you're going to hear from not only Robert Kiyosaki, but Tom Wheelwright who is Robert's CPA who has really got a lot to say about how keeping it real also will let you save more money if you understand taxes.

We have lots to talk about. Our show is heard in lots of different places, more than 190 countries. You can find us on iTunes and Stitcher, and all your favorite podcast places, the podcast is free. We'd love to have you listen to it. That's enough about us. We're easy to find, and we keep showing up. Let's talk about living in an unreal world. Who remembers Bizarro world from Superman? Who's old enough to remember that? Where everything's opposite, everything's different, everything's not real. Growing up learning about economics, it seemed like it was all based on sound footing. But in the last couple of days, we've learned that all is not as appears. Apparently right now, unproductive debt doesn't seem to matter. People borrow and consume in order to prosper. I guess all you have to do is rack up your credit card and you have a good high-level of living. Consumption is production they say today, or at least the Keynesians believe and profits are wealth no matter how you got them.

I'm not sure that's true. We're going to share with you some ideas that maybe will have you think a little different and change your paradigm, because paper investment and paper returns aren't the same as real money. But in this house, you probably already understand that. We aren't political in any way, we are just guys that look at how things that happen in the business world affect our lives from an economic viewpoint and even a bigger picture than that. So, here's a chart you've probably already seen but here's the context of this. Those things that we just talked about the unreal nature of what's happened in the markets, and what's happened in our world, in our financial system, in the Federal Reserve and all of that, leads to people's beliefs. The way you believe effects your actions, and the actions you take effects your results. That's true for all of your life. If you believe something, and you take certain actions, and you get results, if you don't like the results, you got to go back and change the beliefs.

Well, the way that's manifested, is in an unbelievable amount of debt. But all the charts seem to go the same way. There's some clues in there. Here's the challenges all investors face, not just real estate investors. We're not going to show you the chart because lots of people have, and we showed it to you the other day, but the dollar has trended in one direction since it began. Was that direction up or down? Down, right? I mean, it's pretty clear it's not a little bit down, it's always down and that's a problem. At the same time, interest rates are headed which way? Up, after a long time of being down. That's a problem. We have a good economy perhaps, but it's sitting on a very fragile economic foundation. Our system is a challenge. That creates unnecessary skepticism, I guess, from investors. Then you've got all the stories of the pension funds that are underfunded, and how people that are no longer productive or are not getting the money they were promised and those kinds of things, which are scary, scary time to be an investor.

You've got more and more debt just to cover the interest on the debt. It's crazy. We talked a lot about counterparty risk in real estate, because there's always somebody under the side of the transaction not in every type of asset class, not a lot of counterparty risk in silver or gold and not much in real estate. Then, of course, privacy. Today we give up privacy for convenience and yet our privacy is eroding. A lot of challenges faced as investors. We're not here to say real estate can handle all the challenges, but there's some ways it can certainly help. We have to understand our paradigm, we think and behave a certain way based on what we've been taught. One of my favorite things about one of our speakers coming up later today, Mr. Robert Kiyosaki, is he challenges us to think differently. He says, "The rich don't work for money." He says, "Your house is not an asset. It's a liability because it takes money out of your pocket every month instead of putting money into your pocket." That challenges is a long held belief. That, no, my house is my biggest asset. No, it's not. We have to take the red pill and see how things really are.

So, a big question is, what is wealth? Is wealth what your balance sheet says? Is it your net worth or is wealth your cash flow statement, is your income that's coming in? There's two sides of a coin there. There's certainly we want our net worth to increase but there's income. So, we're going to challenge a paradigm a little bit this afternoon on that. Then here's the other thing, when we talk about value, value investing. This concept of income versus comparative sampling. What do I mean by that? Well I'll show you in a second. How did Apple do last couple of days? Apple stock, where is Apple stock, up or down? Down a lot, right? So, follow me on this, a share of Apple stock is worth whatever the market says. Today, it's essentially a perfect market. I can't go find the guy that wants to unload and buy Apple stock at a bargain. It's going to be the price. It's going to be what the price is based on what the most recent shares have sold for, the comparative sampling. In real estate, it's really interesting.

We have what we would consider value in our home, but do we really? We would submit to you that's perhaps a fake valuation. How can Netflix and Tesla be worth so much money when they don't make any money and may never make any money. This can mess with your brain. Let's talk about how that manifests in real estate. Imagine there's a million dollar economy made up of 10 houses, and each one's $100,000. That's our entire economy. That's your little cul-de-sac you live on. Then because the economy's good, and stock prices are rising, and so forth. Now, one of the folks on your street decides to put their home up for sale, and you know what? It sells and it sells for $200,000. Well, the way that comparative sampling works in real estate, it tells me that all of a sudden every house on that street is now worth $200,000 if they're all the same size and utility and so forth. So, all of a sudden the entire economy has grown by a million dollars. It's doubled. But that's just not true, and here's why. If every other of the nine houses were to go on the market, would they all sell at $200,000. No, as soon as all the houses go on the market, the price goes down.

So, the comparative sample method says that, well, my stock holdings are worth this today, or an ounce of silver is worth this today, but that's going to change tomorrow. If everybody sells, then the price can't hold. There's a part of real estate that's not true for, and that's the monthly income, the rental income. It's not a comparative sample that effects if everybody moves in or out, because those transactions settle every single month. My tenant pays me every single month, every single month, every single month, and so do all the tenants. That is a comparative sampling, that is a true indication of the value. It takes a lot to get your mind around that, but here is the premise that unrealized gains aren't really real. Unrealized gains are not really real, really, they're not. You might stack up a bunch of gold coins, right, but if you're trying to convert those to dollars, which is the wrong way to think about gold in my opinion, then you know as soon as everybody goes to sell ... Well, you know what we're saying.

All right, so Apple stock suffers worst day in more than four years. That was yesterday, I couldn't find any more current news than that. People all of a sudden hit the sell button and that makes it worse. Prices go down worse. America lost trillions. This is a chart from a little while back when the housing bubble went through and, oh my gosh, look at all the money we lost. The air came out of the bubble. But it's interesting because was that money ever really there? If everyone had tried to sell all their houses at those inflated prices, it wasn't going to happen anyway. Then it goes the other way, household net worth climbed by $2.3 trillion in the first quarter of 2017. But did it really? What if everyone went to sell those properties, it's not going hold. So, income is real. When you have income from rental property that comes in every month, and they're paying the rent, and they're going to work every day for somebody else, and you're not managing them, but they pay you a big chunk, 30%, 40% of their income goes to you as the landlord. That's real, because it settles every month. But the price of the asset, that's fake. That's only today in the bubble.

If on your street, you're the only house that sells and it has good demand this month for houses, you'll do fine. But you can't assume that just because it's on your balance sheet, it really is an asset that's real. Real estate equity has gone up, and gone up, and gone up, and our book equity happens. We've cited that for 40 years in a row, the median price had never gone down in real estate until it did. Look what happened at the real estate bubble, oh my gosh, that was pretty ugly. Then it has bounced back. Oh my gosh, who lives in a house in the market where the prices have bounced back? Yes, and some of them have bounced back a lot. Now, I'm no expert at this stuff but it looks to me like there could be another bubble forming. I don't know, it could be. Some people saw this chart, here's the chart you may not have seen. Where the asset price change drastically, the income did not. These are rents. Even though the housing prices came down, the rent came down a little but not a lot, because those transactions subtle across millions of properties every single month.

Here's what a lot of people like to do when they invest. They take cash, they invest in something like a house or Bitcoin or gold ... You can call that an investment. So, they can sell it again later for more dollars. Cash to asset to cash. Now we're not sure that's a good way to go, because I think owning assets is much better than owning cash as Robert Kiyosaki will tell you. Cash is trash. What we like to do is go cash to asset, to cash flow. An investment that pays us every month or every quarter or every year. It's not just residential real estate, there's all kinds of ways. Agricultural crops might pay once a year, oil and gas pays when it does. So, different ways to go from cash to asset to cash where the game is to accumulate the efforts of others through cash flow, not to accumulate a big pile of dollars. What are you going to do with that.

So, when you manage debt, equity, and Cash Flow strategically, then you can use real estate to grow and preserve wealth, produce tax free income, truly tax free. You're going to hear about that from our good friend, Tom Wheelwright in a few minutes and what we call infinite returns. Infinite returns means you're on the house's money. Before we're done today, you're going to hear about infinite returns. We talked about it in a breakout session last night. Thanks to everybody who came, that was the fullest breakout session at eight o'clock I've ever seen at this conference. Crazy good. So, thanks for coming out for that. That will hedge against inflation, deflation, and recession. If you didn't see our presentation the other day, real estate can actually hedge against both inflation and deflation, and recession in case we get one of those.

So, how do you put the pieces of all that puzzle together? Well, it takes a bigger brain than I have. Please welcome the cohost of The Real Estate Guys radio program, Mr. Russell Gray.

Russell Gray: Thank you, sir. Right on time. That's awesome. Thank you so much for coming out. It has been a great conference. Here we are, I don't know, third day in, second day in, something like that. We got one more day left. Tomorrow we get to hear from Peter Schiff. Peter Schiff is a big part of the reason why we're here, because in 2005, 2006, weird equity was happening and just up, up, up, up, up. People were sounding the warning bells. Two guys, Robert Kiyosaki and Peter Schiff were telling the world that the real estate market was in trouble. A lot of us, including myself, didn't listen. Now, I pay very close attention and I pay close attention to those guys. It's tough because you got to be brave. Those guys are very brave. They will stand there all by themselves and they will say what they think, they will back up what they think and everybody stands against them, they laugh at them. We've got some videos on our website of those two guys just getting heckled over trying to warn people what was coming, and sure enough they turned out to be right.

Nobody wants to hear the Jeremiah prophet, nobody wants to hear that the end is coming when it's all fun and games. But you can clearly see when you take look at what's going on to the financial system. There's some things to be concerned about. That doesn't mean that you lose money. It just means you need to position yourself differently so that you can make money. After the 2008 crash happened, I was in the mortgage business, lost a lot of money in the mortgage business. I had a lot of highly leveraged real estate that was negative cash flow, and I was using the income from the mortgage business to be able to feed the real estate. It all looked good on paper, but it was all dependent upon healthy credit markets. I didn't understand credit markets, so I couldn't see the risk to the credit markets. Today I see interest rates rising, I understand the credit markets and the bond market a lot better. I see a lot of instability and so I'm positioned very, very differently. I'm actually looking forward to the next bubble bursting, because it's a shopping spree if you're in the right position.

We're here to help you understand some of those concepts from a real estate perspective. Robert has done a great job there setting the table, helping you understand a little bit about the way we look at real estate and the major paradigm shift going from cash to asset to cash and trying to generate dollars, to wanting to accumulate assets that put cash flow into your pocket. It's a premise that Robert Kiyosaki teaches in Rich Dad Poor Dad. I mean, many of you have come up to him since he has been here and just thanked him for how he has changed your life. For those of you that haven't had a chance to hear him speak before or hear his concepts, you're in for a treat in just a few minutes. So, solving this puzzle, it looks like this, if you're looking at the marketplace, and you see a bunch of equity sitting there in real estate. You realize that equity can't be there forever. If the credit markets seize up, if for whatever reason we have a recession, and wages don't keep going up, but they go down. If interest rates rise, and people can't leverage their income into bigger mortgages. If any one of the number of things happen, you could see the market take that equity away.

A lot of people think, I got to pay down my loan in order to be safe. But that's crazy, there was a lot of people that were paying their loans down going into the crisis in 2008. Then the market just took the money away anyway. So, that's not the way to do it. Some people got out of the real estate market and tried to come back in, but it's very expensive to move in and out of real estate. It's very, very hard to time the market. So, the whole concept of what I'm about to show you is a way just to rearrange things. So, it doesn't really matter what happens. interest rates can go up, interest rates can go down. We can have a recession, we can have a booming economy. Credit markets can seize up, it really doesn't matter. That's the point that we want to make here. So, let's just start with this idea that you've got some equity in some real estate somewhere. If you don't, then imagine you have some other asset you could borrow against. I just always use real estate, it's my mortgage background, it's my favorite thing to leverage because you can take the money at very inexpensive rates, lock it in for a long, long time and then put it to work doing other things.

If we pulled $200,000 out at 4.5%, we're going to have $9,000 of interest a year. That's our cost of that debt. Of course, that's tax deductible. If you're going to be using it for investment purposes, but I'm not a CPA, check with your tax advisor or talk to Tom Wheelwright who will be up here shortly. But now you've converted your equity to cash. So, in exchange for a $9,000 a year payment, you put $200,000 of cash out of your property that you can put to work. You get to keep the property, so if the property has upside you get to keep it. If you enjoy using the property for whatever purpose, you can keep that. If it's producing income because you're renting it out, you can keep that. You have no counterparty, in fact you are the counterparty. You're in a situation where you're more liquid going into a time when liquidity is not to be found at the marketplace, it's always good to be liquid. Now you decide, "Well, what do I want to do and can't just sit there and pay $9,000, I got to handle that payment.

So, you use private lending. If you're not familiar with real estate, the equivalent to bonds in real estate are mortgages, and you can make private mortgages. So, you can go out, and you can loan somebody who maybe doesn't have a fit in the box credit score or financial documentation. Maybe they're a foreign national, but they'd like to buy real estate, they'd liked about home. They'll put 30% or 40% down and pay you considerably more than the going rate. So, in fact, we got a guy right here that does private lending from Nashville Tennessee. So, you take $100,000, take half of the cash that you had, and you invest it out at 9% in two $50,000 mortgages on these little $60,000, $70,000 houses in what they call Flyover America, and you get 30% to 40% protective equity. Which means if the person stops paying, you would happily take it at a 30% to 40% discount. Even if we had some deflation, you've got quite a bit of cushion there. If it was underwritten properly, then there should be enough income on the property that if the person who was in it fails to pay, you evict him and put somebody in who will, you can't evict a bond issuer.

Somebody gives you a bond and defaults on the bond, you can't kick them out and put somebody else in their place. But with real estate you can, whether it's a tenant or a borrower. It's one of the great things about real estate. Anyway, by doing the math, you see that we got $9,000 of interest going out, you got $9,000 of interest coming in, but we only had to deploy half our capital to do it. So, we've got $100,000 of cash now that's free to do something else with. So, let's see what else we could do with it. Let's say that we wanted to hedge against long-term inflation. Let's take half of that $50,000 and just go buy some precious metals. Let's put them in a safe somewhere outside the banking system. Now I've mitigated the banking system, I've mitigated the falling dollar, no counterparty risk, I have great liquidity, I can pivot into any currency I want because there is almost always a bid in any currency for gold. Does that makes sense?

Okay. Now I still got $50,000 left over. I'm going to take my $50,000 of which I have no payment attached. I might say, "Hey, you know what I'm going to do is, I'm going to do what Jim Rickards says in Currency Wars. I'm just going to go park that wealth somewhere in developable land and just wait until everything falls apart. Then I will be able to get cheap labor and cheap supplies, and develop that property and make a profit." If you've read Currency Wars, Death of Money, that's an idea that Jim Rickards put out. You may decide, you know what, I don't want to do that, I'd rather have some form of income, but I want to get something that's real and substantial, necessary. I don't want to speculate on tech or something that, discretionary spending. I mean, there's not too many things that are more essential in life than having a roof over your head and having food on your table. The great news about farmland is you don't have to get the local economy right, because the crops grow where they grow best and then people eat them where they live, and you just ship them to get there.

So, when you buy a rental property, you've got to get the local economy right. You've got to get the local jobs market right. You've got to understand the supply and demand dynamics. A little bit different when you buy productive farmland. We got a couple of people out here in the exhibit hall that actually will let you get into deals worth $50,000 and you can buy a chunk of productive farmland. If you haven't talked to them, make sure you go out there and do that. Last night at our breakout session, we showed you how to do it with resort property. You can buy a resort property or a piece of a resort property and you can have some personal use, you can have tax deductible travel to visit your investment property, you can have some income coming in, you have a professionally managed quality asset. Because there's one thing when you have a tenant in a C-class property, and they don't pay, they trash the place, and you've got all kinds of capital expenditure to turn the property.

Resort property is a little bit different, because the manager is in control of the property. You don't have that kind of damage to the property that you do in a low-end investment property or a low-end rental property. You can do it domestically or you could go offshore. We talked in our pre-conference workshop about the advantages going offshore. It puts you in a different jurisdiction, it makes it very hard to find those assets from just a routine asset search. If you got a frivolous lawsuit attorney chasing you around and trying to just find something to pin on you, they're not going to find those assets. If you structure yourself properly, you can hide many of your assets. You're not hiding them from the IRS necessarily, you're not trying to evade any responsibilities you have, you're just taken the target off your back. If you've done well, and you've accumulated some wealth, all said you just got that thing hanging out there in the wind, every account, your social security number, every single piece of property you own in databases in the United States with your name attached to it, very easy to find everything you own.

These types of structures, you can camouflage all of that and take advantage of privacy. You may decide, I don't want to own the land directly, what I'm going to do is I'm going to invest in a private placement. Our pre-conference workshop was about private placements. You've got the Real Estate Fund Alliance out there, which is an alliance of individual fund managers, syndicators that are raising money from investors that want to be hands off. They want to be in real estate, they want to take advantage of real estate they just don't want to get their hands dirty. Just like a mutual fund, you turn it over to a syndicator and then they run the project for you. The only differences it's very, very flat. When you deal with a syndicate or someone like that, you're dealing pretty much directly with the principal or maybe somebody who works directly with the principal. If you think about what happens when you go do business with Wall Street and fund managers, you're dealing with people that are ... There's layers and layers and layers between the asset and the income and the profit on the asset and you.

Those big buildings and those fancy commercials, and those jets and all the things that you see, they're a part of that industry. That money comes from someplace, and I'm pretty sure it's you. Just be aware of that. Then of course, private placements give you the ability to keep your affairs more private. There's a lot of things that you can do. Just in closing here, and I can't believe it. We're actually going to finish ahead of schedule, which is great. Just want to cover this real quick. I've probably shown this thing the last two or three years that I've come here to the New Orleans investment conference. We talked earlier about the importance of shifting a paradigm. One of the important paradigm shifts here that Robert shared with you, is that asset values and net worth are very volatile, very fake. Income is very real and much more stable. We can show that, we showed the charts, we can show you that. That's one paradigm.

The second paradigm is that when you invest, that you have to, the buy low sell high, and the idea that going from cash to asset to cash. This is the thing Brien Lundin and I joke about this all the time, because we talked about gold. I look at gold very differently because I'm not a gold guy. I look at gold as a store of a unit of value, and I want to have more units of real value. So, when it goes on sale, meaning the price drops and the dollar is strong, I get excited and go get more. So, I'm the opposite. I'm not looking to sell it. If I need liquidity, I probably would borrow against it just like I would borrow against real estate and then just arbitrage whatever the cost. If I borrowed at five, I would invest it five plus. It makes it worth the round trip. But the other thing here is just understanding that you can take control of your financials and begin to structure yourself in such a way that you aren't a target. That you can have privacy in your affairs, that you can have more direct control over the people you work with and the assets that you have, and direction about what's going on.

So, at the low hanging fruit where most people in America are, they own paper assets, stocks, bonds, mutual funds, 401ks, insurance contracts. They own bank accounts with their social security numbers all over them. I joked about that, you put your money in a bank in over $250,000, you're not insured below $250,000. You have insurance from the FDIC. So, an insolvent institution has insurance from an insolvent institution, that is backed up by the printing press of the United States, which is an insolvent institution. You got to think about that. It's all good if the printing press works. One of the things we spent a lot of time talking about and paying attention to is the dollar status as a reserve currency. That's under attack right now. Now, it's not going to fall apart tomorrow. It might take years, but we don't know. But Russia and China and many other countries are looking for all kinds of different ways to circumvent the dollar.

If the United States loses their credit line, which is the reserve currency status and Jim Rickards calls that an ice nine lockdown, the system freezes until there's a reset. If you have everything in that system when it freezes, then you're like the people in Cyprus and Greece were when they're standing at the ATM, trying to get a few bucks to buy food and gas. That's low hanging fruit. The lawyers can find you, the creditors and predators can find you, and everything is locked down if something happens. But if you climb up the tree a little bit, then you can use domestic real assets. Gold outside the system, private placements, direct ownership of real estate and other things like that. You can use private entity structures and private banking concept. Go a little bit higher, and you go international. When you go international, you are very, very difficult to go after. It could cost a plaintiff's attorney hundreds of thousands of dollars to litigate to chase your assets if you've got them spread out in multiple jurisdictions, if they can even find them.

Now, they may decide to get a judgment against you, and then you got to go in and tell everybody where stuff is, but I'll be honest with you, I've gone through that. Because I signed some personal guarantees on some construction loans pre-crash. When those went bad, the projects failed, I owed the money, and I legit owed the money. I didn't fight it. They got a default judgment, they called me, and I had to do the order of examination. I had to tell them where the stuff was and fortunately, everything I had was offshore. They looked at it, and they went, "All right." Then they walked, that was it. So, I've become a big believer in international structure. So, if you're not there yet, just take the red pill and open up your mind a little bit and consider the possibilities. Because you're more of a target probably than you realize, and in desperate times, governments and people do desperate things and go after people with money.

So, international real estate assets, international private placements, private entity structures, private banking. So, with that, I will thank you very much ... No, I got a couple more things I got to tell you. So, getting there from here. All right. If you're sitting here, like, "Okay, that's interesting, these guys just force-fed me, like drinking from a firehose for 28 minutes. I'm interested, but man." We call it the law of diminishing intent. You hear like, "That's intriguing. I want to follow up on that." We know what's going to happen, you're going to walk out the door, your head is exploding because you had all these brilliant speakers filling your mind up with all this stuff and then you're going to go back home this week and your schedule is going to eat you up. Is that what happens? It's exactly what happens.

So knowledge is only good if you act upon it. Our motto at The Real Estate Guys for years and years has been education for effective action. The way that works out is you got to have the knowledge. You're at the beginning of this knowledge some of you. Some of you that are listeners, have been following us for a while, maybe this is old school, but if you're for the very first time, like "Wow, I never thought of it that way. That's pretty interesting." So, we have podcasts, we do educational courses, we do live events, we put on conferences, we speak in different places, lots, and lots of education. We understand it takes some education. For you to change your investment results, you have to change yourself as an investor. It starts in the way you think and what you believe and that will affect the decisions you make, which will affect the results you produce. So it starts with knowledge.

The other key part is a network. Real Estate, you can't sit in your diaper with your crib with your trading app and dial up these kind of deals, it doesn't work that way. Our business is a relationship business. Getting plugged into a network of people that are doing these kinds of deals that are in the deal flow that are raising capital, that are able to either share ideas with you or actually partner with you on deals, however you chose to do it. Again, you can be hands off, you don't have to be dealing with tenants and toilets, but you do want to make sure that you understand how to evaluate what you're looking at and who you're doing business with and then you turn the money. It's probably a lot more due diligence than a lot of folks do on the paper assets they buy every day. They just see him advertise, somebody gets a ticker symbol, they write it down, they go buy it. They really don't do the homework.

So, having a great network and a great team of advisors, great CPAs, great mortgage people, tax advisor, people that can help you. That's really important. Those are kind of three things you go to work on right away. To help you do that, we put on some events where you get to meet some people. One of the things we're doing is ... How many guys know Peter Schiff, Peter Schiff, Peter Schiff is a pretty famous guy, pretty smart guy. We're throwing a birthday party for Peter aboard our 17th annual investors' summit at sea. Peter has been great attending this event and teaching. This is probably at sixth or seventh year with us. Robert Kiyosaki is coming back, just told us last week he's committed to coming back I think for his fifth or sixth time. G. Edward Griffin wrote the book Creature from Jekyll Island. If you want to really get your mind bent about the roots of the Federal Reserve System and this entire monetary system that we work in, have a dinner conversation with Ed Griffin. He'll really blow your mind.

Chris Martenson who I believe spoke this morning, He'll be with us. Tom Wheelwright is just on the day. He's a CPA and he can't make it for the whole trip because it's tax season and there's a lot going on, but he's going to come share a concept called infinite returns. I'm sure you're going to get a preview of that. Brien Lundin will be with us and many, many, many, many ... Gene Guarino who you heard earlier, many people.

You will get more done in terms of your financial education in this space, in the real asset investing space with real estate at the hub and building relationships both with fellow investors and key people, advisors and providers. You'll get more done in week and nothing is for sale. It's all education and networking, and it's a blast. I hope you decide to join us. Thank you very much. If you want more information from us just send an email to NOIC18@realestateguysradio.com. We got two free reports for you, Real Asset Investing and New Law Breaks Wall Street Monopoly. We'll tell you about our investor registry where you can get into the deal flow, tell you about the summit and tell you how you can get ahold of our free podcast and free newsletter. Thank you very much.

Rick Rule
"With My Money, Natural Resources Investments"

Robert Helms: All right, with that I'd like to introduce you to our next speaker. It's always a pleasure to introduce Mr. Rick Rule. He's been in this business more than 35 years in the resource investment business, and is widely recognized for his knowledge of the mining, energy, and other resource sectors. He's a frequent speaker at industry conferences, including this one, and his own conference.

He's interviewed for numerous radio, television, print, and online media outlets, concerning natural resource investment and industry topics. Sprott Global provides brokerage services to high net worth individuals, and institutions worldwide, please welcome back to the New Orleans Investment Conference, the amazing Rick Rule.

Rick Rule: Thank you sir, thank you for that kind introduction. Good afternoon ladies and gentlemen, I hope today's been pleasant for you. I've had the good fortune, like many of you, to be down here. I think this is my 31st year at the New Orleans Conference, so I've been here a long time. I've derived a lot of benefit from it, and I see a lot of familiar faces out there. I know you've all derived a lot of benefit from it.

Many of you remember the founder of the New Orleans Investment Conference, Mr. James Blanchard, an important man in my career, and a very good friend. I'd like to dedicate anything that I say that you enjoy to the memory of Jim Blanchard, who founded this fine conference. Anything that I say that you don't like, the blame will rest with me, but I'd like to remember Jim specifically.

He was a wonderful human being, a great friend of gold, a great friend of America, and a great friend of all of y'all. I'd also like to take this opportunity before I speak, to thank the staff of this conference. As some of you know, I put on my own conference, and it's a hellish amount of work. It's like herding cats, making sure you all get fed and watered, and all these dilettante speakers show up on time, that the hotel doesn't steal from people.

Anyway, and Brien Lundin of course is responsible for the fact that this conference survived the death of James Blanchard. What I'd like you to do, is join me in a round of applause for Brien Lundin, and the staff of this fine conference. Thank you for that, an experienced speaker make sure he gets one applause line during the speech, and I just tricked you into giving it to me.

Many of you know Sprott, how many people here are Sprott clients, or shareholders, raise your hand please. Oh, this is great, this is great. In southeastern parlance, I'm not trying to expand the congregation, I'm just passing the collection plate through the choir, it's a wonderful circumstance. Sprott, for those of you who don't know, is a publicly listed company in Canada. We're domiciled in Canada.

We manage or administer about $12 billion worldwide, focused exclusively on natural resources, and precious metals. We have lots and lots and lots of products, but that's not what this speech is about. We'll go onto that. I want to start very briefly by describing the resource thesis to those of you who haven't had to suffer through this part of my speech before.

The truth, is that the keys to investing in natural resources are only twofold, one, natural resources investing is in effect investing in the ascent of man. There's seven point something billion of us on earth, and occasionally we do what people do, and that makes more. Those people who are born want to eat, they want to drive, they want to live, they want to live like you live. The bottom of the demographic pyramid, as they get more wealth, spend money on stuff that consumes resources differently than us.

Most of us already have too much stuff, but the 2 billion people at the bottom of the demographic pyramid, as they get more money, they eat better, they might upgrade their roof from thatch to metal they might upgrade their transportation from shoe leather, to a bicycle, to a motorcycle, to a Toyota hi Lex. In other words, their consumption patterns are extremely, extremely resource intensive.

It's an important thing to know, another thing to know, and I don't think I have to explain this to the veteran investors here, resource businesses are the most cyclical and volatile businesses known to mankind. Bear markets in fact, are the authors of bull markets. I like to say from the podium, that bear markets are sales. In fact, they're good things, if you're looking to acquire assets.

Of course, investors are afraid of bear markets, but that's their fault, not the market's fault. Bear markets are when things are cheap. The idea that you would buy low and sell high, necessitates the fact that in markets like the markets that we've been through, you have the courage to buy. It's interesting to note that most people want to be contrarians when it's popular, which is a very difficult thing to do indeed.

Remember this, the stuff of mankind is what resource investing is about. The idea, the way that you make money, is to buy it when other people aren't. A circumstance that describes very accurately I think that the market that we have either enjoyed or endured, depending on your point of view ever since 2011. Often when I come onstage, I talk about what I think you should do with your money.

That's what Brien has asked me to do for years, and what Jim asked me to do before that. Brien asked me to do something different this year. He said, "Rick, I don't want you to talk about your recommendations for other people's money, I want you to talk about what you're doing with your own money." I'm going to do that with most of the balance of the discussion, with the caveat that what I do with my own money, of course reflects my own means and my own needs.

One of the things I've done from the podium here for some years, is made fun of speculators in favor of investors. My wife pointed out to me that, that was somewhat disingenuous, because all of the money I now invest, I made speculating. I will be talking about speculations, I will be talking about investments. I want to say, that this is really about what I'm doing with my money, and may or may not be suitable to you.

You will recall, some of you at least, that last year's discussion was about the successes that I had, had personally, and Sprott had, had generally in two different arenas, really three arenas. The first thesis was that money could be made in resource bear markets, which we are decidedly in, by buying the very finest companies in the space. The Exxon Mobil's, the BHP's, the Nutrien's, the RTZ's, the Glencore's.

Simply waiting for time to do what time had to do in terms of commodities prices. That thesis has worked out reasonably well in the last year. It's a strategy that will continue to work well, but that was last year's story. I also talked about, and you should consider natural resource lending. One of the things that Sprott does, is that we provide on balance sheet financing for resource companies, particularly providing construction loans for new mines.

The efficaciousness, if that's the right word of that strategy, is evident by virtue of the fact that the equity index among the juniors, the Toronto Stock Exchange Venture Resource Index ... This is a great number, fell by 88% in the bear market. That is, that index lost 90% of its price, if not its value over five years, while lending strategies generated 17% compounded annualized internal rates of return.

A 17% return is attractive in isolation, but a 17% return annualized, compared to an 88% decline, is amazing, amazing out performance, but again that was last year's story. Finally, of course last year, we talked a lot about what we're known for at Sprott, which is private placement investing. The idea that you shouldn't participate in speculative stocks too often, if you don't get a warrant to double your upside while minimizing the downside.

Still a thesis that we like, and still a thesis that you heard about many times from the podium, but as I say, that was last year. Let's talk about this year, my own belief is that we're slowly coming out of a very bad bull market. We aren't coming out of it with any particular strength. That tells me a couple things. It tells me that I need to be a bit more conservative with my speculative money, than I would be at other times in the cycle.

I need to pick and choose my spots, there are 20 or 30 themes in speculation that are all, at various points in time in the cycle, attractive. The attractiveness has to do with how many other people are avoiding that sector. In other words, how unpopular it is, because surprisingly, the least popular sectors are usually the most attractively priced, and will cycle into favor over time.

In a very broad sense, in a very, very, very broad sense, there's three speculative themes that I want to talk to you about today. I should tell you that I will be allocating a really substantial sum of money over the next 12 months into each of these three categories. The names of the investments I make, will be available to Sprott clients, and certain people who express an interest in becoming Sprott clients.

The accounts that I'm talking about, the referenced accounts, will be in place beginning January 15. What I'm doing, is actually establishing accounts at interactive brokers, so that people in other countries can take advantage of this too under Sprott management. Those of you who are Sprott clients, will be able to get the information associated with the names that populate each of these subsectors from your Sprott broker, or you can maintain a segregated managed account where we buy and sell the names on your behalf beginning we hope, God and the regulators willing, on January 15.

The first sector that really intrigues me for the next 12 to 18 months, are a list of takeover candidates that we've developed. The truth is that the natural resource industry has shunned merger and acquisition activity until very lately for six or seven years. They shun it, because of the idiotic takeovers that took place during the last bull market. By our estimate, about $70 billion was wasted in the last M&A cycle.

The consequence of that, is that many, many management teams were allowed to pursue other employment opportunities, as the shareholders saw the mischief that they had done in place. The new managers were leery to engage in merger and acquisition activities, lest they suffer the fate of the predecessors. The consequence of a long hiatus in merger and acquisition activity is twofold.

The balance sheets and the income statements of many of the larger natural resource companies, has returned to health, and in some cases very, very robust health. They have the ability now to do transactions if they want to. The second consequence of a dearth of activity, in fact, a dearth of investment in natural resources by large companies, is that the exploration pipeline, and the development pipeline, and the new mine pipeline of existing mining companies, is at a low point, that is in fact probably the most drastic of my 40 year career.

Remember that every year that you mine a deposit, your business gets smaller. This business is in perpetual liquidation. None of us can stand at the mine mouth, and pour in fertilizer and water, and have that hole in the ground grow more copper. The truth, is if these companies aren't exploring, if they aren't developing, they are dying. They have spent eight years making insufficient capital investments, nevermind to grow, but in fact to continue to exist.

The consequence of that, is that we are coming into an M&A cycle, the likes of which I don't believe we've seen since 2001. Our merger and acquisition criterion are several fold. The first, is that we need to believe that the deposit is a tier 1 or a tier 2 deposit. That is to say, we aren't interested in small, lousy deposits that will be bought, simply because some issuer can buy it.

Something that happened in the last cycle, it has to be a deposit that we would like to own irrespective of the takeover. Importantly, we have to know who the asset is strategic to. In other words, we have to believe that the buyer will be doing themselves a favor buying it, as opposed to buying it for the reasons that happened the last time. The third criterion, is that we have to believe that more than one buyer exists.

What we have learned in prior takeover cycles, is that auctions work best. That is two, or three, or four people competing for the same asset. Very difficult of course, to have an auction with one bidder. We're looking for very good deposits, ones that we would like to own irrespective of the takeover, but where a takeover is much more likely than not, and where there would be several potential bidders in the course of that takeover.

We now have a list of 34 candidates that we think qualify in this space. I'm going to winnow that list down to 10, or with any luck at all, seven. The best picks out of this 34 company universe, and as I say, the results of this search will be posted on January 15 for Sprott clients, or those of you who would like to be Sprott clients. In prior takeover cycles, early cycle, this has been probably the best speculative activity that one can engage in.

The truth, is that a good acquisition ... Some of you will remember years ago Francisco Gold as an example, where Francisco Gold was acquired by Glamis, at a 40% premium, which was pleasant for the Francisco Gold shareholders. The acquisition proved to be so accretive to Glamis, and promised so much growth, that after acquiring Francisco at a 40% premium, the shares of Glamis doubled over the ensuing 12 months.

What you hope for of course, is that double bump. A premium on being acquired, and then the acquisition itself causing the company that does the acquisition to go up too. That is typical of early rather than late cycle acquisitions. The secondary that I'd like to draw your attention too, and coincidentally employ my own cash in, is an old theme for me that I think is misunderstood.

The royalty and streaming business is an extraordinary business. Let me give you some arithmetic to demonstrate how extraordinary it is. The top seven royalty and streaming companies that we follow have generated 65% operating margins over the last 10 years, which means in a gross sense, $0.65 out of every dollar that come in the door, stick in the jeans pretax, as compared to the operating margins of the best and biggest mining companies in the world, where the similar number is 14%.

That's a different way of saying that the royalty and streaming companies generate four times the operating margin that the operating companies generate. People say that the royalty companies are overpriced, because they sell at EBIT multiples that exceed the EBIT multiples of the operators. It's easy to explain that away, because they are four times as profitable, while having no reinvestment requirement, no sustaining capital requirement, no upfront capital requirement.

Suffice it to say, they are better businesses. Now the knock that people have against the streaming companies, particularly the big streaming companies ... How many people here were at the Wheaton lunch today? Congratulations, congratulations, I mean that's a fantastic company. The knock that many people have against the Franco's and the Wheaton's and the Royals and the Prairie Skies of the world, is that they can't continue to grow at the rate that they've grown in the last 10 years.

In other words, you're paying a multiple for growth that doesn't exist. They're too big to keep growing. That's wrong, I compete with those companies every single day in the mining finance business. We lend at Sprott companies what you would call in construction, development loans. Part of the new mine construction finance package, is very often a royalty, or a stream.

Streams are unique, in that gold and silver cash flow packaged as a stream, trades in the market at a 15 times EBIT multiple, while base metals revenues trade at a six or seven times multiple. Meaning that a copper producer that sells the gold or silver stream to Wheaton Precious, or Franco, can sell that stream at a 10, lower his or her cost of capital, at the same time as create a premium for the streamer.

Meaning in a billion-dollar transaction, there's two winners out of two participants. My suggestion to you, is that given that the non-investment grade construction finance market on a global basis is between $12 and $15 billion a year, and because streaming I think will take about 30% of that, the streaming companies will continue to add assets at the $4 to $5 billion a year range for the next 10 years.

In other words, the sense that this business that generates very high margins, but can't grow, is wrong. We've now identified a list of 22 royalty and streaming companies worldwide in mining and oil and gas. I hope to reduce that number to 10, and again, the names in that will be published I'm hoping January 15. Finally, I believe that we're coming back into an exploration cycle.

As an industry, we have under invested in exploration, I'm going to suggest to you since the middle part of the 1990s, which means that the industry has either under invested, or mis-invested in exploration for about 20 years. The consequence of that is twofold, when somebody makes a great discovery, look back to Reservoir Minerals, and Teemok, or Hodmedod. The multiples that are paid for tier 1 exploration successes, are mind-boggling, because they're so scarce, and because they're so valuable.

The second thing, is that money will now flow back into exploration, because the big companies, and some of the smaller companies, have absolutely empty exploration pipelines. The best way, statistically, to participate in exploration, is through the prospect generators. The truth, is that exploration is a very, very seductive and very, very unprofitable strategy in the broadest sense.

There are over 2,000 publicly listed junior mining companies in the world. If you merged every one of those into one company, the resultant company, we'll call it Junior Explore Co, in a good year would lose $2 billion, in a bad year, it would lose $5 billion. What is the industry worth? Is it worth six times losses? Nine times losses? 15 times losses? What's the correct price loss ratio?

On the face of it, it's a horrible business, 1 in 3,000 mineralized anomalies becomes a mine. Why on earth would anybody invest in this, let alone suggest that you invest in it? I'll tell you why, 5% of the listed issuers, that is 5% of 2,000 companies, generate so much wealth, that they add legitimacy and even luster to a business that in a good year loses $2 billion.

Truly extraordinary performance, and there are several ways to beat the odds. One is to align yourself with serially successful explorers. Buffett famously says, "Millions of people in the world can play basketball, but to win a game, you've got to have a seven footer." You can identify these seven footers, mostly because they stand out above the others of course.

That really, really, really reduces the risk in exploration, but importantly, there's something else you can do, which is to understand that exploration is not at its soul, an asset intensive business. If it were an asset intensive business, how could you explain away the fact that 1 in 3000 anomalies becomes a mine? In the aggregate, these aren't assets, they're liabilities. The thing that turns them into assets, is the intellectual capital of the people exploring them.

When you begin to think of exploration as a research and development business. If you think of it like software, or biotechnology, where people are answering unanswered questions about a molecule, then you begin to understand the essence of exploration. The real assets in these small companies are human, rather than physical capital. There is a small subset of explorers called prospect generators.

These are people who use superior intellect, to develop an exploration thesis, or hopefully more than one. Develop a process by which they propose to test the thesis, and then bring in joint venture partners, who fund the exploration. They dilute their interest at the property level, rather than issue shares and dilute themselves at the intellectual capital level. I realize this is a bit of a lengthy explanation, but it's important to set the stage.

You'll remember at the beginning of this discussion, I said that when I was in University, back when these deposits were being formed I'm afraid, the ascribed probability of success was 1 in 3,000. I have invested, in 35 years, in approximately 65 prospect generators. When I say approximately, one's memory fails after 35 years of activities like this. Approximately 65 prospect generators, I've participated now in 24 economic discoveries, and 22 takeovers.

If you look at a success rate of 22 out of 65, rather than 1 in 3,000, you understand the efficacious nature of this style of investment. I had a young intern much smarter than me, and much better at math than me, that suggested that the result that I enjoyed was three standard deviations better than one would expect in the market as a whole. This is really, profoundly attractive mathematics.

To the extent that you're going to participate in exploration, and by the way, I would suggest to you that if you can, please do. The prospect generators are the place to be. Now a special note about prospect generators. My own preference will be to participate in the prospect generators when I have the ability to participate in a private placement. Because discoveries are rare, magnifying the upside of the discovery in a private placement with a warrant, is an awful lot of fun.

A warrant, as you know, turns a 10 fold increase, into a 17 fold increase. When you look at any form of speculation, pardon me, where the probability on any particular investment is failure, you need to know that your successes need to amortize your failures, and leave over an acceptable rate of return. Private placements, with the inclusion of a warrant, is statistically the best way to do that.

That notwithstanding, I will also buy the prospect generators in the secondary market. That is the third sector that I will be allocating to personally. Again, the preferred list of prospect generators. When I say the preferred list, they'll be the companies that I have actually spent my own money on, will be available on January 15. I want to reiterate very briefly why and what.

Takeovers, because it's early cycle, coming out of a bear market. In my experience, the last three bull markets that I've been through, the early returns have come from takeovers. Royalty and streaming, because they are better businesses than other mining businesses, and because people believe them to be overvalued as a consequence of the fact that they can't grow, which is fallacious, it's wrong. They can, and will grow.

Prospect generators, because I know for certain that we're coming back into an exploration cycle. The returns that I've generated in my own portfolio over the last 35 years with prospect generators, is three standard deviations better than the result that would've been expected, had I merely participated in the exploration market in the broadest possible sense. Now as I say, the availability of this information begins January 15.

If you are a Sprott Global client, you can ask your Sprott Global broker about the names, and how to populate your own account with that. We will also be doing segregated managed accounts that will give you the ability to track my portfolio on an automatic basis. This all begins January 15. I'd also, in the short amount of time that I have left, draw your attention to a couple of benefits that we have for you here at the New Orleans Investment Conference.

How many people have been coming to New Orleans for 10 or more years? This conference, 10 or more years? Okay, and this is a lot of fun, this tomb prepared by Sprott. These are exhibitor stock charts, so every public company that's exhibiting over there in the exhibit hall, we have their one year stock chart here. This is free to any of you who want it, come by the booth, we'll give it to you.

It's a lot of fun, sometimes you go up to an exhibitor, and they're just the greatest thing since sliced bread. This is happening, and that's happening, and by God they're going to go up 10 fold next week, because whatever. It's really fun to listen to the story, and compare it to the stock chart. Sometimes these wonderful stories have stock charts that resemble nothing, so much as a topographic map of a ski resort.

Straight decline from upper left to bottom right, and definitely double diamond. It's useful during one of these discussions that you're having with the ladies and gentlemen in the booth, to compare the potential with the performance. In other circumstances, the charts tell a very different story. I'm not suggesting to you that you do all of your investing based on technical analysis, or charts.

I'm just suggesting that the exhibitor stock chart, as you walk through the hallway, gives you an interesting point of discussion with the people that you are talking about. If you come by our booth and ask nicely, I know you're all nice people, the people in the booth may be willing to tell you which of the exhibitors in the hall I own, which may or may not be useful information to all of you.

I would also, at this conference, suggest that for any of you, whether you are a Sprott client or not, if you would like your natural resource portfolios reviewed by me personally, if you give me a list of every resource stock that you own, you can email it to me, or give it to me. I need to know both the name and the symbol, and if you email it to me, do not have it in an attachment that a 65-year-old can't open, okay?

Have it in the text of the document, or contact us at the booth. This will not constitute investment information, because I can't know enough about you to know what's proper for you. All I do, is I rank the companies 1 to 10. 1 being the best, backup the truck, 10 being the worst, shoot on sight. Comment on the companies where I think that I have a comment associated with the company that is germane.

I really like doing this. I've found it's useful for customers that have a life, to have their portfolios subject to adult supervision. It also tells me what my customers are thinking about what sort of needs they have in their own portfolio. It's really mutually advantageous. In summary, I'm doing some things with my own money that I'm excited about this year. I thank Brien for having the foresight to ask me to talk about what I'm doing, rather than what I think you should do.

Those are, once again, takeovers, royalty and streamers, and prospect generators. The information will become available January 15. We'd like to share it broadly, if that amused you. The exhibitor stock charts, just come by the booth, pick them up. There's a lot of information here, and frankly there's a lot of fun when you're walking around talking to the booth.

Finally, if you want a no obligation portfolio review, come by the booth, sign-up, leave me a card where I know how to get in touch with you, and we are happy to review your resource portfolios. Note I said resource portfolios, don't ask me about defense stocks, or insurance company stocks, or anything like that, but your resource portfolios, I'd love to rank them for you, and I'd love to comment on them for you.

Ladies and gentlemen, it's been a pleasure to be before this audience for 31 consecutive years. It was a pleasure to begin this speech by remembering the late great Jim Blanchard. I wish all of you the very best of success in the next 12 months. I look forward to seeing you all here in New Orleans next year. I want to remind those of you who are here for the first time, you can make some money at this conference. If you put your mind to it, really put your mind to it, you can have some fun in New Orleans too. Ladies and gentlemen, good night, and thank you.

Peter Schiff

"Is The Trump Boom For Real? "

Speaker 1: I bring to you an article from Weekly Standard, A Failure of Responsibility, the first sentence really ties in with Peter Schiff's talk, I know. Who says there's no bipartisanship in the age of Trump. When it comes to federal deficits and debt the parties have never been more aligned. They both agree, let's run up the debt, let's scratch each other's backs and that, I'm sure is going to tie into the talk with Peter Schiff.

You heard on this morning's panel of the bubbles and the booms and the busts. There was a slight difference of opinion between Peter Schiff and our next speaker Ben Hunt and they're going to lay out their cases in the next hour, Peter and then Ben. Peter's biography is on page 67 of your program book, I'm not going to read the whole thing, you may read it. I think you already know what it says. He's CEO and chief global strategist of Euro Pacific Capital. You can read the details if you wish. So let's get right into his talk now.

Peter Schiff is going to talk about is the Trump boom for real? Please welcome Peter Schiff.

Peter Schiff: Okay, so I'm going to talk about what to do about what I'm going to talk about right now, at my workshop at 5 o'clock. So if, anybody is still here at 5 o'clock come to my workshop.

You know, I've been coming to the investment conference in New Orleans for probably more years than I'd like to acknowledge, but I remember being here in 2007, same time, October November timeframe, 2007 and the mood at that time in general, maybe not necessarily at this conference, but in general in the real world. People were very optimistic about the economy in the fourth quarter of 2007. Now the fourth quarter of 2007 is where, or when rather the great recession began. The worst recession since the great depression began in the fourth quarter of 2007.

Except during the fourth quarter of 2007 nobody knew that we were in a recession. In fact, even the official numbers at the time didn't say we were in a recession. The GDP in the fourth quarter of 2007 grew at 2.5%. Who would think that was a recession?

The unemployment rate was not as low, at least the official unemployment rate, as it is today. Right now we're at 3.7, we got on Friday. In the last month of 2007, December, the unemployment rate was 4.7, higher than it is now, but it was considered pretty low back then and of course the labor force was a lot different, we had a lot more people participating in 2007 than we do today. So we had a lot more people that could potentially be unemployed because a lot more people were still in the labor force. A lot of people have left the labor force certainly, since 2008.

And so I think the employment picture actually was better in 2007 than it is today. But the point is we had low unemployment and GDP growth and the recession began. Because a lot of people now, looking at the stock market beginning to drop, looking at the real estate market, looking at the weakest housing market since 2007, looking at homebuilders having their biggest collapse since 2007, looking at other indicators, looking at big blue-chip bellwether stocks making multi-year lows, the autos, look at General Electric or IBM or looking at a lot of things that are happening that should be causing people to be nervous and then they simply rely on the numbers, and they say, but the economy is great.

That's almost a foregone conclusion. Even President Trump's critics agree the economy is great. In fact, Barack Obama thinks it's so great he wants to take credit for it. Nobody thinks that the economy is bad. In fact, confidence right now is the highest it's been since 2000.

Of course, consumer confidence was a contrarian indicator back then. Consumers were very confident right before the dot com bubble burst. You know they were also very confident in December of 2007 before the financial crisis. They just were not as confident as they are now and one of the reasons that you have so much confidence today, particularly among small businesses, not just investors, but small businesses is because small business owners by and large are Republican and Republicans have never been this optimistic.

Now of course, we had four years of Barack Obama or eight years rather of Barack Obama, so people were very pessimistic, and it was pretty much a foregone conclusion that we were going to get four years of Hillary Clinton. So obviously going into the election Republicans were pretty depressed and so when Trump won, all of a sudden there's this wave of optimism that things are going to get better. And so people think that they're going to get better but you know, optimism can be wrong. And normally the consensus is wrong.

You know, there's an old saying I guess, it's always darkest before the dawn, I'm not even sure if that's correct but that's what they say. But the opposite is probably true and I don't think that that's correct in nature that it's brightest before dusk. But I think that before you have a collapse people are extremely optimistic right before the collapse. That certainly how it was in 2008.

Because when you have a bubble at the top of the bubble everybody is happy because everybody's made a bunch of money. People were happy in 2000 because they got rich off of dot com stocks. So they were happy about that. They didn't realize they were about to lose all that wealth. Same thing happened in the housing bubble. Americans were happy. Homeowners thought they were rich because they had all this home equity. Life was good, you didn't have to work, just own a home and you got rich. So people were optimistic.

And of course, when recessions start unemployment is always low. You can't say we're not going to have a recession because we've got low unemployment. Every recession starts with low unemployment. When the recession is over that's when you have high unemployment. Recessions don't start because people lose their jobs. People lose their jobs after the recession begins. Because normally businesses are blindsided. They don't see it coming. They get surprised. And now they have to rearrange their businesses, they have too much capacity, they expanded too much during the boom, they hired too many people during the boom, they made bad decisions during the boom, they don't find out that the decisions were bad until the bust.

So you can't look at these statistics and think that we have a good economy. In fact, I remember in 2007, one of the people I used to argue with was Larry Kudlow, and he's now the chief economic advisor to Donald Trump. Now what was Larry Kudlow saying in 2006, 2007. It was the greatest story never told, it was a Goldilocks economy. He was as bullish as you could possibly be. I remember because he was bullish to me. I was right there arguing with him. And I actually like Larry Kudlow, he's a nice guy. But he's very partisan and he can be blind.

And if he was so loyal to George Bush as an anchor on CNBC, imagine how cloudy his judgment is now, now that Trump has brought him over to the White House. In fact, I remember that Kudlow was a little bit critical of Trump's trade policies before he was nominated and people were thinking oh now that Kudlow's going to be part of the administration maybe he's going to move Trump away from protectionism.

I said, no, no, no, that's not why ... I said, Trump appointed him to silence him. He's going to adopt Trump's view of trade and that's exactly what Kudlow has done. He basically took his enemy and brought him under his wing.

But you have everybody who just believes that the economy is good. And of course, the cheerleader in chief for the economy being great is Donald Trump himself. Donald Trump every day is telling people that this is the greatest economic boom in the history of America. Now of course, I guess, most Americans don't know anything about American history so maybe they think that's true. They don't know anything about the Golden age of America between maybe the end of the Civil War and the beginning of the first world war but that was unprecedented economic growth. What's going on today isn't even close to what went on back then.

But we're not even doing what we did in the 1980s. This is not even close to the greatest economy ever. In fact, it's very similar to the worst economy ever according to Trump, which is what we had two years ago. Because when Donald Trump ran for office he said we have the worst economy ever, the US was an economic wasteland, that we had squandered our wealth, that we were losing on trade and all this bad stuff was happening and I agreed with that Donald Trump. We had a lot of problems before he was elected.

The problem is all those problems are still here. But now Donald Trump is claiming that basically the same economy is now the greatest economy we've ever had. He said NAFTA was the worst trade deal ever. Well now we have the US MCA, the greatest trade deal ever, what's the difference?. Basically nothing. The main difference is the name. We used to have a good name and now we have a stupid name but other than that it's pretty much the same trade deal but Trump is saying it's great.

When Donald Trump was running for office he said that don't believe the government numbers on unemployment. He said the unemployment rate isn't 4% it's 20%, it's 30%, it's 40%. Why was he saying that? Well, because he was being honest. Because we weren't counting a lot of people, we weren't counting all the people who were working part-time but who wanted to work full time. We didn't count all the discouraged workers who weren't even looking at all because they gave up. So if, you counted the unemployed properly the rate would be much higher. I don't know if it would be 40 or 50%, I mean, sometimes Trump would get higher and higher on his numbers.

But the unemployment rate is high. The U6 number which includes the part-time people looking for full-time jobs and discouraged people, that's up around 7.5% - 8%, I forget the exact amount. But even that doesn't go far enough because it only includes the discouraged workers who have been discouraged for a year or less. So if you've been discouraged for more than a year then you're not even counted and of course the vast majority of discouraged workers have been out of work for a lot of longer than a year, so none of these people are counted.

But meanwhile, while candidate Trump said the numbers were phony and didn't want to give Barack Obama credit for the low unemployment because he said the numbers were phony, now every time he gives a talk he's patting himself on the back for having the lowest unemployment ever and he's pointing to the same statistics that he called phony. And he's saying that we're creating all these jobs. Well, if you go back and get whatever, the last 20 months of the Obama administration, we were creating more jobs than we have created for the first 20 months of the Trump administration. There is no significant difference in the job creation that we have under Trump. It's the same as we had under Obama.

Now Trump says we're winning on trade. Really? On Friday, we announced the largest trade deficit with China in history. The trade deficit, I think, is going to be a 10 year high, last week we got the merchandise trade deficit. It was the biggest trade deficit in goods, in history. We are bleeding red ink. According to Donald Trump we're losing on trade, we're losing more now than before he was elected. So by what definition are we winning if the trade deficits are bigger than ever.

But it's not just the trade deficits that are bigger than ever, it's really the budget deficits too. I mean, this fiscal year, according to the government, we're going to have a $1.2 trillion deficit going forward. Last year's was about 700 or 800 billion, except that's only about half the story. You see, the government runs its books kind of like Enron ran its books. But a lot of the expenditures are called off budget and so they don't get officially counted when they tell you what the budget deficit is and a lot of it is like disaster relief aid, as an example, every year we get these hurricanes, the government spends a lot of money. All that is off the books because they say well, it's an emergency. It's not like something we should have in the budget except it happens every year. Maybe it's not the same emergency but they just don't score it.

So if you actually look at how much the national debt went up in the last fiscal year, it went up by about $1.2 trillion, even though officially it only went up by 700 some odd billion. So if the government is now officially forecasting that it's going to borrow on budget $1.2 trillion, the national debt could easily go up by 2 trillion during that timeframe. Because that's what you should look at. If you want to know how much money we're borrowing, look at how much the national debt is going up because that includes all the money we're borrowing.

See, our creditors don't care if it's on budget or off budget. If we borrow the money it's part of the debt. So we're having record borrowing under Donald Trump. So we have record trade deficits, we have record budget deficits. This is not an economic boom. This is the big fat, ugly bubble and that's Donald Trump's words. That's how Donald Trump described the economy he inherited and the only thing he did was blow more air into that bubble. And in fact, when he was a candidate he was critical of Janet Yellen for enabling that bubble. He actually said she's keeping interest rates artificially low so that we can inflate this bubble and it's going to be a disaster when it pops. And he was absolutely right. But you know what he saying now?

Now he's mad at the Fed Chairman for raising rates and not keeping them low so the bubble can get bigger. In fact, he's lamenting the fact that he doesn't have 0% interest rates. He wants 0% interest rate so he can have even more growth. He's saying that my predecessor was playing with funny money. Well, this money is almost as funny but it's still the bubble. Right? He hasn't changed. Trump has not changed anything. Trump campaigned to make America great again, now he's campaigning to keep America great. It's the same America. What problems has Donald Trump solved?

He has created optimism but it's false optimism. People just think things are going to get better. Now Trump was able to deliver some tax cuts, right? Well, that's easy, anybody can cut taxes. Just run up the deficit. But it's not a real tax cut because taxes are how we pay for government and if you want lower taxes, well you need less government. So to honestly deliver tax relief to the American public you need to shrink the size of government. You need to make government less costly and then you can let taxpayer off the hook. Hey, we eliminated these departments, we got rid of these agencies, we cut back on this entitlement spending and now we don't need as much money so we can cut your taxes.

The problem with that is somebody's going to get pissed off because you had to cut some spending. So all that Trump did was cut taxes. Now of course, the Republican Congress was happy to go along with these tax cuts. They don't give a damn about the deficit. Now when Obama was president, they were going to shut the country down, they had the whole tea party. The tea party was born protesting the Obama deficits. The Trump deficits are bigger. And the same guys that were in the tea party are now leading the charge to even bigger deficits because the Republicans are happy when the deficits finance the tax cuts that they want to take credit for. And so we did get tax relief and so there's some optimism that that's somehow going to help the economy.

But it doesn't work. It's not magic. Keynesianism doesn't work, you can't just grow the economy by cutting taxes because now where is the government going to get the money that the tax revenue used to provide? There is no free lunch and it works for Republicans too. They like to say that there's no free lunch when the Democrats want to give out money and government programs. Well, there's no free lunch when the Republicans want to give out money in tax cuts. So where is the government going to get the money that it's no longer collecting in taxes. It's going to borrow it. Well, that's just a down payment on a future tax hike because who is going to pay back the debt?

The taxpayers, the same taxpayers that are getting a cut now are going to get an increase later. But also those deficits mean interest rates are going up. Now they were going up anyway but they're going to go up faster because of the increase in the deficit and of course, we're going to get more inflation as a result of the larger deficits because ultimately the Federal Reserve is going to create out of thin air the money that the government is no longer collecting in taxes.

So yes, you get a tax cut but now you have to pay more for groceries, you have to pay more for gas. In fact, one of the statistics that everybody likes to point to to show that Donald Trump is doing a great job is that wages are now up year-over-year by 3.1%. And this is the best wage growth that we've had in about a decade and Trump is saying, see look, your wages are going up. It's my fault. I did it.

But of course what Donald Trump doesn't want to acknowledge, or anybody else for that matter is that wages are just one price that's going up. Wages are the price of labor but the price of everything is going up. Prices are rising. That's a nominal number. When they talk about wages going up that's not real wages. They don't adjust it for even the government's version of inflation. That's just a number.

But the cost of living is going up faster than 3.1%. Rents are going up, utility bills are going up, food, everything that you buy, insurance, I mean, you name it, the price is going up. Wages are going up too, okay. But you know what? They are not going up as fast as other prices. And so even though nominal wages are rising, real wages are actually falling. So there's nothing to take credit for. Inflation is not a success.

In fact, everything that we're seeing is simply an illusion created by inflation. If we actually had a booming economy like everybody wants to believe we wouldn't be running these big deficits. Booming economies produce surpluses or at least shrink the deficits. Historically, right, the economy is booming, the governments collecting more in taxes from all these businesses that are booming and all these people who are working and the government doesn't have to spend as much money on antipoverty programs. So usually when the economy is good the deficits are coming down. Instead, the deficits are going up.

Same thing with trade. If you really have a booming economy, if the economy is really being more productive, if we really were having an industrial renaissance, Donald Trump keeps talking about all the manufacturing jobs that are coming back to the country, of course, none of it is true, but it doesn't stop him from saying it. But if all these industries were really coming back, if America really was the hot place and everybody wanted to be here, and we were producing all the stuff, where is all the stuff? Why aren't we exporting it? Why aren't our imports coming down? If the economy is booming where is the production that we have to show for this booming economy? It does not exist.

That's why the trade deficits are at record highs. So it's not booming economies that produce these big deficits, it's bubbles. Sure, if you borrow a bunch of money and have a party it feels good. The numbers can look good if they're influenced by a bunch of debt but the problem comes when interest rates go up and the debts come due. And we know from 2008 that that doesn't end well. And as I said in my panel discussion today, this bust is going to be so much worse than 2008.

In 2008, the government had the opportunity to do the right thing. George Bush had the opportunity to do the right thing. He said he had to abandon capitalism to save it. What we needed to do was embrace capitalism to save it because it wasn't capitalism that inflated that bubble. It was the government that did that, it was the central banks that did that, it was Fannie Mae and Freddie Mac. So instead of George Bush acknowledging the problems that were created under his administration which didn't start in his administration, it predated him, it was going on under Clinton. But they tried the stimulus, they did the bailout, I remember John McCain interrupted his campaign so that he could vote for the TARP.

Of course, if he would have interrupted his campaign to vote against the TARP I would have voted for John McCain, instead I had to vote libertarian because I couldn't vote for a Republican that voted for these bailouts. But the Republicans got the blame and we did truncate that great recession. As great as that recession was it wasn't great enough. It should have been worse because there were a lot more mal-investments. Housing never really bottomed out.

The stock market never really flushed out. We never reallocated. The trade deficits never went away. They started, in 2008, in mid 2008 we printed the highest trade deficit in history. It took until just this last month to have a bigger one. We had the highest deficit ever and the deficit started to come down after the financial crisis. Americans stopped spending, they started saving. That was the beginning of a healthy process that was not allowed to continue because it was interrupted by the Fed. We were high on cheap money, we come crashing down, we're about to check into monetary rehab and here comes the Fed with more drugs to make sure that everybody gets out of rehab and still stoned. And gets even more wasted.

And so this bubble, as I said, what was done under Ben Bernacke, the monetary mistakes made, the excesses, dwarf anything done by Greenspan. Even Greenspan is amazed and is probably almost as embarrassed as I am right now except he refuses to accept responsibility for writing the playbook that they're all following. Although, they've added a lot of chapters that he probably never even envisioned. But they have to keep this thing going. They have to keep the music playing and so we had interest rates down at zero and we left them there for eight years and now three years later of tiny little raises, of course, only one of those raises took place before Trump was elected. Every other rate hike took place after Trump was elected.

So all these things have been stuck to Trump. So Barack Obama had a free pass. He got interest rates pretty much at zero for his entire presidency and so the number of mistakes that were made were enormous and a lot of Republicans were right to be fearful of Barack Obama and the things that he would do. But now those same Republicans are optimistic because of Trump, they don't realize that all of the problems that Barack Obama created or that were created during his presidency, they're all still here. Trump has done nothing to diffuse that bomb. All he's done is take credit for it, which brings me to the bigger problem.

This is now the Trump economy. This is now the Trump stock market. It's like there's a giant T on there, like it's one of his buildings. And instead of telling the truth to the American public, he's feeding them lies. The same type of lies that they were fed in the past and which is why he was elected because he told the truth about how lousy things were and that he was going to make it better. Well, he didn't make it better, he allowed it to get worse while claiming that he made a better.

So when it all falls apart in the next couple of years which it easily could do. Because when I start off this talk by talking about 2007, this reminds me so much of 2007. The only difference is now there's more warning signs of an imminent crisis than there was then. But it's the same people who are completely oblivious to it and when it happens they're going to say nobody could have seen it coming. Even though it was pretty obvious and they'll dismiss me because they'll say, well, you've been saying it for years. Which is true. I have. Because the problems have been building for years.

In fact, because they've been building for years they got a lot bigger. Had we done the right thing in 2008 and let the recession run its course, let a lot of these big banks fail, let more people lose money, force the government to cut spending, force the government to deal with entitlements. Look at Donald Trump why is he ... We are never going to cut, according to Trump, we're never going to cut Social Security, we're never going to cut Medicare. Not only did Trump cut taxes, he increased spending.

He increased welfare spending. He increased warfare spending, more money on the military. And now as if the military wasn't big enough he wants to have a space force. Where's that money going to come from? Talk about ... I mean, we borrowed a lot of money in the 1960s to go to the moon. We didn't have that money. We ran ... all the inflation of the 1970s was a byproduct of the money we printed in the 1960s. We ran the big deficits back then, we had the guns and butter economy but now we want more guns and more butter except we're more broke. We were a lot sounder, in the 1960s we were the world's biggest creditor nation. We were running trade surpluses in the 1960s. I mean, we're a shadow of our former self.

Not only are we the world's biggest debtor. We owe more money than all the other debtor nations of the world combined. And the thing that's been keeping us out of crisis has been that interest rates were ridiculously low. That enabled us to borrow way more money than we could ever repay and pretend that we could service it because rates were low. Well, rates are not ultra low anymore. They're still low but they ain't low enough. If you have a gigantic heroin habit and all of a sudden you're not getting quite as much heroin as you used to get, that's a problem. Because you have a tolerance, you're accustomed to a certain amount.

Rates are at 2% and the economy is hemorrhaging. The housing market, the auto market and they're still 2%. And people are thinking well, we're just bringing rates back to normal. Why should that be a problem? Well, because we don't have a normal amount of debt. We have an abnormal amount of debt. The government, and not just the federal government with a 21.5, almost a $22 trillion national debt now, but you've got all the states that have been loading up on debt while money was cheap, the municipalities have borrowed a lot of money, corporations have borrowed a ton of money, what did they do with it? They bought back their overpriced stocks. Kids have borrowed a lot of money, we have $1.5 trillion in student loans, what did they get for that? Nothing.

In theory they have a diploma but what's that worth? Not much. We have record auto debt. We have record credit card debt. What do we have to show for that? Depreciated stuff. So everybody is loaded up on debt and we pretend that we have a great economy because we're spending borrowed money to buy stuff we can afford. Well, this crisis is going to be the last one. Because the last two times that the bubbles burst, the Fed was able to blow a bigger one and postpone the pain, and if you just rode it out, if you didn't sell your stock portfolio in 2009, well, you know, you're back, you're ahead again. If you didn't sell your house, in some markets, real estate prices are actually higher than they were before the last bubble popped. Not true for all markets but some markets you had a complete reflation of the bubble.

But then we blew up bubbles in just about everything. But this last time, it's not going to be the third time is the charm for the Fed. It's going to be three strikes and you're out. This bubble is too big to reflate. If we're running $1.2 trillion deficits, closer to 2 trillion in good times when the economy is supposedly growing and we're at peace. We are not at war right now. Imagine the size of the deficits during the next recession because we're going to have one. I mean, we're long overdue. This is the second longest expansion ever.

Of course, it's required more stimulus than any prior expansion in history and it's going to give way to the biggest bust. But when this recession starts, the deficits are going to skyrocket. They are going to be 3 trillion or more per year. The national debt doubled under Bush, then it doubled again under Obama. It's going to double again in the next eight years at least. And that is an enormous amount of borrowing in this next recession. Where is that money going to come from? Right now everybody thinks the Fed's going to keep raising rates. Everybody thinks the Fed's going to shrink their balance sheet. Everybody is wrong.

The Fed is going to have to reverse course and go back down to zero. The only question is when. Are they going to wait for everything to collapse and then go? Or are they going to try to read their tea leaves and maybe try to front run the collapse. I don't know. They were totally wrong in 2008, they had no idea that they were about to get blindsided but either way rates are going back to zero. The Fed is going to do QE4. There's nothing else that they can do. And then, you know, the pretense is going to be over. People are going to know that this is a permanent monetary fiscal policy. That we're never going to normalize rates, that we're never going to shrink the balance sheet and the dollar is going to fall through the floor.

Right now the dollar's had this big rally based on everybody believing that there's a successful unwind, a successful conclusion to this policy. That's premature. Anybody can get drunk. Anybody can get hooked on drugs. It's kicking the habit that's the hard part. Well, this is the impossible part and when the markets figure that out, everybody that's been betting on the dollar is going to get out. People are going to buy gold and interest rates are going to rise. That is going to be really, the biggest problem. We haven't had a recession since the 1970s where interest rates went up not down. The government was always able to fend off recessions by lowering interest rates and that was kind of like a shock absorber. Even though people lost their jobs and the economy slowed down, at least interest rates went down and it made it easier for us to borrow more money and to service our debt.

Well, the next time, the bond market is going to be the epicenter of the crisis. Long-term interest rates are going up. I don't care how much money the Fed prints to try to influence the market, rates are going to go up anyway and so it's going to be stagflation, we're going to have recession, not just stagnation but actual recession, a contracting economy as interest rates rise, as inflation rises and ultimately the dollar is going to lose its status as a reserve currency. That is the writing that's on the wall and you can see that now, you can see foreigners already starting to front run this trade. The appetite for US dollars is waning and we're actually accelerating that curved.

Donald Trump is actually antagonizing all of our bankers. All of the people that are loaning us money and supplying us with merchandise, you know, he's vilifying them... we've got these tariffs, the trade wars, you know, Trump keeps saying we're going to punish China with tariffs. China doesn't pay these tariffs. It's the Americans that pay the tariffs. They're taxes on American consumers who buy imported products. So if the tax cuts were supposedly good. Why are these tax hikes also good. But all this is going to backfire.

Oh, am I over my time?

Yeah, so all this is going to backfire which brings me to the conclusion of this talk and I will continue it at my workshop. Because the important thing is going to be how do you prepare for this? Because there's nothing we can do. We can all vote next week and it's not going to matter who we vote for. Because (a) it's not going to affect the election but I do think that there's a good chance that we're going to have a socialist Congress and a socialist president in 2020 because Trump and the free market are going to take the blame for this collapse just like the free market and Bush got blamed for the last collapse. Everybody's going to say or everyone's going to agree that Trump inherited a pristine economy and blew it. And because he made the mistake of claiming credit for this bubble and saying everything was good when it all falls apart he's going to be stuck with the blame and the socialists are going to throw gasoline on the fire.

And so things are going to get very, very bad. The only chance we're going to have to turn things around is going to be 2024 when things are so bad that maybe we can make a turn in the right direction. But in the meantime a lot of people are going to lose a lot of money. But the people at my workshop are going to make some money. So I hope I see you there.

Precious Metals Panel

Thom Calandra (MC), Dana Samuelson, Omar Ayales, Matt Warder, Rich Checkan

Robert Helms: Alright, it is time for our annual precious metals panel. Who follows the metals? How was today? Today was a pretty good day. That's the backdrop we have, so I'm going to introduce you to the panelists. Then our moderator who you probably already know is going to have a great time over the next course of this session. There may or may not be time for questions. We'll see, but you're going to enjoy this a bunch.

Not only because each of the panelists brings something to the table, but because of the active conversation between. We're going to go ahead and bring up our panelists. They're having such a good conversation back there, I want to make sure they're aware that it's time for them to go on. You're going to love this. You've already had a glimpse into what they're talking about. Let's start with Omar Ayales from the Aden Research Group and Gold Charts R Us. So Omar, come on up.

Omar Ayales: Thank you.

Robert Helms: Welcome. Also joining us, Rich Checkan from Asset Strategies International.

Rich Checkan: Thank you.

Omar Ayales: Hey, Rich.

Robert Helms: From American Gold Exchange, our good friend Dana Samuelson.

Dana Samuelson: Robert, thank you.

Robert Helms: And rounding out our panelists you just heard from, Matt Warder. All right. Our moderator, Thom Calandra, Thom of course you know from the Calandra Report. He's got a lot to say about this. I know he's got great questions for our panelists, so please welcome our moderator, Thom Calandra.

Thom Calandra: Whew, thank you, Robert. Hey, that is fantastic. Thank you, Robert. Real quick, and I just have four or five images here, but what I wanted to do was say that we've actually worked on this panel this year, the four of the us, or the five of us, and for about, I don't know, what, four or five months, guys? We have some things that we want to go over that are very important. But what a day today was in metals and metals equities. I mean, a day like today, I think it has to be the best day of the past two or three years. Everything was up, gold, silver, platinum, palladium, cobalt, vanadium. Did I pronounce that right? Vanadium. You know? All the battery metals, everything surged.

I think Brien Lundin had something to do with it. I know he did. He timed this, and I think he got the timing right for once. I am going to go through this real quick. These are just some images. We're going to come back to them. I'm not even going to talk about what they are. They're just kind of things that might come up. Our panel provided most of these images. There's just four or five of them. It's just kind of like to lighten things up. Of course we know, until today, this one was true, right?

I don't know if you know what movie that's from, but we'll get into it later, and that, which is a reference we'll see that we'll get into. That is definitely not supposed to be in there. Okay, there, they disappeared again, but that's okay. Guys, I'm going to ask you each to tell me just one or two words right now, real quick. We'll start with you, Omar. If you could just say one or two words to this whole crowd about what this panel should be about, or what we all should be thinking about to make money. What would it be?

Omar Ayales: Well, definitely it's great to be here, and great to be here with everybody. Great crowd, great panel. Thank you, Thom, even though you put your little commercial there.

Thom Calandra: That was a stake.

Omar Ayales: You know, but aside from promoting the Calandra Report, I think it's a, like you were saying, really interesting day in the markets today. I think it's a great, gold had a really good move. I think platinum had a really good breakout. I think this panel is about seeing where we are with the precious metals, where we're going, where we're headed, so everybody here can have a good idea as to longer term placement.

Thom Calandra: By the way, to return the favor, Omar is Gold Charts R Us. I'll tell you, I'm not a technician, and I technically am not a huge believer in technicals, but he does a great job. He really does, because he puts it in language that I can understand. So there's your free ad.

Omar Ayales: Thank you, Thom.

Thom Calandra: You're welcome. Rich, as you know, is a bullion trader, and a specialist, and a strategist. We share a lot of ideas. What do you think? If you're going to come up with just that quintessence of what we should be thinking about?

Rich Checkan: Well, you didn't play the clip, but if you recognize it, it's from The Princess Bride. Basically it's where Billy Crystal says that, "Your friend isn't dead, he's just mostly dead." That's kind of the way I look at the gold market right now. Not that it's anywhere near dead, but in my opinion we've lost sight of why we're buying gold in the first place. I like gold at $1900. I like gold at $250, because I buy it for the right reasons, for insurance for my portfolio. So I'm not super excited about what happened today because of the price. I'm super excited that gold isn't completely dead. But I think we have a lot of work to do to remind people of why they bought it in the first place, which is insurance.

Thom Calandra: Absolutely. To me, today seemed like a remarkable day. I was definitely thinking we might even have to pull that mostly dead slide, because it came to life a little, Billy Crystal notwithstanding. Thank you, Rich. Dana, Dana is also a bullion trader and a great technician. In fact, that gold chart, which we'll bring back here in a second, shows different points across the, what, the frame of the conference?

Dana Samuelson: Well, 20-year period.

Thom Calandra: Over a 20-year period.

Dana Samuelson: The last 20 years.

Thom Calandra: Right.

Dana Samuelson: Gold and silver, right now, I think are cheaper than they should be. If you want to invest, you want to buy assets when they're on the cheap, and when they're hated, and when they're rising. That's exactly what we have in gold right now. Not necessarily in silver, although silver is trying to climb out of the basement. Platinum is cheap too. Palladium is leading. But I didn't think a year ago we would see gold at this price today.

I didn't think six months ago we would see gold at this price today, closer to $1200 than $1300. I think this is a great buying opportunity. Get them once or twice every couple years, and this is one of those times where this is a great value right now. Gold is an insurance policy for the rest of your money, basically. It will offset your paper assets, and it will always be there as an insurance policy against a catastrophe.

Thom Calandra: Wow.

Dana Samuelson: Those are my thoughts.

Thom Calandra: Well, those are great thoughts. Dana and I share a lot of things in common. We both grew up in the New York City area. We both like the Grateful Dead. In fact, that's a Jerry Garcia tie.

Dana Samuelson: Shh.

Thom Calandra: If I had known that he was going to wear one, I would have brought my Jerry Garcia tie, okay? Because Jerry Garcia may be dead, but the ties live on, right? Now, Matt Warder. Matt is like a savant, you know? Come on.

Matthew Warder: Not so much.

Thom Calandra: Don't ask him any questions because he's going to give it to you, and he's going to give it to you in like 20 pages, and it's great stuff, but it does take me a day and a half to get through it.

Matthew Warder: Well, in fairness, it takes me a day and a half to get it through it too, Thom, so ...

Thom Calandra: I bet it does.

Matthew Warder: I guess from my end, just thinking about gold prices in general, I think it's encouraging that we've seen when prices get down into $1,180, right around support down there, we see buying activity. People are there in the market to catch that. Now that we've moved materially up over $1200, which is functioning its support right now, prices have behaved relatively well, so the price looks good. We're generally optimistic about that for the future.

It's just going to ... Whatever the macroeconomic climate is, whatever the geopolitical climate is, is probably what's going to wind up driving things going forward. You know, but my specialty really is on the equity side and on the mining side. If I had to leave you with one idea there to sort of cannibalize my previous slide, it would be, go big or go home. You want to look for the best grades in the most opportune areas, that are run by the best people. If you're going to speculate, speculate in that direction, a mine that can become, a deposit that can become a district, not a deposit that can become a 500,000 ounce a year mine, or whatever.

Then I think similarly you want to be able to look at the operations that have, or the companies rather that have the least risk. Sandstorm Gold, I mentioned, who just came on here, is another one. Any of the royalty streaming companies, I think, are a pretty decent place to park your money over the next few months. I'm optimistic about both of them. I think it's going to take awhile for probably the majors to catch up, but ...

Thom Calandra: Well, they certainly caught up today. I mean, some of these things, without mentioning too many names, were up anywhere between 8% and 12% in a day. If you remember the days, long gone, may they come back, please, when twice or three times a week we would see these 5% to 15% moves. The volatility in the metals equities, and not just gold, silver, platinum, palladium, silver, but some of these other ones, including the battery metals, right, vanadium being the hottest one right now, just volatility led them all higher instead of lower, right, it seems like lately.

I want to go back to something that came up just to get a little more real world. I don't know if we could go back to those slides for a second, but there was one that showed a camp in, was it Niger? I came across that when I was ... Yes, this one. Not this one. Let me just go. This one. I saw that one day, about three weeks ago, and I said, you know, one thing I would love to talk about is, does gold, not just gold, silver, platinum, palladium, et cetera, does it need a real world reason to rise? When you go to camps like that one in Niger, and anywhere in the world where they actually have to use a product that they pull out of the ground for commerce, that's when it becomes real.

I'm wondering, and before I go into the story that Rich and his uncle told me, and Dana also, after the Vietnam War, maybe we just look at metals too much as an investment, and don't realize that some of these metals, the ones that have precious status, actually can be involved in commerce, and should be involved in commerce, but are not enough involved in commerce to turn people on. Cryptos turn people on because they are involved in commerce, allegedly, right? The blockchain. Then all of a sudden Dana mentioned about how, was it your uncle also?

Dana Samuelson: My brother.

Thom Calandra: Your brother, his brother winds up, it was in the business that he's in now, and winds up going to a refugee camp in Florida where the Vietnamese refugees that escaped are coming. They all have these tails.

Dana Samuelson: Tails, yeah.

Thom Calandra: The tails were ways that they smuggled gold out of the country. Then Rich says, hey, guess what? My uncle actually was at another Air Force base where they were bringing in these refugees, and they were bringing in what, hundreds if not thousands of ounces of gold in these tails, the tails Rich's uncle Michael wrote about. These guys got called to these places, why? Maybe Dana and Rich, you can ...

Dana Samuelson: Well, when the Vietnam War was coming to an end and there was refugees fleeing the country, these tails were literally wafer-thin bars that were like bookmark size, only a little bit bigger. They sewed them into their clothes. When they arrived in Arkansas at the relocation camp, which is where most of them went to, this is how they carried their wealth out of Vietnam and into the US. My brother ended up going down to Arkansas in 1975, that's the year, and helped them to cash their gold into dollars so they could get a start here in the United States. But that's literally how they carried their money out of the country. Rich has another very similar story.

Rich Checkan: Yeah, so my uncle and his partner, who founded our company in '82, basically worked at that time for a company called Deak-Perera. Deak was sent down to Eglin Air Force Base, and I think maybe one or two other camps, to go ahead and exchange metals and currencies for the refugees coming in. This was the epiphany that led to them starting our company in '82, was their experience down there in '75. They went down with a bottle of acid and a briefcase full of cash between their legs on a commercial flight. Try doing that today.

Thom Calandra: How much cash?

Rich Checkan: Millions of dollars' worth of cash to buy the gold.

Thom Calandra: Wow.

Rich Checkan: They went down to Eglin Air Force Base, and what they saw spring up in front of them was from zero to tens of thousands of refugees. There were basically two types. They were all successful professionals in Vietnam. They had saved their money, done the right things, and then their world was upturned. They came here. Some came in with suitcases full of Vietnamese piasters. That's the currency at the time. How much were those piasters worth when Saigon fell? Anybody want to guess?

Thom Calandra: What is a piaster?

Rich Checkan: The South Vietnamese currency.

Thom Calandra: Oh, the currency at the time?

Rich Checkan: When the South Vietnamese government fell, how much was their currency worth?

Audience: Zero.

Rich Checkan: Absolutely nothing. Can you imagine working your entire life, saving it up, and then all of a sudden, it's worth nothing? Some of the other folks came down and they had converted their wealth from piasters into gold tails, and precious gemstones, and so forth. They were able to come through Eglin Air Force Base and the other camps, and they were able to transfer their wealth across borders. Now, they're still starting their life in a new place, a foreign land, strange to them, but they didn't have to start over.

That was the epiphany. You own gold as wealth insurance for the financial crisis you hope you never have. The whole time you own it, it stores purchasing power. The value of the gold will fluctuate, because the measuring stick, the dollar, the Euro, what have you, changes. But the purchasing power of the gold remains the same. That was an important point that led to me sitting on this podium today.

Thom Calandra: We recently had the inside of one of our homes painted, and I noticed this, the contractor actually said that he would take gold in payment, I used a couple coins as payment. Of course I had to come up with a lot more cash than just a couple one ounce coins, because the bill came to like $8000, $9000. This is in Marin County, California, so it's not a spectacular house, it's just everything is expensive in California. But I noticed that people that actually work for a living, as in blue collar, are much more comfortable with the idea of transacting in gold. Is that fair to say? Was it too much of a generalization?

Rich Checkan: I think it's a generalization, personally. I don't know what the other panelists think. You know, gold has its value, and I think sometimes we lose sight of it.

Thom Calandra: Yes.

Rich Checkan: We lost sight of it, I think, in the 90's, when it was about the dollar and dotcoms, and we relearned that lesson when the dotcoms crashed. I can give you tons of examples. Vietnam, dotcoms, AIG, Bear Sterns, Libya, Zimbabwe, Venezuela, Iran

Thom Calandra: Yeah, exactly. If we could go back to that image for a second on the screen, you look at these people, they need their gold. I don't know that they can see the image, but that's okay. They can see it.

Rich Checkan: When there's a reason to remember it, people remember what gold is there for.

Thom Calandra: Huh? Yeah, there it is.

Rich Checkan: At every level.

Thom Calandra: Look at these people. They need that gold. This is like the Sutter's Mill in 1849 or something. Now, I wanted to move on, because actually, not to stick to one person, but one of you guys, I think once again it was you Rich, said that your uncle had never seen demand for gold products so light, so tame, right?

Rich Checkan: Mm-hm (affirmative).

Thom Calandra: Was that you? That was you. I think that's maybe in part, and I don't know, Matt, you can talk about this. I know Omar, all four of you can talk about it. Maybe it's because gold is way expensive in other currencies. We don't think about it, right, but let's just take Canadians. Are there any Canadians in the room? Even in Canada dollars, it's expensive. You're not paying $1,200 for gold. You're going to almost any other nation, you're paying what seems like an arm and a leg for an ounce of gold, and it's scary. That's what depresses buying in India. Does anybody want to tackle that?

Matthew Warder: Well, I heard, we just had a conference out in San Diego and I got to talk to Rick Rule while I was out there. He told this great story, and I'm probably front-running him here, but about how in the seventies, he stayed at a Motel 6 and the Motel 6 cost six dollars, right?

Thom Calandra: Mm-hm (affirmative).

Matthew Warder: The price of gold was, I don't know, $200, $250. Bought about 30 days' worth of nights there. Fast forward to today, if you check into a Motel 6, you're looking at at least $40, $45. It turns out that $1200 gold buys about 30 nights of [crosstalk 00:18:43].

Thom Calandra: Yeah. There are a lot of stories like that, right, a lot of analogies that we see like that, but you know, it would seem to be true.

Matthew Warder: Mm-hm (affirmative). The moral to me was that, regardless of currency fluctuations or inflation or what have you, it's that gold held its purchasing power over time. You pretty much get kind of the same equivalent of what you would have gotten even as long as 40 or 45 years ago. That's pretty important.

Thom Calandra: Mm-hm (affirmative). Dana?

Dana Samuelson: Well, for most of my career, gold was between $300 and $500 an ounce. Then it really started to take off after we got into war in Iraq and Afghanistan, and we went into deficit spending. Prior to the financial crisis, depending on where you start, gold was $700, $750, or $800 an ounce. Debt at the time, and Adrian Day had a chart similar to this, where world debt at the time in 2008 was about $97 trillion. Today, that's about $170 trillion, so debt has gone up about 70% in the last 10 years.

This debt is never going to be dealt with responsibly. It's going to be devalued or defaulted, that's the only way, or inflated. It's the only way it can get paid back, right? If it gets paid back at all. If you take the pre-crisis gold price of say, $750, and add 70% to that, you get $1275. If you take $800 and add 70% to that, you get $1360. That's pretty much the range that gold has been in for most of the last year or so, until this sell-off.

I think gold under $1275, or even $1250, is cheap. I don't think the world is going to let gold get much cheaper than $1200 because of the debt. That is a testament to its purchase power, how it holds its purchasing power, and how fiat money has just exploded. I don't think it's cheap. I don't think it's expensive either, okay? Relative value, it's about right where it's supposed to be.

Thom Calandra: But in other currencies, it's hard for ... Most of us are probably Americans here, and I'm sure there's some Canadians, and I'm sure there are some people from other nations too, but when you go to a ... When you're using something other than the US dollar to buy gold, and there are people out there who think $1,200 gold is expensive, think about that. Put yourself in their shoes.

Omar Ayales: Try buying it with Argentinian pesos.

Thom Calandra: Exactly. Right? Or, we just saw a report this morning that said that Venezuela has been exporting its gold, legally or illegally, or illicitly, who knows, to Turkey, in exchange for the kind of subsidies and the help that Turkey gets, because Turkey supports Venezuela in many ways. The Donald administration says that it wants to stop any possible imports of Venezuelan gold, whether it's from Turkey or not, so it could become a supply side issue, even though I think we're talking, what? Is it 2,000 tons a year? Is that a lot?

Rich Checkan: Twenty-five hundred.

Thom Calandra: Huh?

Rich Checkan: Mining, average mining.

Thom Calandra: Yes.

Rich Checkan: Per year is about 2,500 tons, is that right, Matt?

Thom Calandra: For Venezuela.

Rich Checkan: Yeah. Oh, no, for the whole world.

Thom Calandra: Oh, okay, so we're talking 200 tons a year, for Venezuela.

Rich Checkan: Right.

Thom Calandra: Right. But these are issues, when you think about trade subsidies, and other things, these are issues that could affect supply side. One thing that we did that was a little exercise is, I tend to host this panel every year since forever. About two or three years ago we were talking about how supply side was going to be an issue, right, the diminishing supply. But it hasn't become an issue. Then you guys all said, it's all about the dollar. One of you said, gold has lost its investment oomph. It's being seen totally as a commodity. When you guys say it's all about the dollar, what do you mean? Does anybody ... I know Matt, you said that, didn't you?

Matthew Warder: Yeah, although, to be fair -

Thom Calandra: What does that mean?

Matthew Warder: When we started talking about this a few months ago, my initial thought was that gold was sort of behaving like commodities, but after having dug into it for the purposes of this event, I think it's really the other way around, that commodities are forced to pay attention to currencies because of their own fluctuation in value. You know, you have copper, zinc, lead, that are so levered to Chinese economic activity, as is steel, as I mentioned before. I think it's more the other way around. Gold is probably behaving in a way that is consistent with how gold has behaved in the past relative to currencies, or at least in the short term. But it's the commodities sector that's all of a sudden flipped around.

Thom Calandra: Right, but I guess I'm also trying, and I tend to agree with you, Matt, on that, but I'm also getting at something, and Omar, I saw this in one of the Aden Sisters' newsletters, where they actually said, quote, "Gold is acting purely as a commodity with no added oomph as an investment vehicle." Then, once again, it's all about the dollar. Does that imply that it's the strength of the dollar that's holding down gold? Is there, remember how we talked about co-relation of gold and the dollar?

Omar Ayales: Mm-hm (affirmative).

Thom Calandra: That always kind of sends my head spinning when I see all the statistics and stuff like that, but could we see gold rise even if the dollar stays strong, Omar?

Omar Ayales: Well, I definitely do think that a big part of it has to do with the dollar, a big part of it. I don't think it's the only factor. There's others. You see, well more of a recent example, and it's towards the downside and the bear side, you saw it for example ever since the whole tariff talk began in April, you saw gold falling a lot more than the dollar rose.

Thom Calandra: Yep.

Omar Ayales: This is, again, just a small example, but there are other elements there that come into play, not only the US dollar, but for sure the US dollar is a big reason for it to move up or down. I do think right now, I do think, and I'm sorry, Rich ...

Rich Checkan: No, please.

Omar Ayales: I do think that at certain points, I don't think in longer term ... Longer term, I believe that they will move opposite, gold and the dollar, but short term, you could see ... I think the dollar right now is strong, above 96, and we had a really good up-move today. Gold has remained resilient, above $1,200. In the short term, you could see them rise together, or fall together, for that matter. But for sure, I do believe so. There are other things in play, again.

Thom Calandra: I put Dana's 20-year gold chart on here. I don't know if you could flash that for a second guys, but it has different events, and stuff like that. Dana, that leads me to ask the question, do you have any guesses, these are just guesses, predictions, forecasts, of a one-day event that could really send gold up $100? I don't know. Can you see? Did they flash that on the screen already? Yeah. Yes. Just keep it up there for maybe half a minute.

Dana Samuelson: A currency default.

Thom Calandra: Oh, okay.

Dana Samuelson: Anything that has to do with credit that is a devaluation or a default, well, yeah, that will spike the gold price hard and fast.

Thom Calandra: Like any currency? Any currency in the world?

Dana Samuelson: Well, major currencies. But let's go back to, let's talk about Turkey for a second. We imposed tariffs on Turkey. Donald Trump sent out a tweet, right?

Thom Calandra: Yep.

Dana Samuelson: And the Turkish lira dropped 10% overnight. Then within about two days on Market Watch there were stories about European banks having contagion problems with Turkish loans. Now who would think that a tweet by Donald Trump would spin all the way around into that, okay? But that's what happened.

Thom Calandra: Yeah.

Dana Samuelson: That's real world in the last couple of months.

Matthew Warder: Italy, the same. There was some turmoil around Italy here about a month ago. We saw a nice little pop in the gold price. Then even today, I mean, we had Trump announce that his meeting with President Xi of China went pretty well and today was a good day.

Thom Calandra: Yeah. How serious should we all be taking the fall of the yuan in China against the dollar, and whether that could be an influence on metals markets?

Matthew Warder: I think we should be taking it very seriously because if China weakens, that portends to have lasting knock-on impacts, I think, onto all of us. I mean not just in the gold space either, for the US economy, for the global economy. They've really been driving the ship now for a number of years, and if they're going to let go of the wheel, who's going to pick it up? I mean, it's not us, climbing along at 4% every month or so, averaging about 3% a year. You know, we can't grow at 10%. We're not building that kind of infrastructure. We don't have to urbanize like they have to urbanize. It's a concern. That's why my free market leanings sort of would steer me more toward catching more flies with honey, with regard to China, than something more belligerent, like we've seen.

Thom Calandra: Thank you, Matt. Rich, I saw something today on the plane about inflation, and we were talking about this earlier. You know how The Economist has its Big Mac index? Well, I guess the latest report shows, and one of the newspapers did a very good job, one of the wire services, of actually calling companies to ask what their price rises are. We're seeing everything from cat litter to Starbucks coffee, just in the past three months, rise 3% to 4%, some even 5%, in price. Then it talked a little bit about subsidies, difficulty buying stuff.

We have a good friend at home in California who owns a business, it's a great business. I don't know why he has it in California because it's so expensive to operate. They custom fit campers to almost any truck in the world, pickup truck. It's a booming business now, it's getting ... And it's very, very cool stuff. He's in Davis, California, which is near Sacramento. He says, man, he says, like not four weeks after all this talk of trade subsidies started, all of my parts, from anywhere in the world, including the US, started rising in price. I guess, not to throw a question at you, but just to think, commodities and inflation go together, right?

Rich Checkan: Yeah, and I think, again, I keep going back to this point. I know a lot of people talk about gold as an investment. When I hear that, I think, okay, they want to see profits. This gets back to that sentiment that we saw in the 90's, that we're seeing, I'm seeing again now, where people are kind of licking their wounds saying, you know, I bought gold at $1,700, $1,800, $1,900 an ounce. It's at $1,200. It's been as low as $1,050 in December 2015. It's a bad investment. I'm not making money. They're losing sight of why they bought it in the first place. I keep coming back to that point.

Back in '96, when I got into this industry, it was the same thing. Gold was at $250. But where was it? It was at $850 an ounce prior to that. There were a lot of people that bought it up there that were licking their wounds saying, why the hell did I get into this? It's not doing me any good. They probably bought too much. They allocated too much of their portfolio to it. You know, there's credible scholarly studies out there that suggest that there's a sweet spot somewhere around 10%. That's why you hear a lot of people talking about 10%. I think it's actually technically 8%, and we went to 10% to make the math easy.

But where owning less than that percentage of your portfolio in gold, or owning more than that percentage of your portfolio in gold, actually does not help. But if you hit that sweet spot, it actually increases the overall performance of your portfolio and decreases the overall risk of your portfolio. That's why you own gold. If you buy something, and you buy it for the right reason, for that portfolio insurance, same as you would buy a house, auto, health insurance. You buy that insurance for your portfolio, and 90% of your portfolio goes up, who on Earth is going to complain about that? You still have your insurance in place. I agree with Dana, right now your insurance is dirt cheap.

Thom Calandra: Wow. Did we see the lows in gold and silver in December 2015? You mentioned 2015.

Rich Checkan: Yeah, gold was $1,050 an ounce, silver was about [crosstalk 00:31:51].

Thom Calandra: Do you think those are the lows for, the lows for now?

Rich Checkan: I do. I'll let everyone else weigh in, but I'll take you back to 2009. That's where the Indian Central Bank -

Thom Calandra: Two-hundred -

Rich Checkan: Bought 200 tons of IMF gold, and it was about $1,045, $1,050 for the full lot, that never hit the market. It went institution to institution. At that time we were writing articles saying this is the end of three-digit gold. Now, we've touched that level a few times.

Thom Calandra: Yes.

Rich Checkan: The last time was December 2015. Since then it's bounced off of it hard.

Thom Calandra: Yeah, you mentioned 2000 ... Rich, you've mentioned the 2009, 200 metric tons.

Rich Checkan: Yeah. I think the bottom's in.

Thom Calandra: Are there any other nations that we should be following aside from Venezuela?

Rich Checkan: China, Russia, Kazakhstan, Turkey. They're [crosstalk 00:32:35].

Thom Calandra: They're all buying?

Rich Checkan: Right, they're all buying. Yeah.

Omar Ayales: Well, recently, I don't know if you guys caught that, but recently, not a super relevant necessarily bank worldwide, but the Hungarian National Bank just increased their holdings by tenfold over the past couple months. I think Poland also added four tons to its total now, 117 tons of gold holdings. Of course, you know, Russia, China, they've been buyers for a while as well. But I definitely agree. I think that $1,200 is a similar floor that one we saw when the Indian National Bank came and bought 200 metric tons back in '09.

Thom Calandra: Right. Here's a question at least two of you, maybe three, are actually in the business of bullion trading, and coins, and stuff like that. Should we, or do we see, more people become interested in bullion products, gold, silver, platinum, palladium, et cetera, when there's volatility in paper, as in blue chips?

Dana Samuelson: Well, people come in and say, oh my god. Well, it's hard to compete with a stock market that goes up 25% in a year like it did last year. That killed the physical sales of precious metals.

Thom Calandra: Right.

Dana Samuelson: Now that we're seeing real volatility and real breakdown, potentially a turn in the stock markets, where a lot of people have been, physical sales are up. To see a sell-off like this come along, there are people ... And you people are the smart ones. You're not the market chasers. That's why you're here. There are people who were taking advantage of the low price. That's why I think the bottom is in at $1,050. If it was going to get cheaper, it would be cheaper now than it is. Not $1,235. It would be $1,175 or working its way towards $1,150 if the world was going to let it get cheap, and they're not going to.

Thom Calandra: Well, you know, the blue chips have been competition for commodities and commodities equities for forever, and they've been terrifically strong competition the past 15 years. Somebody back there, one or two of you guys, said you think that this rise the last three days in blue chips, the rebound, is a, lack of a better word, a dead kitty litter bounce. Get it? Dead kitty litter bounce? A dead cat bounce, okay. I got a couple laughs. What's your feeling about that? I mean, do we see, and Omar, this is a layup for you. I mean, you think this could be a dead cat bounce on the blue chips [crosstalk 00:35:21]?

Omar Ayales: For blue chips, yes.

Thom Calandra: Yes. That's what I'm [crosstalk 00:35:25].

Omar Ayales: For the stock market, I believe like overall the S&P, the industrials, I do believe that the current amounts that we're seeing, after the washout, I do believe is a dead cat [crosstalk 00:35:34].

Thom Calandra: Yeah. Then what about bonds? Like sovereign bonds?

Omar Ayales: Well, bonds, I do believe that bonds topped in 2016, and in the mega trend. I do believe that the pressure for bonds longer term is down sovereign bonds, but longer term.

Thom Calandra: Some people say bonds, sovereign bonds, treasuries, gilts, et cetera, are the real bubble, not stocks. I mean, the bonds have had a terrific run. I want to throw out a question. This one's from my wife, because we own some of this stuff. Don't ask me how we came across it. What about the TIPS, Treasury Inflation-Protected Bonds? Will they ever start performing? I mean, they really haven't performed.

Omar Ayales: Well, I do believe, again, that the pressure overall in bonds, of all sorts of bonds, I do believe is down in a macro level.

Thom Calandra: Right, so -

Omar Ayales: Of course, you can see demand come in and rise, and fall.

Thom Calandra: But theoretically, if we see inflation really pick up the pace, I mean really, like 4% a year, 5% a year down the road, should TIPS outperform ordinary treasury bonds?

Omar Ayales: I would think so.

Thom Calandra: Yeah, I would think so too. That could bode well for metals. I wanted to throw another thought out here. I remember when we were talking about copper. This doesn't have to just be a gold, silver, platinum, palladium chat. I mean, a lot of commodities behave in similar ways. Could we see somehow this whole wave of EV metals, EV being electric vehicle battery-like metals, could that boost the demand for precious metals? Could demand for nickel, zinc, cobalt, vanadium, copper, could that help precious metals in some way that we're not thinking, that I'm not thinking about? Whether it's in the ground and in the mining process, or in the investment dynamic?

Matthew Warder: In this particular market right now, over this year, probably not. I think during the process of putting my presentation together, it became pretty clear that base metals haven't really reacted to broader market trends. They're kind of reacting on their own fundamentals, and now they're paying a little bit of attention to currencies. I find electric vehicles in particular to be kind of distractive from the speculative space in a way that ... I'm not going to say it's harmful to gold, because the market is tiny for vanadium, for instance, which I do like longer term. But the other thing I think you have to keep in mind about electric vehicles is that yes, their market share is increasing rapidly from zero, so the incremental gains that they make aren't really going to offset the need for platinum, for instance.

There was some talk, I did an interview with the world platinum investment council at the Sprott conference back in July. The takeaway that I got from was that there's already ... You know, platinum is a unique precious metal, and that a lot of it goes to platinum heaven. So there is physical demand for platinum. There is industrial demand for it that does not come back into the market. The news of its demise with the Volkswagen scandal was probably overwrought. Now, with palladium right around $1,050 or whatever, and platinum $200 below that, I know for a fact there are US automakers that are at least hedging their bets a little bit toward replacing some platinum for palladium and gasoline catalysts. To the tune of, I think there's about 20% upside in the US, 20% upside in China. That equates to about a million more ounces of demand on the market.

Thom Calandra: Can I throw one more thing out there, and then I thought maybe I would ask for one or two questions.

Omar Ayales: Thom?

Thom Calandra: Yes, of course, Omar? You're [crosstalk 00:39:45] -

Omar Ayales: Just one question regarding the EV.

Thom Calandra: Yes.

Omar Ayales: I heard that. I don't know. Maybe some of you can confirm, but I heard that in China, one of the plans to counter their pollution is, I believe as of 2020 or 2023, they're going to start demanding that that electric vehicles be used as opposed to fossil fuel-burning engines, combustion. I think that, for the metals that are involved maybe in those, or for the precious metals that are involved in the production of those batteries, or in lithium or whatever, I believe that they could have definitely ...

Thom Calandra: Omar, I don't know. I go to these different places to look at mines. It doesn't matter where I am. Northern Morocco is the most recent example. China is building mini cities for its factories, for its EV-related factories. It's unbelievable. But Omar, you saw last week that huge state loan that's going to the China car company, and three-quarters of that money is going to go into EVs. That's like a $20 billion dollar loan? Was it $20 billion or $200 billion? I have no idea, but it was a vast amount of money. You have to think that China is still going to be the driver here when it comes to EVs.

Omar Ayales: Definitely. Also, I heard something about them slashing their taxes on the sale of vehicles as well, which should boost demand.

Thom Calandra: Yeah.

Matthew Warder: And all that's true. The rub there is that the EV market is really, it's a nickel, manganese, and cobalt battery. Over time, that demand is going to go from about, oh, about a ratio of three to two to one, nickel to manganese to cobalt, to a ratio of eight to one to one, by the time that that policy gets fully implemented. As I mentioned in my presentation, there's a nickel operation that Tsingshan is going to bring online in Indonesia that basically fills that gap. The nickel market, which I was really bullish on before, I'm less so now. It's probably not so great for cobalt off in the future, although supply risk there is going to drive prices.

Thom Calandra: We have four minutes left. Can you just switch to this image real quick? I wanted to throw this out real quick because it's the kind of loose end here. Divisible goals, or fractional goals. We all have talked about it. Do we need more products that are like one-gram products, or two-gram products, that can make it easier, as in easier on your pocketbook, to own gold and maybe even transact gold? As Dana pointed out, there's a bigger counterfeit risk with products like that, that may not be your traditional gold coin.

Dana Samuelson: We are having a mild and growing problem with counterfeit bars out of China, tungsten bars that are plated in gold. They're a little bit more creative than that, actually now too. The problem's in the small bars mostly, so be wary of those. That's why buying sovereign minted coins, whether they're a tenth ounce gold eagle, or a Swiss 20 franc, or [crosstalk 00:43:01].

Thom Calandra: But Dana, do we need more products ... You know, the Europeans love this. You go to the Munich gold show in early November next week and you see, for some reason Western Europeans love these like, you break off the wafer. This one's worth $50, and this one's worth $30, and silver too. Do we need more products like that?

Dana Samuelson: Well, the higher the metals prices goes, the smaller the products are going to get. That's just the way it is. I never thought I'd see a bulk volume of half-ounce silver pieces until I bought about 500 of them back that Peter Schiff put about five years ago during the crisis. It's crisis silver.

Thom Calandra: Yeah. Then one of you guys sent me a link, I wasn't aware of this. Not to give somebody publicity they do or don't deserve, but it's a mixture of like five different metals?

Rich Checkan: Four metals.

Thom Calandra: Four.

Rich Checkan: It's the PMC ounce.

Thom Calandra: Yes, that's ... Was it the P -

Rich Checkan: it's something that [crosstalk 00:43:48] and Robert Kiyosaki have talked about.

Thom Calandra: Right.

Rich Checkan: it's not a real coin, just so you know.

Thom Calandra: Oh, it's also -

Rich Checkan: It's a proprietary -

Thom Calandra: Yes, I remember seeing that.

Rich Checkan: ... mix of the four metals that you own. They're backed up by [crosstalk 00:44:00] depository.

Thom Calandra: What does it cost right now, $100?

Rich Checkan: But they're sold in one-ounce increments.

Thom Calandra: What's it like $100 right now?

Rich Checkan: A little under $100, maybe just above [crosstalk 00:44:09].

Thom Calandra: Yeah, products like that. We only have two minutes. Are there any questions from the panel or from the audience? Throw them out there. It's okay. Anything. Yes, please.

Speaker 10: How do you see other currencies, other than the US dollar? Is it really just the US dollar backed, or [crosstalk 00:44:28] -

Thom Calandra: Well, John Mark, we talked about this, and great question. How do you see, could we see, a rally in other denominated golds? As we said, gold in almost every other currency, the SAR, for example, the Turkey lira, the Russian ruble, right, the price is so incredibly high compared to ... Even the Canadian dollar.

Rich Checkan: My thought here is this. I think this is the real story about gold right now, that yes, it is expensive in virtually every other currency except the dollar, but looking at the dollar, its resilience in terms of the dollar strength, and the stock market strength over the past five, 10 years, is to me the story about gold. Is gold dead? I think your answer's right there. It's holding up when it should not.

Thom Calandra: Yes, very good. As you know, trends can last a long, long time, right?

Rich Checkan: [crosstalk 00:45:28].

Thom Calandra: Right? This dollar strength, I was in Tombstone, Arizona looking at a silver mine about six or eight weeks ago, and even the CEO of the silver company I was there with said, "As much as I'd like to see the dollar crack here, a strong dollar could be with us for another couple years." But that's a great point.

Dana Samuelson: The dollar's stronger right now because the US economy is the only economy that's really performing in the world right now. China's weak. Japan's been weak. Asia, I'm sorry, Europe is weak now. They're still on life support through QE and zero interest rates. It's going to be a tug of war whether the US can help lift other economies up, or whether they're going to pull us back. I don't think we can sustain 4% GDP. That's impossible with the kind of debt that we have. That's why the dollar's stronger now. It's a temporary phase. We've gone through a couple of them over the last five years. That's why gold is cheaper in dollars but it's more expensive in other currency, it's because the dollar's strong.

Omar Ayales: To the point that Dana's saying, there's, I think, a lot of truth to that. The dollar and its woes, the US and its woes, they're still there, they're very real, the amount of debt, deficit spending, et cetera. Still there, not very much different from other currencies and other countries, other sovereigns. Which in itself is keeping the dollar lofty. But ultimately, that should ... I mean, that's what ... So I had, I don't know if many of you remember a great newsletter writer, he passed. Ian McAvity. He would say, referring to the dollar, "It's the cleanest shirt in the dirty hamper." You know? More than the US dollar being very strong because of strong fundamentals, I think it's more the fact that the rest of the world is pretty much [crosstalk 00:47:22].

Thom Calandra: Okay, thank you, Omar. We have dirty hampers, kitty litter, you name it. I just lost my bonus for not ending this on time, just like that New York Yankees pitcher. What do you think about that? Dang. I want to thank our terrific panel. Really. We're going to have these four guys every single year, through eternity. Thank you very much.

Omar Ayales: Thank you, guys.

Mark Skousen
"A Viennese Waltz Down Wall Street: My Formula For Finding High-Profit Opportunities And Avoiding Fools Gold"

Albert Lu: Our next speaker was recently named one of the top 20 living economists in the world. In 2018, he was awarded the triple crown in economics for his work in economic theory, history and education. He has the unique distinction of having worked for the government, non-profits, and for several for-profit companies.

Since 1980, Mark Skousen has been the editor in chief of Forecasts & Strategies, a popular investment newsletter. He was an analyst for the CIA, a columnist to Forbes Magazine, Chairman of Investment U, and past president of the Foundation for Economic Education in New York. He's the producer of FreedomFest, the world's largest gathering of free minds, which meets every July in Las Vegas.

His investment books have included Investing in One Lesson, The Maxims of Wall Street, A Viennese Waltz Down Wall Street: Austrian Economics for Investors. Grantham University renamed its business school the Mark Skousen School of Business. Based on his work, The Structure of Production, the federal government is now publishing a broader, more accurate measure of the economy, gross output or GO, every quarter along with GDP. Please welcome Mark Skousen.

Mark Skousen: Thank you all very much. I'm going to grab some water here. I know on some of the surveys from last year, people were complaining that I'm no gentleman, because I wear a hat indoors. Well too bad. I firmly believe in being a nonconformist. If I'm going to do everything I'm told to do, democracy, then is life worth living? You have to do things that are different. You have to be a nonconformist. You have to be a nonconformist in investing. You'll notice, you notice my blue suede shoes? Blue suede shoes. Got to have style. Like Dennis Gartman. I notice how well he dresses. When he comes out, make sure you look at his socks. He has very unique socks.

Well, thank you all for coming. I have a topic that I have not spoken on before. A Viennese Waltz Down Wall Street, this is a book that I wrote some time ago, Austrian Economics for Investors, my formula for finding high profit opportunities and avoiding fool's gold. Of course the question that we're all asking right now, "Is the nightmare on Wall Street over?" We've had a three or four day rally. How many, by a show of hands, stayed invested in October, or how many stayed invested, or how many sold? How many sold? How many didn't even know there was a selloff in October?

Well, I hope to address this question using Austrian economics. What is Austrian economics? It's based on a school of economics that got started in Vienna at the University of Vienna in the 19th century with Carl Menger. Of course, today's or the 20th century's most famous Austrian economist, Ludwig von Mises, 1881, palindrome, interesting year that he was born. Friedrich Hayek, born in 1899. Then of course Joseph Schumpeter. I have, I always carry with me an 1881 silver dollar. Why? Because that was the year Mises was born. It's a palindrome, 1881. Read it backwards, read it upside down, it's all the same, 1881.

Then of course, there's Joseph Schumpeter, 1883, born in 1883, which was also the year that another famous economist died. I taught for many years at Rollins College in Winter Park, Florida. There was a Marxist economist there. I walked in the room, his office, and there were posters of Che Guevara and Karl Marx, not one of Stalin. You get the point that he was a true Marxist. I presented him a 1883 silver dollar. I hand it to him. I said, "This coin, I'm going to give you this coin on one condition. That you identify the economist who died in the year of this coin." He looks at it and says, "1883," and he says, "That's easy. Karl Marx." I said, "That's right. Don't ever forget it. He's dead." But he had a great answer. He said, "Yes, he's dead, but I'm alive, and I'm teaching your students." That's so true today.

But my heroes are, particularly the one in the middle, Friedrich Hayek. What are the contributions of the Austrian economic economy? Number one, supply side productive savings, capital investment, technology lead to economic growth, and bull markets. Notice, it does not say consumer spending. Consumer spending does not drive the economy. It is the effect, not the cause of prosperity. Very important.

Number two, the dynamics of creative disruption. I prefer that over Schumpeter's term creative destruction, which I think is too negative. It's creative disruption that we see in the economy that brings about progress. I'm reading right now Alan Greenspan's new book, Capitalism in America, wonderful book, by the way. I highly recommend it.

Number three, Austrian theory of the business cycle. This is extremely valuable for investors. The boom must turn into a bust at some point, but you can profit on the boom side and on the bust side, depending on your approach to investing. The boom sews the seeds of a bust. There's always some artificial elements in the economic boom that we're seeing, especially with the manipulation of interest rates.

Number five, bulls should always be prepared to take profits and get ready for the crash or the bear market. They don't happen very often. Historically in the United States, maybe once every 10 years, sometimes even longer. We've had a bull market that has lasted 10 years, so if you are a permabear, you are financially in trouble. Keep that in mind. Many investment gurus and newsletter writers are permabears. They're right occasionally, and they get great publicity when they are right, but if you want to be a successful investor, you need to lean on the side of the boom phase, not the bust, but you must be prepared knowing that the bust can come, and we don't know exactly when.

Number six, mining stocks in particular are inherently volatile and high risk. I'll explain that a little bit more. Prices and Production by Friedrich Hayek is a very important book that came out, that influenced my life in many ways, came out in 1931. Friedrich Hayek created this Hayekian triangle, which I will talk about a little bit more, but basically the idea is to create a structure of production that goes from the natural resource stage to final consumer stage. You add value along the way, and thus you create this triangle.

What can we learn from gross output, and what is gross output? It was mentioned in the introduction. Gross output is a measure of spending at all stages of production. A lot of people don't realize that GDP just measures final output. It's all the goods and services that we actually use. It's consumer type products, and even tools and equipment that have been finished, but there's that whole supply chain. A lot of people don't realize that GDP leaves out the supply chain. The supply chain, which I am now starting to measure, and the government's starting to measure, is bigger than GDP itself, because there's so many stages of production.

Here, out of this, we see that gross output is much more volatile, that's the green line, it's actually B2B spending including the supply chain. Notice how volatile the green line is compared to the red line. The red line is consumer spending. Not only is B2B spending, business spending and the supply chain bigger than the consumer spending, that is business spending is bigger than consumer spending, also it's true that the supply chain is much more volatile. The stock market is more linked to the supply chain than it is to consumer spending. That's why you get a great deal of volatility.

You can see here the difference between gross output, which includes the supply chain, that's the green line there, and then GDP, which is final output. Notice that what you have here is tremendous, much more volatility in the supply chain, and especially you see the 2008 financial crisis. The financial crisis was not so much in consumer spending as it was in the business sector collapsing, virtually collapsing during that time period. That was the crisis.

The other thing that I've discovered is that if GO moves up faster in its quarterly reporting, if it moves up faster than GDP, that's a sign that growth is going to continue. Guess what. Yesterday, they just came out with GO statistics. GO grew faster than GDP. That is a positive sign that the Trump economy, or whatever you want to call it, is still in good shape, and there's no sign of a recession whatsoever. In order to have a major bear market, you have to have what you had in 2008 and other times, you have to have some kind of evidence of a recession, and there's nothing like that in sight. Globally there might be, but not in the United States.

Federal Reserve, those of us in Austrian economists, we focus on the Federal Reserve, what kind of policy. You can see interest rates have gyrated as a source of instability. Low interest rates, high interest rates, tight money, easy money. This is something to really focus on.

The yield curve is an Austrian concept. The traditional Keynesian approach on looking at interest rates is to look at the 10 year Treasury, and to see whether it's a real interest rate, negative or positive, but the Austrians think of the structure of production, the structure of interest rates, the structure of employment. That's what we want to look at. The triangle, the Hayekian triangle.

The yield curve is the structure of interest rates, short-term versus long-term interest rates. We look at the yield curve, and you notice the little blue lines there. That's an indication of a recession. The yield curve turns negative, you notice it turns negative every time we have a recession. Guess where it's headed right now. It is headed towards an inverted yield curve, but it hasn't reached it there yet. So the 10 year bull market that we have is probably going to continue, but we're getting closer and closer to the time where we could have an inverted yield curve, which is the Austrian measure of trouble ahead. That's the key factor to look at, but it hasn't reached there yet. It could be another couple of years.

This is a great chart demonstrating the volatility of the marketplace, the inherent volatility, because one thing you have to remember is that the stock market represents the capital markets. The capital markets, they are further away from final use or the retail sector. They will inherently be unstable according to the Austrian theory. You can see this, comparing GDP, which is the red line ... GDP represents final use, or the consumer spending. Notice how stable it is, but then you look at the stock market, represents the capital markets, further away from final use, and it's inherently unstable. This is a chart since 1990 to the present. You notice that we've gone through one, two major bear markets during that time period. It fits with the basic view that I have made is that Wall Street exaggerates everything. It exaggerates things even in the short term. We saw this with the October selloff.

The question is, as an investor, can you handle this volatility that is inherent in the stock market? We're always trying to find the safe investment that can provide regular income and so forth. It's the topic of my workshop at 4:15 today, which I hope you attend on SWAN Investing, Sleep Well At Night Investing, that focuses on this strategy that has taken me 30 years to develop on Wall Street. The question is, can you handle the volatility there?

Just to show you where I stood. This is me appearing last year when we were nine years into the market. Those of you who have subscribed to my newsletter, just by a show of hands, how many subscribers do I have here? Okay. I've got a number of you. I appreciate you coming. I consider myself a survivor, a veteran now, after publishing my newsletter since 1980, when the greatest president of the United States was elected, of the 20th century, Ronald Regan. I would like to think that I've improved my skills in the marketplace.

You know, there were a lot of my friends who were in the gold bug camp, who were predicting the mother of all bear markets. Alright, but I'm on record to having predicted the mother of all bull markets. This year, it was confirmed that we have experienced the longest bull market in US history. How many of your financial gurus that you follow out there have done that, have made those kinds of predictions? Not many. You're raising your hand, you're probably referring to who knows? One of your buddies. Alright.

But is the 10 year bull market over? There's a couple of reasons why I don't think it is. We'll discuss that at the economy forum that we're having this afternoon, but one is the spread on the investment grade spread. You didn't see a deterioration of that between the investment grade or the junk bond grade and the higher investment grades. You didn't see a deterioration there during the October selloff. That's a big factor. Plus GO is growing faster than GDP. That's an indication that the economy is still growing, despite efforts on protectionism and that sort of thing.

Gold stocks and the stock market, boy, you couldn't have a better contrast, right? The stock market continuing to move higher. Gold stocks, inherently volatile, as I said earlier on, so if you want to invest in gold stocks, they are not a buy and hold. They are short-term speculation. You have to look for that opportunity. An opportunity may be coming, but the biggest headwind is the strong dollar and higher interest rates, the Fed aggressively raising rates. In the face of that, how can you expect gold to be going up? I just don't see it. That's why I think it's better to look at other alternatives there, but you can see here, it's been a real problem with the gold stocks.

In fact, the long-term gold stocks don't look very good either and one of the reason is they're highly leveraged. They're constantly having to raise money and they're diluting the stock. There's a lot of headwinds that gold has to face, so one of my axioms in The Maxims of Wall Street is, "How do you make a million dollars? Invest two million dollars in gold stocks."

Alright. I do have, I am going to be talking, I'm doing a book signing at 9:30. I'm doing a speaker's table, speaker's table number one.

Oh, I did want to mention one other thing that's really important. I had a Eureka moment at my class at Chapman University, which is where I teach now, in California from January through May. I taught financial economics in the spring. We had a Eureka moment with the students. I gave students a list of five stocks that were basically according to the stages of production. These were energy stocks, so I started off with a exploration energy stock, which is in the upstream. Then we had the pipeline company in the midstream. Then we had, and downstream in the energy sector, we chose a stock in the refining and retail.

It turned out that ... I had them check the beta. Beta is a measure of instability. It turns out that the stock in exploration, furthest away from final use, was the most volatile, and then pipelines were second most volatile, and the least volatile were the refiners. It was just a Eureka, eye opening moment for my students. I'm going to give you those examples at the speaker's gathering there, and look forward to talking to you about how to use Austrian economics to make better investment decisions.

Then, of course, I also brought copies of my book, The Maxims of Wall Street. There's some really great quotes that apply during times like this, where there's a great deal of instability. One of my favorites is, "Nothing can make the spirit fly higher than finding a bargain when you're the buyer. Nothing can make the spirit sink deeper than finding it later a whole lot cheaper." There's a lot of cynicism and satire in The Maxims of Wall Street. Another one that I really like is from Steve Forbes, who says, "Everyone is a disciplined long-term investor until the market goes down."

Anyway, you notice here I'm meeting with Warren Buffet. Notice I'm giving him advice. That lasted for about two seconds, and he said, "Well, I got to go now." But actually he does endorse my book, The Maxims of

Wall Street. He says it's the best quote book he's seen. Of course, I quote him more than anyone else. Dennis Gartman likes it a lot too. He's endorsed it in the past. I look forward to meeting you there.

I have additional appearances, the speaker's table at 9:30, a book signing, then at 1:35, I'll be moderating the panel, the economy panel. I'm looking forward to that, asking some tough questions. Then I have a workshop this afternoon at 4:15 on the SWAN strategy. With that, I thank you all very much, and look forward to seeing you at the conference.

Mark Steyn
"Steyn On America"

Gary Alexander: Mark Steyn, you've heard him already today. Earlier on, you heard Doug Casey talk about the earmarks of Western civilization. Western civilization is in, in Doug Casey's language in great decline, if not in danger of disappearance if we don't guard it. He had five or six different aspects of Western civ. There's art, music, literature, science, finance, well-being and philosophy. Mark Steyn is very deep into all of those in his website Steyn Online. I'm a member and very satisfied with it. Music. He's a great music master. He sings. He has albums. I have played his Frank Lester album on the air. The music of Frank Lester. He has several albums. He has a new one out called Feline Groovy, songs about cats. Feline Groovy. I played his Goldfinger song selection here three years ago when he appeared.

He's great on history of music. He has a song of the week, composer of profiles and so forth. He also is a literature master. He reads and reads the characterizations of the characters in great works. The most recent is Franz Kafka's Metamorphosis. Over the Halloween week, he read that one.

Philosophy. He gets deep into the philosophical importance of capitalism and freedom. He's also into science and debunking the absolutists in the anthropomorphic global warming arena. Especially a particular man named Mann named Mann who has a hockey stick that is a disgrace to his profession. It became the name of a book that Mark wrote. Now, Mark has been introduced in the United States Senate by Ted Cruz as an international best-selling author, a top five Jazz recording artist, a leading Canadian human rights activist. All of those happen to be true.

As far as the best-selling author, it is the subject of his talk today actually will be about America, America Alone: The End of the World as We Know It, which was a New York Times best seller in the US and a number one best seller in Canada. His most recent best seller is The Undocumented: Mark Steyn. He's had a human rights campaign in Canada to lead the parliament to the repeal of the notorious Section 13 Hate Speech Law, a battle he recounts in his book. I have all of his books signed at home as a member of the Mark Steyn Online. Lights Out: Islam, Free Speech And The Twilight of the West. He is also a sub for Rush Limbaugh. The number one radio show, Rush Limbaugh program and the number one cable news show, Tucker Carlson Tonight where he appears once or twice a week.

Every once in a while, he hosts his own Mark Steyn show originally aired on CRTV until they fired him and sued him for $10 million. He won that case resoundingly but CRTV and its billionaire owner, Cary Katz have refused to comply with the court's order and pay for the damages. He has fans around the world and they're building daily. He has appeared on stages, in musical and philosophical and political stages across the world from Toronto's Roy Thomson Hall, Sydney's Conservatorium of Music. He has sold out concerts coast to coast. He has spoken to the Canadian Parliament, the Danish Parliament and the Australian Parliament. Over the years, his writing in politics, arts and culture has been featured and published in almost every newspaper in the English speaking world.

The British Daily Telegraph, Canadian National Post, The Australian, The Irish Times, The Jerusalem Post, The Wall Street Journal and many, many more. Please welcome to the podium for the final speech of our 44th conference. Steyn on America, Mark Steyn.

Mark Steyn: Thanks, Gary. Thank you very much, Gary. That was a great and fulsome introduction. I'm very honored by it. I couldn't see from backstage but when Ted Cruz introduced me as a top five best-selling Jazz artist and leading Canadian human rights activist, all the Democrats on the committee rolled their eyes in unison like synchronized swimmers. I hope you weren't doing that today. Thank you very much to Gary for that introduction. I would also like to say, I wasn't on the panel remembering Charles Krauthammer earlier but the last time I was here was with Charles. I just wanted to say a word about him. He was hugely popular at these events. He enjoyed coming to them.

I don't think many people who heard him speak understood how difficult it was for him in his physical condition to fly around the country and muster the energy required to get through and interact with people and be friendly with people. He did all that with great charm and great ease so that most people had no idea that he was in an awful lot of physical pain at those things. He was also incredibly generous to a lot of us. When I first started writing in the United States, Charles was very kind. If he couldn't do some interview on the radio or television that he was asked to do, he would always say, "Well, why don't you call Mark Steyn?" They'd say, "Who?" He'd say, "Well, he's this Canadian guy. He's good. He can do it." You're grateful for that.

At that time when you're unknown in America, and Charles Krauthammer doesn't want to do the interview on Midnight Merry-Go-Round on WZZZ AM in Prescott, Maine and you've never been on American radio, you're very grateful that he recommends you. Charles was terrific like that. I miss him. I miss him physically on things like this because if you remember he used to have that spectacular wheelchair. You used to come. If you've seen the ski jumping at the Winter Olympics, he used to come hurtling down it like the two-man luge thing. And you'd think, "Holy cow. Why's that thing coming towards me?" Then he'd brake just in time and be right at the end of the table. He was a terrific guy and I miss him. That said, I didn't always agree with him. I will talk a little bit about some of that tonight.

I remember the last time I was here with him a couple of years ago. I mentioned that New Zealand was paying off its crown debt entirely. Crown debt as in government debt as we'd say here. America had no plans whatsoever. Nevermind pay off the whole thing entirely, which New Zealand was going to do within five years. Had no plans to start paying it off at all. Charles was entirely relaxed about this on the basis that it's fine for America to run up debt because America is the policeman of the world. We absolve nations such as New Zealand and Norway from having in effect to pay for their own defense, which is true. It's not a good thing but it's true. It's one of the insanities of the modern world.

That the wealthiest societies in human history such as New Zealand and Norway and other small societies have absolutely no means of defending themselves while economic basket cases with undetectable GDP are planning to go nuclear such as Sudan or actually have gone nuclear such as North Korea. That can't hold obviously. You can't have New Zealand and Norway unable to defend itself and countries like North Korea and Sudan becoming nuclear powers. That arrangement isn't going to prevail for long. The debt means something. I think we all understand that nobody in Washington thinks it does mean something. If you go back 10 years, the Republican party would genuflect towards the debt crisis.

People like Paul Ryan actually did some of the arithmetic and would occasionally push back against Obama administration spokesman about the debt. When he was running for President, Donald Trump quite rightly concluded that $20 trillion in debt didn't mean anything to anybody who earns 40 grand a year. It has no real world meaning. In fact, the only meaning it does have is that the guy earning 30 or 40 grand a year concludes that if all the most important people in the country don't think $20 trillion in debt matters, there's no reason why some guy earning 30 grand a year should think it matters. Donald Trump quite rightly concluded that there was no political advantage in playing up the debt. He didn't talk about it.

As a result, we now have 22 trillion in debt, which is just top of the iceberg in debt. There's another three trillion in state and local unfunded pension liabilities, another 19 trillion in personal debt. Just the college debt in America is the equivalent of the GDP of Canada. If you average it out per family, all the debt in America, it works out to about $900,000 per family. This is in a country where the average American family has about $12,000 in savings. They've got their personal share of the debt is 900 grand. They've got $12,000 in savings. Now this either means something or it doesn't. The question is, what does it mean?

You all know the old joke that if you owe the bank a thousand dollars, you have a problem. If you owe the bank a million dollars, the bank has a problem. We now live in an age where America owes the world $22 trillion and thus, the world has a problem. There are no precedence for this before. As I said, it either means something or it doesn't. It either means something or it doesn't. The federal government has to do something that nobody in human history has ever done before. It has to pay back $22 trillion just to get back to being broke, to having nothing in its pocket. Nobody in human history has ever done that. That ought to be a problem. As I said, if you remember the old joke about the bank, if it's $22 trillion, it's kind of liberating. Who's going to collect it?

Once you're up to 22 trillion, is it really important whether it gets to 30 trillion? To 40 trillion? Is it really important if it gets to whatever comes after a trillion? Does anybody know what comes after a trillion?

Audience: Quadrillion.

Mark Steyn: No. It's cotillion. It's a cotillion, yeah. They used to have antebellum cotillions in this part of the world before the Civil War. Nobody cares about that. These are terms that used to exist only in astronomy and now, they're in accounting. That's not human progress right there. I'll pick another fight with Charles because the nice thing about Charles Krauthammer is it's always best to pick a fight with him when he's not around to push back. The last time I was here, Charles suggested that caring about debt. In a certain sense, he articulated the liberating position. Who's going to call you on it? You owe $22 trillion. Who the hell is going to collect? There's no loan shark on the planet who can actually come and get the 22 trillion back from you?

Charles said, "There's no point even worrying about this stuff. Apart from the entitlements and military spending, none of it is even worth bothering about." I think that's actually corrupting. I think that's corroding of your soul. If you come from rinky-dink Mickey Mouse countries like New Zealand, you notice waste. You notice it everywhere you go. I think it's bad if you desensitize people. It's bad in a moral sense if you desensitize people to not noticing it. I live in Northern New Hampshire. In my part of the world, under the Obama stimulus package, they built a $17 million border crossing at North Troy, Vermont. Anybody here from North Troy, Vermont? That doesn't surprise me. There's about 200 people there. It's a border crossing.

I've crossed that border all my life between Quebec and Vermont since I was a teenager. All my life, her Majesty, the Queen has had a one room hut on the Northern Side. Uncle Sam has had a one room hut on the Southern side. This little gate between and two-lane black top in the woods. You go through one side and the gate lifts and you drive on. It gets two cars per hour. It got $17 million of funding in the Obama stimulus package. They built the Starship Enterprise and dropped it in the middle of the great North Woods. All of you know Google Earth. Even if you're dealing with a big shot, you go to Google Earth. You have to click in. Fine, fine focusing, go in, zoom in, zoom in, zoom in to see the little building and figure it out.

You don't need to do that on Google Earth with this thing. You can just Google it. Look at it from as far away. You can see it from outer space. It's still there. The Starship Enterprise dropped in the middle of the great North Woods. They widen the road on the American side. Her Majesty, the Queen still makes do with the one room hut on the northern side. On the American side, they widened it to eight lanes. Two cars per hour. That's one lane each for the two cars per hour and six lanes for the department of Homeland Security to go bowling in. That's North Troy, Vermont. When the aliens prowling through the rubble of our civilization, they will come to the ruins of this building. Say, "Welcome to North Troy, Vermont."

They will say, "What a mighty empire this North Troy must have been. Look at the palace of the emperor." It either matters or it doesn't. Building an eight-lane border crossing for a border post that gets two cars an hour is decadence. It's a kind of suicidal decadence. An even better one, I don't know whether there's anybody here from Whitetail, Montana. That's another small border checkpoint. That had even less people. It served about three travelers a day, three cars a day. That got $50 million in upgrades under the Obama stimulus on the American side. They upgraded it to again, this usual eight lanes and everything. On the Canadian side meanwhile, they noticed it only got three cars a day. They closed it down. You now have an eight-lane super highway to nowhere.

It's the Hotel California border crossing. You can check out anytime you like but you can never leave. I think the small stuff is important because I think it corrodes the soul of a people when you train them not to notice that kind of suicidal decadence. I agree with Obama on this. He used to say, “Only the government can build a Hoover Dam or the Golden Gate Bridge or send a man to the moon.” Okay. Where is that? Where is the Golden Gate Bridge of the 21st century? The Golden Gate Bridge at that time cost about $35 million, which would be about $530, $540 million today. Again, for the cost of Obama’s stimulus package, we could have had 1,567 Golden Gate Bridges. 1,567 Golden Gate Bridges.

You could have laid them end to end and had one uber Golden Gate Bridge stretching from Bar Harbor, Maine to Limerick on the West Coast of Ireland. For the cost of the 2009 stimulus. We spend a huge amount. This is the terrible thing about this debt. We’re spending it on nothing but bureaucracy and bloat. Until 1956, 200 British civil servants governed the entirety of Sudan, which is a big country even by African standards. 200. 200 English men in shorts with their pasty white knees poking at the bottom, governed the entirety of Sudan. You can’t find 200 people to govern the smallest outpost of the federal bureaucracy these days. We don’t build a Golden Gate Bridge. We build bureaucracy. We build regulation and we build bloat. Either this means something or it doesn’t.

We heard earlier, I forget who it was who said it earlier who said, “Boring is good.” Which is what investors like. In an investment world, you like everything to be boring except opportunity. You want a stable society but you want economic opportunity and investment opportunity in it. Boring is good. It’s the inverse of the Chinese curse, “May you live in interesting times.” We live in times that are almost too interesting. The last time I spoke here, I spoke about demography. Demography is everything. It’s particularly true for investing. In Greece for example, 100 grandparents now have 42 grandchildren. Obviously, there’s investment consequences to that.

If you build a new shopping mall and you built it because you were expecting there to be 100 cars parked in there everyday. A couple of years later, you look out the window and you noticed there’s only 42 cars parked in there. That’s not a good sign. We live in a time of sweeping demographic changes. The Western world is running out of young people. Japan, Germany and Russia are already in net population decline. 50% of Japanese women born in the ‘70s are childless. In Sweden, Finland, Austria, Switzerland, the Netherlands and the UK, 20% of 40-year old women are childless. In Germany, 30% of all women are childless. Again, this is one of those statistics that either means something or it doesn’t.

There’s no precedent for it outside World War or something like the Black Death, the plague, a huge global disease epidemic. There’s no precedent for it. It either means something or it doesn’t. The idea that you can have continuous economic assumptions based on declining population and in particular, an ever greater shortage of young people because a bank essentially is a mechanism by which the past lends money to the future. Old people with money lend it to young people with plans and ideas. If you have no young people, then you wind up doing what the German banks did a decade ago. You wind up lending your money further and further afield to markets where you have no real idea what’s going on. And then at some point, somebody yanks the rug out from under you.

That by the way is why Angela Merkel imported two million so-called Syrians, so-called refugees to Germany a couple of years ago to be the young people Germany couldn’t be bothered having themselves. That has actually worked out too well for Germany. I spent a couple of nights in a refugee house at Reutlingen with some refugees from the Gambia, economic migrants from the Gambia who were pretending to be Syrian refugees. Anybody from the Gambia here? Nobody from North Troy or the Gambia. I never had that at a speaking event before. It's usually both. I've never had nobody show up from North Troy or the Gambia. If you know people from the Gambia in West Africa, you know they look nothing like Syrians.

I spent a couple of nights with these very cheerful, 33-year old Gambians pretending to be 16-year old Syrians. Nobody called them on it. Everybody gave them massive tons of welfare. In return, they had little to do except sit in their refugee homes, which were very pleasant apartments and smoke marijuana all day long, which was the only bit I found a bit hard. Because it meant by the time the evening came and I was staying in the rooms with them, they were a bit heady for my taste not being quite as young as these lads. These are not normal times. It is not normal for the head of government of a G7 economy to invite in two million people to be the next generation of German software engineers. It has not worked out well for Angela Merkel.

Most welfare states have premised on social solidarity. The young will pay for the cost of the old. Because they are your actual grandparents. They're your literal grandparents. But as the West ages, that social solidarity will fray and I would be surprised if Muhammad and Ahmed will be interested in paying 60% tax rates to keep Hans and Fritz in their retirement homes. Demography doesn't seem terribly real to people because it doesn't seem the sort of thing that's showing up next Tuesday. In fact, next Tuesday shows up quicker than you think. In 1990, Europe had a larger population than Africa. 720 million Europeans against 630 million Africans. By 2016, that position had reversed. Africa had twice the population of Europe. That's 1.4 billion Africans, 740 million Europeans.

The position had entirely reversed in 25 years, from the '90s to now. I was already middle aged in the '90s. It doesn't seem that long ago to me. These population statistics are determinative. By 2050, Africa, which cannot support its existing population will have 2.5 billion people. By the year 2100, it's expected that 40% of the world's population will be African. Except it won't be. Nobody is going to stay in a continent that cannot support the people it has now when you can get on a ship and be in Southern Italy in nothing flat. They're not going to stay there. That's why issues as we talked about earlier like Candidate Trump putting immigration on the table in a real way in 2016 are interesting.

Because as hard and difficult as the choices are about immigration right now, they're not going to get any easier for the 500 million people in the developed world versus the 6.5 billion in the rest of the world between now and 2030 or 2040. As this century goes on, none of the world's biggest cities will be in the Western world. Nigeria will have a population bigger than the United States by mid-century. You will have cities of 80 or 90 million people that can't support a tenth of that number. Things change. We all accept that. I took my daughter to Westminster Abbey in London a couple of years ago. We found ourselves looking, standing there in front of the coronation chair, which has been used for coronations of the monarch for over 700 years.

I think since the year 1300. Back at the time, the year 1300, the most populous city on earth was Merv. Anybody know where Merv is? It's not a Merv Griffin theme park in Florida or anything like that. Anyone know where Merv is? Anyone from Merv here today? That's amazing. Nobody from North Troy, Vermont, the Gambia or Merv. Merv, Turkmenistan. It was the biggest city on earth a millennium ago. London was just this primitive little nothing on the fringe, on the edge of the map. Things change. Things change. The change that's happening to us, normally when you have a huge population growth, it's to your economic and geo strategic advantage.

The United Kingdom was the first country to eliminate childhood mortality, which is how it had the surplus population to go out and settle the United States, Canada, Australia, New Zealand and so forth. Because it had the demographic advantage. That law is changing now. Automation reckons according to researchers at Oxford that nearly half of American jobs will be replaced by the early 2030s. A scientist at Rice University believes that in 30 years, humans will become largely obsolete. World joblessness will reach 50% by 2048. The consultancy fund PWC published a report last year that forecast robots could take 38% of US jobs by 2030. McKinsey Global Institute figures that up to 800 million workers or 30% of the global workforce will be out of work also by 2030.

This is not a good time for the population of an already impoverished continent to be increasing in the space of half a century from 700 million to 2.5 billion. Boring is good as we heard today but boring is not the world we live in. I think that that was actually one of the things that drove the Trump campaign is that those at the bottom of American society were the first to see that something underneath, the ground underneath is falling away between them. If you live in the communities that have done well, the most prosperous counties in the United States are all now around areas of government like in Washington DC. Not just Washington, Sacramento in California. The most prosperous place to be is near government so that you can plug in and petition the king in his palace.

You will get a piece of the stuff that still works. Out there in the fringes of the map, the people who turn out for Trump are people who are downwardly mobile. Whose grandparents worked on functioning family farms, whose parents worked in mills and factories. Now the mills and factories are gone. Your daughter has a minimum wage night shift at the quickie trap. Your son is a small time heroin dealer because it's more interesting than working at the quickie trap. They were the first to discern that the ground under your feet is not as firm as it should be. That's how the president wound up winning in 2016. As I said, boring is good. That's true what we heard earlier. These are not boring times.

When you live in an age of mass migration, at a time when 30% of jobs are predicted to disappear within less than a decade and a half. We are living in tumultuous times, epic times. To go to something that Gary mentioned when we were talking about issues earlier, Gary said that he watches the Sunday talk shows. They're never about any of this stuff. They're about Mitch McConnell, whether his move to do this or that in the senate is worth an extra point or two for a Republican in a swing district in Ohio or whatever. They're all small game. They're all small ball. They're all inside baseball. They're all the horse race stuff. They're never about any of the big tumultuous things that are going on all around us.

We are like those. Have you ever seen the beginning of almost any Godzilla movie and everybody's amazed because something has happened and they're all standing around in this indentation in the ground. They're wondering what it is. The local police guy is there looking at it. The people are standing around looking at it. The camera pans back and goes up into the sky and you're seeing that they're standing in a giant footprint because Godzilla, the monster has stomped there and he is now stomping on to stomp other places. We're so closely focused on this day to day stuff. We have the signs of a decadent society, too. Again, one of the reasons why people voted for Trump is because nobody was talking on either party about anything that matter to them.

If you listen to the Republicans, Marco Rubio was doing all this soft focus ads. I live in New Hampshire so we don't get nice, healthy, normal ads. We just get political ads. All the ads that the rest of you guys get, we get three years of political ads while the rest of you guys are looking at normal ads for the self-lubricating catheter or whatever it is. I have no idea. I wouldn't know one end of a self-lubricating catheter from the other because I've been looking at John Kasich and Marco Rubio ads for three years. It's completely different world. Marco Rubio is in all these soft focus ads about a second American sanctuary. Where people would just like what's left of their life expectancy to be marginally less worse. Then you have these ones like Lindsey Graham.

Lindsey Graham always wants boots on the ground. America has its military forces in over 100 countries on earth at the moment. Something happened during the last campaign. I believe it was in Mali. Anybody from Mali here? No? We're totally striking out in every which way. Anyway, Mali. And Lindsey Graham said, "Whatever it was that happened in Mali was why we needed boots on the ground in Mali." It subsequently emerged that we had boots on the ground in Mali. Lindsey Graham is a terribly nice fellow but when we're in over 100 countries, it's actually hard keeping up with all the places you have boots on the ground. He then said, "I didn't know we had boots on the ground in Mali. That's just why we need more boots on the ground in Mali." Nobody understands why.

Nobody understands why. It's even in Mali's interest to have boots on the ground in Mali. Meanwhile on the Democrat side, people are hearing about niche demographics. Boutique demographics that they've never even heard of. Never even heard of. Everybody is worried about transgender bathrooms. You live in a town where the mill closed and the factory closed and it's never going to have any kind of bathroom. Again, it doesn't need any kind of bathroom. People are obsessed about micro aggressions. The more we ignore the big picture, the more we fight over the tiny, little, irrelevant, small picture. At Wellesley College in Massachusetts, there was a girl student who identifies as a "masculine of center genderqueer" named Timothy. By the way, any masculine of center genderqueers here tonight? Yeah, right.

There's a couple at the back. There's more than from Merv, Turkmenistan. That's good. A masculine of center genderqueer person named Timothy. She prefers to be referred to by male pronouns. As a result, she was told that she could no longer run for coordinator of the school office of multicultural affairs because she was now a white male and therefore, insufficiently diverse to be a diversity officer. Which is tough on a masculine of center genderqueer. She diversified a wee bit too far and diversified herself right out of the diversity business and back into the white man business and you don't want to go there. You can laugh but no one who matters in our society is laughing. That is what is so bizarre about this.

We live in epic times with big questions. We talk about smaller and smaller and smaller questions. There are natural cycles to decadence. The reason people came to America, the American dream is a fancy and romantic term really for upward mobility. If you were a peasant in 12th century Poland, your grandkid was going to be a peasant in 13th century Poland. His grandkid in 14th century Poland and so on and so on and so on until eventually, you think, "To hell with this." You get on a boat to Ellis Island. You know you're going to be living in a tenement on the Lower East side but your kids will get an education and move up town. Your grandkids will be doctors and accountants in Westchester County. Your great grandchild will be a Harvard-educated environmental activist demanding an end to all this electricity and hydro-power dams. Your great, great grandson will be transitioning into your great, great granddaughter.

That's the life cycle. That's the natural cycle. It's important therefore to understand when you're approaching the final stages of that cycle. I would like to make one final point because these are big topics. The debt is a big topic. The demography is a big topic. The automation is a big topic. It is worth considering why we don't really focus on the big topics. You can see that in the reaction for example when somebody like Trump comes along and puts something like immigration on the table.

This is perhaps one of the most disturbing things that's going on in the world today. We talk about less and less. We have a great campaign against free speech going on throughout the Western world right now. Steve Bannon who is a counselor to the President and is not to everyone's taste. Steve Bannon appeared in my hometown of Toronto on Friday. They campaigned to get his appearance canceled. To say that Steve Bannon cannot speak in Toronto was ferocious. It was only because a rather brave group stood firm that he was allowed to speak. I notice a very disturbing trend. That is whenever we have violence, we are told that we have to constrain speech. Just in the last couple of weeks, people have said some guy, the world's most inept bomb maker, sent whatever it was, 12, 14, 16 non-bombs to multiple persons.

We were told that this is a reason why people have to reign in their rhetoric and Facebook has to ban more people. Twitter has to ban more people. Then there was the attack on the synagogue in Pittsburgh just over a week ago. We were told again that violence means we have to constrain free speech. No. It's madness to say that more violence means we need less speech. More violence means we need more speech. The less speech you have, the more violence we will have because it will be the only form of expression. If you can't say things, if you can't debate things, if you can't argue your corner, there's nothing to do but actually shoot up store fronts and lob bombs through the windows. You've eliminated the civilized alternative, which is free speech.

The vigorous debate, the vigorous of exchange of ideas which is why we have been the most dynamic society in human history now for near a thousand years. The other half of the Western world is going in completely the wrong direction. A lady I have a minor acquaintanceship with because we both happen to be speaking at the European Parliament. She gave her opinion that the Prophet Muhammad was a pedophile because he married his bride, Aisha at the age of six. He didn't consummate the marriage until he was nine, which is awfully sporting of him. Don't try that in Louisiana or whatever, even in outlying parts. You can't do it here. She was prosecuted and fined about 500 Euros I believe it was.

She took the case to the European Court of Human Rights, which ruled that what she said about Muhammad was beyond the bounds of free speech tolerable in Europe. In effect, the blasphemy laws on Islam now apply to all. Around the Western world, we are in times when ... Incidentally, this is one thing that the left and Islam agree on. Not that you've said something bad and we want to argue with you and we want to debate you and we want to win the argument. We don't want to win the argument they say. We want to cancel the argument. Like the campaign to cancel Steve Bannon's appearance in Toronto. I've just laid out issues that are difficult. Because in a sense, if you purport to be concerned as to the fact that Swedes will be an ethnic minority in their own country by mid-century, you're a racist.

Because what's the problem with that? What are the grounds for objecting to the Swedish people's replacement in their ancient homeland? You must be a racist. You must be an Islamophobe. You must be a transphobe. You just be a this phobe. You must be a that phobe. I'm a phobia phobe because all these phony phobias prevent us from having honest addressing of the challenges that face us. We do not live in boring times. I wish we did. We live in times in which like a Rubiks cube, we are going to have to align automation, demography, debt and a whole bunch of other primal issues perfectly in order to get through the next 30 or 40 years. The only way we can do that is if we hold true to the core Western liberty of free speech and talk about them honestly. Thank you very much indeed. Thank you.

Gary invited me to take a couple of questions before we all go and get face down in the beer and nuts next door, wherever we're headed. Put on hold your fancy lines to try out with a cocktail waitress and focus on a question. First, this lady here.

Audience: Hi, Mark. It's good to see you back. I was here two years ago when you were here. Yeah. I totally agree with you about the free speech thing. I think about these things all the time. Constantly trying to have the courage to stand up and speak about them and to resist the temptation to just go along to get along. Thank you for being a proponent of those things and being courageous enough to stand up against C16 in Canada, the new law that they put into effect.

Mark Steyn: Yeah. The Islamophobia thing, yeah.

Audience: Yeah well and then the transgender thing, Jordan Peterson.

Mark Steyn: Yeah, pronouns.

Audience: Yeah.

Mark Steyn: The government regulating what pronouns.

Audience: Right and Jordan Peterson, people like him standing up against it. I think we have to as a people be more courageous in our everyday lives so that we can resist this. Don't you think?

Mark Steyn: Absolutely. That's really the point about the border crossing thing in North Troy. It lets everyone off the hook if you say all these issues are just so difficult that they're above my pay grade so I won't bother thinking about them. That's not how it works at all. They manifest themselves all the way down. Anybody here with young children, you know that this starts in your kid's first grade and Kindergarten classes, a lot of this stuff. That's the place to push back. I didn't really understand school boards until my kids went to school and I started going to school board meetings. They're not terribly interesting in many ways. They give you a heads up on a lot of big things. You should push back. I remember one teacher. Of course, I have an excuse because I'm a writer and a commentator and so forth.

I remember one teacher saying to me accusingly after I'd asked. He's saying, "You only come to school board meetings to get material." That's true. But everybody should be going to school board meetings to get material. Because the material is actually quite valuable. Whenever people say, "Well, we need an international agreement on this. We need an international agreement on that." That just serves the people who want to take it away from you. A guy called Herman Van Rompuy, anyone know who Herman Van Rompuy is? I'm relieved to hear that. He's an obscure Belgian. As one of these European backroom deals because the French and the Germans didn't want the other guy to get their man in the job. This obscure Belgian wound up being an obscure Belgian whose business card read President of Europe.

It could happen to anyone. If you meet an obscure Belgian and he hands you a business card saying he's President of Europe, don't necessarily laugh in his face. Because he could well be. He said when he was elected, "This is the first year of global governance." "Oh, really? I don't think I got the memo on that. I don't remember signing up for it. I don't know which polling booth I need to go to to vote against it if I happen to disagree with it." Most of these problems percolate down to the very lowest level in society. That's why they should be resisted at the lowest level until obscure Belgians come along and put them way out of anybody's reach. Thank you for the question. The gentleman behind.

Audience: Do you think there could ever be any media attention paid to the thousands and thousands of architects and engineers and pilots and firemen and policemen who dispute the propositions and the official conspiracy theory about 9/11?

Mark Steyn: The official conspiracy theory about what?

Audience: 9/11.

Mark Steyn: Whether there's any… Whether there's any…

Audience: The official conspiracy theory-

Mark Steyn: By the official conspiracy theory, you mean that we were attacked by Osama Bin Laden.

Audience: Buildings were brought down by fires.

Mark Steyn: The buildings were bought down by the planes flying in.

Audience: Well building seven was not hit by It-

Mark Steyn: Right. Right. No. No. I understand that. I'll tell you why I'm not a conspiracy theorist. Because I don't believe our government is that competent. If you ask me if the federal government was capable of blowing up the heart of Lower Manhattan because it wished to have a pretext to invade Afghanistan or Iraq, I don't believe there's a chance in hell that people who were in on that would not over the years since, the almost two decades since have leaked out elements of it all across. You know how leaky every aspect of government is. With the present, the so-called Russia thing with McCabe. McCabe is now on the outs with Peter Strzok. Peter Strzok is on the outs with this guy. They're all leaking against each other and all the rest of it.

The idea that the United States government could have organized the planning of the destruction of the 9/11 towers is just about credible. Just about credible but the idea that it would have had the discipline to keep that to itself for 17 years is not credible. I well remember listening to the tapes of the so-called FAA, basically government fell apart that day. Which is another reason not to put your faith in it because the only thing that worked that day was those free born citizens on that flight that came down in that field in Pennsylvania who didn't do what the government's stupid 1970s hijack procedures that the stewardesses on the other flights stuck to were barking out at the passengers. Government failed that day.

The tape of the air traffic controllers is very interesting. Because at one point, the pilot says, "We've got a situation here." The woman who answers him says, "I don't know what to tell you. Everybody's just left the room." If you've got a choice between government conspiracy and I have a high degree for certain kinds of conspiracy. This Papadopoulos chap in Russia, I think my old friend, Alexander Downer who was Australia's high commissioner in London. I do believe that my old friend Alexander was actually in on that in some entrapment thing. But I don't believe that the United States government is capable of taking down the Twin Towers and covering up. I would challenge you this. There are evil societies in the world. There are completely evil societies that kill thousands of their own citizens consciously.

Assad in Syria has just spent the last few years doing it. If you really believe that, that's a challenge to you. That's a challenge to you. I remember the Bushes. People drove around with bumper stickers saying, "Bush scares me." If you were in Poland in the 1940s, people didn't drive around with bumper stickers saying, "Stalin scares me. Hitler scares me." Generally speaking, if you're free to drive around with a bumper sticker advertising your terror of the leader, he's not that terrifying. But there's a challenge in that. If you seriously think that the government of the United States slaughtered 3,000 Americans on September 11th, 2001, you can't just sip your latte at Starbucks and watch the world go by. Either that means something or it doesn't.

You then are obligated to act upon that. Because that is an evil country. We're not even talking about the government. Bush is gone. Congress has turned over except for Pat Leahy and a few of the other old dinosaurs. The permanent bureaucracy to pull that off is still there and it's disciplined according to what you have said to have kept quiet about it all these years. In that case, we have a moral obligation to do something about it. The problem with conspiracy theory is people they always, "Yeah. Bush did 9/11." "Another cappuccino?" "Yeah. Bring one for me. I'll have a decaf macchiato this time." It doesn't work like that. There are seriously evil societies on earth. The idea of just the free storm of evil as a societal accessory is not credible. Let's have your question.

Audience: I won't hold against you, your comment about New Zealand actually. You didn't speak much about the arrivals from Central America. That demographic change.

Mark Steyn: Right.

Audience: My observation is that these people only turn around with some sort of very aggressive confrontation. If you saw them coming across the border from Guatemala to Mexico, what can and should the United States do to avert that? Or should it just somehow accept that this is just destiny now? That there's really no way to turn them around?

Mark Steyn: By the way, you are a documented or undocumented immigrant today.

Audience: I don't live in the United States.

Mark Steyn: You're here from New Zealand. Okay. Well when you go back to New Zealand, I don't know whether you're going tomorrow or whatever. All of you, you don't go back to New Zealand. For internal travel in the United States now, you'll go to that airport to whatever it's called, the Louis Armstrong International Airport. You'll take your shoes off. You'll take your coat off. You'll shuffle like a great herd through the TSA security theater because we are supposedly a country on Code Orange alert. Half the illegal immigrants in this country have walked into this country since 9/11. That's to say they broke into a country on Orange Alert. That's simply not credible. You can't have it both ways.

You can't be telling people. When grandma comes to see you for Thanksgiving in a couple of weeks and she brings with her her homemade pumpkin pie that you've had to be politely enthusiastic about for the last 57 years. At the airport, they test the constituency of that pumpkin pie because if it's not dried out enough, that's why they taste the pumpkin pie. It's getting worse and worse every Thanksgiving, by the way. That if that pumpkin pie is too liquid, it counts as a liquid and it will be confiscated from grandma because grandma could weaponize it and take down the plane. Yet at the same time, 11 million people walked across the Rio Grande into the country. This is again what I was talking about earlier. It's the contradiction between a dynamic energetic society and bureaucracy.

I live on the northern border. We don't have millions of people trying to walk across the northern border. We have certain unusual issues there. For example in Vermont and New Hampshire, there are a lot of people who like to play bagpipes. They occasionally go to bagpipe competitions in Quebec and Nova Scotia and New Brunswick. When they bring their bagpipes back into the country, the United States Department of Agriculture, which for some reason regulates bagpipes, I have no idea why that comes under the Department of Agriculture as opposed to the United States Department of Musical Instrument Security. They confiscate the bagpipes. And if you want to get your bagpipe back, you have to go to seven border posts away and have a lawyer. Because we've got immensely powerful bagpipe security.

My solution to immigration is that we should actually just carpet bomb Latin America with bagpipes and not a single lad and American would ever get across the Rio Grande again. These are the contradictions of big government. The bigger it gets, the smaller and smaller and smaller its focus. This is a conspiracy theory I'll throw at you. If Osama Bin Laden had only played the bagpipes while he was studying at Oxford, he would never have got anywhere near the Twin Towers. Thank you very much indeed. Party on at Brien's expense. Thank you.

Lobo Tiggre

"The Single Best Commodity To Speculate On Today"

Lindsay Hall: Next up, you're going to hear from Lobo Tiggre. He's the founder and CEO of Louis James, LLC, and the principle analyst and editor of IndependentSpeculator.com. He researched and recommended speculative opportunities in Casey Research publications from 2004 to 2018, writing under the name Louis James. While with Casey Research, he learned the ins and outs of resource speculation from the legendary speculator, Doug Casey. A fully transparent, documented, and verifiable track record is a central feature of IndependentSpeculator.com services going forward. Another key feature is that Mr. Tiggre will put his own money into the speculation he writes about, so that his readers will always know that he has skin in that exact same game. Up this morning, first off and foremost, Mr. Tiggre.

Lobo Tiggre: Thank you very much. Wow, that was really enthusiastic. I want to meet that guy. Good morning, good morning. Still people coming in. Should we be punctual, or should we give them a chance? Be punctual, okay. My kind of crowd. I have a long list of bastardly qualities I'm known for and the one that really irritates people the most is punctual bastard. It just seems to really get under peoples' skin. Now, Rick Rule kind of outed me yesterday on the panel as for what my number one commodity pick of the day is, but I'm going to go ahead and stick with it. We have a little bit of time, so it's a pretty general overview. I encourage everybody to stop by IndependentSpeculator.com for more. I hope to have some time for Q&A because I think that's one of the most valuable things I can do from the podium. I can answer questions that I can't in person. So here we go.

Most of us here are, if not official gold bugs, we're enamored with precious metals. I am extremely bullish on the precious metals, but that's not the number one play today in my book. We have seen a very strong inverse relationship between gold and the dollar. That's not rocket science. Gold is priced in dollars, tends to be opposite. But that does break down sometimes, we see gold take off. We are not seeing that now. We did see a couple days of it in October. That was very encouraging, but the dollar is still in the driver's seat. Until that really changes, until we see gold marching to its own beat, then I think we're vulnerable.

As bullish as I am on the new energy paradigm, you know, I really do believe that is a game changer on a global scale. This is a decades-long trend. The world is embracing a new energy paradigm, and I mean that literally. I think in a generation people will find the idea of burning fossil fuels for energy to be sort of medieval. They heard about that. Nobody does that anymore. I really think that's happening. That has gigantic implications for resource investors. But, that doesn't mean today. You know, Rick Rule's famous quote about not confusing imminent with inevitable, they're not the same. We have trade tensions or other issues. I think while the global economy is considered wobbly, you have to look at industrial minerals, even the best ones, as being vulnerable.

The hot metal of the year, the number one metal of the year, is vanadium. I like the vanadium story. I see it as part of the new energy paradigm. I get that the vanadium batteries are what you need to store electricity from a wind farm or a solar farm on an industrial scale, or for a city. I think the vanadium price is going to correct but come back to a higher level that will make for very profitable vanadium mines in the future. But as you can see from this chart, the metal has a history of spiking before, and for good reason. That first big one was when the Chinese changed from being net exporters to net importers. A significant change, but as you can see, the market kind of overpriced that change and then had to come back to reality.

I'm not anti-vanadium. I like it a lot. I just think it's risen a bit too quickly, too much, and I think we're going to look for a lower but higher, more stable price going forward. It's very vulnerable, I think. This chart is actually, just in the couple days since I made this chart to come down here, it's gone higher. The current peak is now higher than the previous peak, at $33.90, the last quote I saw. Okay, it's uranium. No surprise. Rick outed me yesterday. What I like about uranium is that it's irreplaceable at the moment. I just said the new energy paradigm is going to replace the old one. Uranium is somewhere in between. It's not a fossil fuel.

Clearly, it's unpopular. Nobody wants a nuclear power plant in their back yard. I think uranium eventually goes away, but that takes decades. We'll get to that. Basically, just keep that single fact in mind for the moment. It's irreplaceable at the moment. We have to have uranium. And, so you have the fundamental, and this chart, I'm not a technician so I don't have cups and handles and pennants and heads and shoulders on here, but it shows what we call carving out a bottom. The most significant things my technical friends tell me about a chart like this is that you see a series of higher highs and higher lows, particularly the higher lows are important. I find it very encouraging.

It's hard to see on this little line on this chart, but we did actually have a much higher low recently. Uranium dropped a nickel a couple weeks ago. Technically that was a retreat, a small one, and it's come back and it's going up again. I'm very encouraged that the price wants to go higher, if you will. That's a highly technical description. But it is. It is moving up. You have the very strong fundamentals, and you have the technicals. I think that's unique. A key thing to remember here is, a nuclear power plant doesn't have an option. I said that already but I can't stress it enough.

This is important because, if we're worried about industrial metals, is uranium an industrial metal? Kind of. If we're worried about the price of oil, is energy an issue in a faltering economy? Absolutely. We've seen oil retreating already. But uranium is different. You have to have it. You can't shut down these plants, and you can't mine it profitably at today's prices. The rock and the hard place are here. About those facts, fundamental facts, uranium is the cleanest, most reliable form of base load power available in the world today. Even run a river, which is 24/7 as an alternative, and if you have a very good river, it's very stable, but not always. There are times when you have unusually low water flows in rivers.

There is a big dam like the Hoover Dam. That's stable. But you can't have a Hoover Dam anywhere you want, whereas anywhere you have solid rock, you can put a nuclear power plant. It's unpopular, it's unloved, but it's necessary. As I was saying before, it will take decades to replace. People talk about thorium instead of uranium. It's safer and can't be weaponized so easily. That's true, but today's plants use uranium, not thorium, and you can't just convert them. It's not like flipping a switch. Twenty percent of the United States' electricity comes from nuclear power plants. That can't be replaced overnight, even if you wanted to, and the US is actually looking at building new plants.

China went from four nuclear power plants to 20 now they're completing. They're heading for 60 plus officially. You know, who knows high that will go, but they are going gangbusters. They have no choice. They get that they have people dying because of pollution in their cities. All these coal fired power plants must be replaced. Not should be replaced, not politically correct, it would be nice to be replaced. They have a serious problem. They know it. In typical Chinese fashion, for some things, the command and control economy is good. You decide we're going to get rid of this pollution and gosh darn it, they move. That's a trend that is huge. It meted something, and it's not going to be reversed.

The Chinese demand, I just saw this in Reuters a couple days ago, is projected to increase nine-fold for uranium. Nine-fold. That's just on the demand, never mind what the share prices of the affected stocks do. The Chinese demand is expected to increase nine-fold. Not by 2050 or 2040 or some long-term goal, by 2025. That's not too far around the corner, folks, and that's huge. India, of course, they have their own issues with pollution and they need this part of the solution... I think of basically all the bricks as being the sorts of places where the lawyers don't run the show. The politically correct crowd can't stop a necessary technical solution from providing something that people desperately need, like the lights to go on.

The fundamentals are just so strong here. Even Japan, where they shut down all the plants after the Fukushima disaster, terrible disaster. I'm not minimizing that, but Japan's an island, and they don't have oil reserves. I mean, they tried, and are now seeing that they have to bring the nuclear power plants back on and they've officially planned to bring 30 of them back on. I think in terms of that chart that we saw before, I think what defined the bottom here was really the Japanese deciding, you know what? We are going to need our uranium after all. The Japanese utilities had all their plants shut down. They had huge stockpiles of uranium, like decades of stockpiles of uranium, and suddenly they had no functioning nuclear power plants.

What are they going to do with this stuff? They decided to sell it. That's why the price of uranium is so far below the actual cost of mining, because there are sellers out there who don't care how little they get for it. They just, they don't need it anymore. They're just getting rid of it at whatever price they can get. I think the evidence is now telling us that A) they've officially decided to restart 30 of the plants, and B) the price is now starting to recover. I don't think that's a coincidence. That's a game changer. The fundamentals really couldn't be stronger. This is something that we absolutely must have, and it can't be mined at today's prices.

Uranium is now selling for the gloriously high price of $27.90 as of the last quote. That's still peanuts. It's about, the average cost of mining you see there is about $40. If you look at what the uranium projects have in their feasibility studies, you'll see that the average price quoted is, you look, it's like twice the spot price today, $60, $65. How can you quote a spot price that's twice or, I'm sorry, how can you quote a price, that your project needs to make sense, that's twice the price of the metal today? Well, they're not crazy. They're not dreaming something. The price will go up. They're telling you, this is the price that we need to build our project. This is the incentive price.

Yes, there are low-cost producers like the Kazakis, and they can do well at $40, but most of the projects that will be necessary to keep these power plants going and the lights on in large parts of the world need a much higher price. We all like to invest in resource stocks because they give us leverage to the underlying commodity. It's dangerous to keep uranium in your basement but you can own a uranium stock that will give you leverage to the underlying price. If the underlying price has to at least double for the supply to come online to meet the demand, then the stocks that have leverage to that price should do much better. I'm kind of embarrassed about Rick's question yesterday. He had us do a lot of arm-waving about how high might it go, but when push comes to shove, things can just go vertical.

We just saw that with the vanadium price. I think this is setting up for that same kind of thing. Here's the sort of bonus point here. Did Donald Trump just start a new nuclear arms race? I'm not sure. You know, he's pulling the US out of that treaty. Maybe the Russians were cheating anyway, so who cares if we're in a treaty the other side isn't abiding by. I'm not actually criticizing Donald Trump. I like criticizing him, but I'm not criticizing him on that. The point is though that if we start saying, oh, we're going to build more nuclear weapons, the previous major decline in uranium prices came from de-weaponization. You have highly concentrated uranium in weapons, and you blend that down to make nuclear fuel for power plants, and you have a lot of extra uranium on the market.

Swords to plow shares, this is literally what happened. Prices were driven down by ex-Soviet missiles being turned into fuel. That's not happening anymore, and if Trump pulling out of the treaty turns into a tit for tat and it's off to a major new arms race, and both sides are building more nuclear weapons, that's a significant source of new demand that isn't in anybody's models today. You look at any of these brokerages with their giant phone book sized research reports on the uranium market, nobody is assuming anything like this. That's a tailwind. If it doesn't happen, don't worry about it.

If it does, it could take what already looks like a setup for explosive growth, no pun intended, and it could go nuclear. Sorry, the pun was intended. Wake up, come on. Actually, I really want to thank you guys for being here. Eight in the morning on a Saturday? You guys are masochists, or you love me. I don't know what it is, but thank you very much for coming down here. I had to drag my sorry butt out of bed and I'm so happy I'm not alone. I really thought there would be like two of you. My best friends. My mom's over there, you know.

Okay, so, my teachers, my mentors, the folks who taught me everything I know. Rick's one of them. Doug Casey's one of them. Brent Cook's not here this time but he's one. Bob Bishop. That was the name I couldn't remember the other day. Learned a lot just standing next to Bob Bishop and watching him ask questions in field trips. People taught me that the ideal speculation, the ideal bet, is not an "if," like, do they have a discovery, might they have a deposit, could they get a permit. These are "if" questions. If the answer is no, I think the technical description of that situation is, they're screwed. Whereas if you have a "when" question, then all you need is a little patience, and you get to a "yes" answer, and you get to profit from your risk-taking. The ideal speculation is a "when" not "if" question.

I'll go back to what Brien said yesterday. Uranium has unfortunately for years been a "when" question. We all knew basically the facts that I just went over. We've all known that for years. The difference is that chart I showed you. The difference is that we seem to have a durable bottom now, and we have rising prices. Some people want to dismiss it, well, you know, $27, $28, that's still way below the cost of production. That doesn't help me. My project needs $65 uranium, so what do I care about $27, $28 uranium? Well, we were looking at $18 uranium not too long ago; $28 uranium is much better than $18 uranium. More significantly for us as investors is that we have seen the share prices in uranium companies respond to higher uranium.

The best part of all this is that it has a long way to go. Sorry, I got ahead of myself here. It has a long way to go. It's just starting. Going from $18 to $28 is great. We saw the stocks respond, but it has a long way to go, and you're not too late. For whatever reason, I honestly, I will tell you, I'm not the guru here. I don't know everything. I do not know why, but basically all the uranium stocks sold off over the last month when the major markets melted down. That makes no sense. Uranium is going up. No bad news from the companies. Nobody discovering an endangered mosquito on their project site. Nobody getting their permit yanked. Nothing bad happened. Only something good happened, uranium went up. All of the market darlings, your NexGens, Fissions, their prices all went down.

I think that's fantastic. When prices go down for the wrong reason, like whatever the reason was, if it was the broader scare on Wall Street and around the world, the market selling off, that's a buying opportunity. When prices go down and value goes up, that's an opportunity. So you're not too late. I think it's right here, right now, you guys happen to be at a perfect moment. If you have been skeptical and you haven't been willing to trust that this is the time that uranium really will get going, I may be wrong, but I am putting my own money where my mouth is on this. I am investing in this space. If you want to find out what I have already bought, of course you can sign up at IndependentSpeculator.com.

I have others I'm researching and I'm looking forward to deploying more here, because I see an opportunity right now. This is not just rhetoric of what I think is the best or whatever. This is where I am looking to deploy my cash right now. The final chart here is there's a sort of a bonus idea. We've talked about vanadium and companies out there are now tacking vanadium onto their asset bases. Even though I said that's due for correction, and I think that's likely to happen in the near term, that doesn't mean that I don't value the vanadium. I think if you had some vanadium in your uranium deposit or some other deposit and it didn't really matter at five bucks a pound, it wasn't enough to move the dial, but now at $30-odd a pound, that actually makes sense.

There's nothing shady about a company saying, "Oh, we have vanadium too." But if it's going to correct, I don't want to chase a pure vanadium play. I just think of this as a bonus one. I'm absolutely convinced about uranium. The "when" is now. It's already started. There's time to get in while relatively cheap. But if you can find a uranium play, and there's one out there, at least one, that has vanadium in it as well, you could conceivably get a tail wind. If I'm wrong and vanadium just keeps going up and up for a while, your uranium stock could get a boost from that. So I find that quite interesting. The one I know that's out there is Blue Sky. I mentioned that on the panel yesterday.

The other two that I mentioned previously as ones to keep an eye on, and these are freebies. I don't own that stock, and I don't own the two that I'm going to mention, but all of them have shown that they will move with the price of uranium. The other two are NexGen, NXE in the Canadian stock exchange, and Fission, FCU up there in Toronto as well. All three of those stocks have shown they can move with the uranium price. Blue Sky gives you a potential vanadium lining to it. All of them can do well. Well, I talked longer than I thought but I have a minute left. Any pressing questions? Yes, sir.

Speaker 3: What about Energy Fuels?

Lobo Tiggre: Well, okay, you're kind of outing me. I'm interested in that one. I'm researching that one. I may buy that one, so I kind of didn't want to give that one away yet. But the thing about Energy Fuels is they produced, according to their guidance, they produced most of their production for the year already. I think they're poised to retreat. I think their next financials may disappoint people that aren't paying attention. I think that would be a buying opportunity. It's not going away. I think it's a good company, and they are this month going into the vanadium business. Not, "Oh, we have it too," but they have an existing circuit that they're putting back into process so they can produce vanadium now. So, okay, there's a freebie for you. I haven't bought that one yet. I'm researching it. I think it's likely to get hammered in the near term, and I would love that. One more quick question. Okay. Sorry, go ahead.

Speaker 4: I think the panelists are bullish on the grains.

Lobo Tiggre: On the grains?

Speaker 4: Yeah. Do you like any phosphate or potash stocks?

Lobo Tiggre: Conceptually, yes. Tricky market. Every time somebody's pitched me on one of those, the stock has gone the other way on me, so I'm very, very cautious. If I was that bullish on grains, I'd probably just buy a grain ETF. I'd want to see the fertilizer prices in a solid up-trend before I jumped in. All right, thank you very much. I'll be outside if anybody has more questions. I've got business cards. You can get my email. I am happy to do what I can to help out. Thank you very much.

Matthew Warder
"Current Status Of Commodities Markets"

Robert Helms: Our next speaker is also from Energy Capital Research Group. Matthew Warder is the Director of ECRG's Research and Product Development. He's an energy, metals, and mining analyst with more than a decade of experience covering the coal, iron ore, steel, base metal, and precious metal markets. Mr. Warder co-founded ECRG after nine years at Wood Mackenzie, the final two of which were spent on the ground-up development of the company's asset by asset cost research in the ferrous sector, while serving as Principal Analyst for iron ore and steel costs.

In that remit, he authored over 150 reports annually covering individual assets, regional supply studies, and emerging trends in the steel raw materials markets, in addition to providing the spoke research and consulting services for industry clients and institutional investors.

Prior to that, Matt led various teams at WoodMac covering supply site analysis of the U.S., Canada, and Latin America coal industries with emphasis on metallurgical and thermal coal production from the Appalachian region. Mr. Warder holds a Bachelor of Science in Chemistry from the College of William and Mary.

His talk is current status of commodity markets. Let's welcome Matthew Warder.

Matthew Warder: Thanks a lot. All righty, well thanks a lot for that introduction. As Robert mentioned, I am the other half of Energy Capital Research Group. Sean had 20 slides to cover two commodities, oil and gas. I have about 30 slides to cover 10, so we're going to go pretty fast if you guys don't mind.

What I want to talk about right now, in the metals and mining spaces, how tariffs have changed the commodity sector. Fundamentals, and I'm a fundamental analyst, so I'm partial to these sorts of things, should be driving the markets. But we haven't really seen that. Currencies have the wheel now. We have an elevated dollar. We have a yuan in decline. Commodities can't decide which one to follow.

For our purposes in this analysis, we're going to look at four time frames. The trailing 12 months to get a base case sense of how things react. We're going to look at after U.S. tariffs took effect in April. We're going to look at after China retaliated with their second round of counter-tariffs in June. Then we're going to look at the past two months.

First, let's talk about the timeline here, the dark blue line is the U.S. dollar. The light blue line is the yuan. On March 1st, steel and aluminum tariffs were announced. Put into action about a week later. About a month after that, China retaliated. Then almost immediately, we saw the dollar shoot up by about 7%. The yuan declined by just only about two. That's pretty important.

Right around that time the two countries met to discuss some sort of agreement, which they reached and made an announcement. But three days later, President Trump, who had initially wanted to include a measure to prevent technology theft, backed out of that agreement for that reason. A month later, he slaps on another $50 billion in tariffs. China responds in kind. The dollar, which didn't have much more elasticity to the upside, all of a sudden goes up just 2% to 3%. The yuan just tanks and declines by 7%.

Fast forward to last month, President Trump imposed about $20 billion more in tariffs. China retaliated with $60 billion. But currencies have really kind of fallen into a range where I think the market has absorbed what has become this new normal.

For our purposes now, what we want to look at is how has that affected precious metals? I want to take a longer term look here. These are correlation charts, gold versus the dollar, gold versus the yuan. The top band there, the dark blue area is gold. When it gets up into the green, that means they're positively correlated, meaning the currency and the commodity move in the same direction. At the bottom, they're negatively correlated, meaning they move in opposite directions. In the middle, in that no-man's land, there's no discernible correlation whatsoever.

As you're all aware I'm sure, precious metals are very correlated with currencies, or at least have been for the last 10 years or so since the financial crisis. Longer term the correlation is a little bit lower, but in general this is how precious metals have been functioning, as a currency. Now, after U.S. tariffs in March during this period right here, what we saw is everything including palladium, which had long been in a bull market and not really paying much attention to currency, declined as the dollar increased by 7%.

Fast forward to post China retaliation, and that relationship kind of shifted because the dollar didn't move too much but the yuan really declined. I think the average correlation during this period of time was around .97, .96 with the yuan. As the yuan fell, precious metals fell step by step along with it, which gave the market kind of a double whammy. We've got about a 7% decline as the dollar rose. Now we got a 7% decline as the yuan fell.

Fast forward to just the last couple of months, and there's not really much that's been happening. We've had a little bit of a recovery. But as far as currency correlations, there really hasn't been much to speak of.

One of the things that we've been tracking is net shorts in the managed money sector, which are the total long bets minus the total short bets. All precious metals, with the exception of palladium, have gone net short over the past year. Now over the last few weeks, that has changed a little bit. Gold has come back. Platinum has also come back. But silver has been a really wild ride. It's gone net short not once, not twice, not three times, but a full four times in the past 12 months. It hasn't quite recovered into that net long range yet.

But since the broader markets have faltered here over the past month, precious metals are faring just a little bit better. My colleague, Sean, explained the graph on the right, the relative rotation graph. To reiterate, momentum increases as you go up on the axis. Relative strength increases as you go to the right. That divides the market into four quadrants, leading, lagging, worsening, and improving. If you look at palladium, which is right out here, it's been leading the pack for some time.

Now the others are beginning to catch up. They crossed from the bad quadrant into the improving quadrant here in October. That is generally for us, that's a at least watch it if not buy signal. What that corresponded with is a decline in the S&P 500. As the S&P 500 broke lower, all of a sudden you start to see precious metals prices improve a little bit. We'll talk a little bit more about that in just one second.

Our outlook for precious metals, investment demand needs to return. We've seen gold, silver, and platinum all go net short. But now we're seeing currency movements become a little bit less violent. Really, what we need to see is one of those super drivers, geopolitics, bad equity markets, inflation, central bank purchases, we need one of those top level headlines to drive the market and encourage a little bit more investment demand. And maybe try to drive those prices up higher than we see them moving up at least here over the next year, which is fairly slowly.

On the equity side, because the prices aren't performing really well, that leaves us a couple of options, which I think are generally positive over the longer term. Better deposits mean better investments. There's M&A still needed in the precious metals sector. Major companies are running out of reserves. We've seen Barrick and RandGold merge here recently.

Quality deposits like Ivanhoe, who has a great deposit in the Platreef in South Africa as well as a couple of solid copper and zinc deposits in the Congo. Quality deposits like Ivanhoe's eventually become takeover targets like Nevsun. If you're going to put your money on a speculative play, make sure that you find the grade necessary to turn a solid deposit into a really big mine.

Absent that, we've been looking really closely at the royalty and streaming space because on the whole over the past year, they've held up comparatively well to the rest of the sector. Right now, they're actually crossing quadrants up into the improving sector. For us, they're all on a watch list. This is companies like Sandstorm Gold, who we love, who is going to speak right after us. Wheaton Precious Metals, Altius Minerals, Franco-Nevada, companies like those basically just collect checks. They shift the operating risks onto the miners themselves. That's a business model I think we can get behind when prices are going to be fairly, or at least comparatively weak for the near term.

The bottom line here is if you take away one thing, free cash flow generation is king in this sector right now. If the gold price isn't going to perform, you at least need the companies to be able to perform themselves. We think those are probably the best two areas to look in.

Now let's take a look at base metals. Industrial metals are not as strongly correlated to currency over the longer term. This is copper versus the dollar and yuan, same scale as before. Over the past 12 months, they've become a little bit more so with the trade tensions. But in general, far less than precious metals, and slightly more levered to China.

After U.S. tariffs, however, we saw kind of a pause in the trading market. So copper, zinc, nickel, which had been doing comparatively well, all of a sudden dissociated from these moves in the currencies and hung out in this range where they didn't really break through highs. They didn't really break through lower support. They were range bound for a period of time as traders tried to assess where markets were headed.

Now post China's second retaliation in June, that changed. So as the dollar climbed, the entire sector eschewed the dollar and declined step by step along with the yuan. Now not only would we have precious metals declining along with the yuan, we also have base metals moving down as well.

Finally here over the last two months, we've seen that relationship kind of dwindle. We're back to no correlation whatsoever. Currencies really aren't moving very much. Base metals have settled comfortably into this range. Not much going on. In fact, unlike precious metals, they're not reacting to that broader market. This is the same graph as before, just with base metals. We see zinc, and copper, and tin leading the pack north. We see that same crossover into the positive quadrant in October. Here's the S&P breaking lower, not really much change in base metals. That's a little concerning to me.

Base metals fundamentals appear solid. We've seen inventory declines in copper, in zinc, and nickel, and aluminum. But really there's not much to say right now except we think they're going to stay in a holding pattern. Supply and demand are at or near deficits. That's positive. Inventories are coming down. That's positive. Currency movements have become less violent. That is positive.

But investors are leery of the global economy right now. Nickel, which is a metal that I was previously very bullish on, I think now is at some longer term risk due to Chinese producer, Tsingshan, opening up a facility in Indonesia. That facility's going to be purportedly 50,000 tons. To give you an idea of how that changes things, the market deficit in laterite ore that I projected for 2019-2020, was in the 45,000 ton range. This completely obliterates that deficit. They're well capitalized enough to do it. We're still watching the space, but we're concerned.

Recovery for copper and for zinc, we think is going to be fairly positive. But it's going to be gradual. There's not much reaction to much of anything other than economic news right now. You can see it in the equity space. There is just absolutely not much to see. Nickel's still comparatively strong. We see no risk there. Copper has turned a corner price-wise, but the major miners aren't quite reactive. Freeport-McMoRan's still in the worsening quadrant. Diversified miners, like Glencore, look a little bit better. But you get exposed to so many different commodities, it's hard to project what their price cycle's going to be. Really what we need to see is we desperately need to see some improvement on the trade side that would, in this case, that rising tide would lift all boats we think and improve markets for the near term.

Now we don't usually talk about steel too much at these conferences. But I want to talk about it here because it's more connected than you think to these other markets. Steel is a lumbering industrial commodity that is not at all in general connected to currency movements at any point in time. But after we raised tariffs in March, all of a sudden they started paying attention. U.S. steel prices rose in step with the dollar. Asian steel prices rose in step with the dollar. Think about that for a second. Steel prices in China rose in step with the dollar.

Post China, after China's retaliation in June, all of a sudden those commodities stopped paying attention to the U.S. dollar, leveled off, and now are starting to decline with the yuan. In over the past two months, unlike base metals, that hasn't stopped. The U.S. price is now starting to pay attention and correlate with declines in currencies.

Let's take a deeper look because it's causing some concern in the broader market. From a production perspective, pretty solid, up 1.5% on the year. Apparent demand up 3.2%. But growth next year is according to Worldsteel is supposed to slow to 1% and possibly worse if trade tensions continue.

Now most of these ... The tariffs were brought on a protectionist action for the U.S. We have seen a pretty positive recovery over the past two years. Plus 5% in 2017, plus 6% in 2018. But we're near our capacity utilization limit. That's not the headline number that's reported in the press. It is the functional limit of steel producers to actually match output to demand. That functional limit is around eight million tons a month. We're at about 7.4. There's not too much blood that can be squeezed from this turnip as we see it right now.

More concerning is without an infrastructure bill, contraction is likely for the steel market. Auto sales have begun to decline. The National Automobile Dealers Association called for peak car sales in 2016. They got a little bit wrong in the sense that Hurricane Harvey hit in 2017. The insurance buys afterwards caused a peak there toward the end of the year. But in general, peak to peak here, we've seen a 4.5% decline. That's bigger than anything we've seen over the past few years.

Housing is also starting to show some weakness. Four straight months of new home sales declining, four straight months of new home starts down, to the tune of about 22.4%. Now if you add those two together, that's a full two thirds of the domestic U.S. steel industry. Anything that happens in these markets can make a serious move in terms of demand.

Now we have these inflated steel prices as a result of these tariffs to the tune of a 55% rise to a 25% tariff, which is just mind boggling to me. Not surprisingly afterwards, we saw steel tariffs announced in March, and inflation took off in April, May, and June to peak at around 2.9%. Causing Chairman Powell to add another rate hike in 2018, which iteratively affects the housing market, which iteratively affects precious metals prices. So although you don't really think of steel as a commodity that can affect all these other things, it's really more connected than you think these days.

Inflation also puts a cap on how well the industrial sector can do. It essentially wastes the tax cuts that we passed last year because the middle and the lower class are spending more money on the same stuff. While base metals and precious metals markets, I think, have a pretty elastic upside once these trade tensions dissipate, steel prices not so much.

Part of the reason for this bubble, which you can see here, U.S. prices on the top, Asian prices in the middle, is that we cut off our NAFTA partners in Canada and Mexico when we didn't have the capacity to make up that demand ourselves. Because we were unable to ramp up and capture share, the price went up. Push the forward curve into backwardation we got up to about $1,000 per short ton.

Now ironically, with Chinese exports at $650 a ton at that point in time, it was cheaper to buy steel in China, ship it to the U.S., load it on a train, take it to a tube and pipe facility, fabricate tube and pipe, and take that to your project, than it was to buy domestically. I don't think that's what the administration had in mind when they initiated these tariffs.

Now we see U.S. supply tighten is transitioning into surplus. We see prices weakening. Our expectations of these here are 750 to 800 for Q-1, probably worse in Q-2. The other thing that we need to watch now are Chinese steel margins. Historically, the margin at a Chinese steel plant on the coast is around $4 a ton. Right now, it's about $140 a ton. The prices, I think the spread to October is around $100 right now. There's a lot of play at stake here in China.

Raw materials costs are creeping up. Margins are getting squeezed. China's curbing production again this winter purportedly for environmental reasons, but also we think to prop up the price somewhat.

Exports are down over 50% over the last two years. As much rhetoric as you've heard about Chinese steel exports, look at that chart at the end. That is market decline from just two years ago. Because of all this, what's happened is that China has turned inward. They're now satisfying their own demand for one belt, one road, and that makes them a pretty decent proxy for their own economic health.

If China demand slows at all, you're going to see it in terms of either more production cuts in steel or falling steel prices, one of the two. That's important for us because any weakness in China bleeds into these other sectors. Net coal market's tight. Iron ore market is a little bit tight, but it's range bound. Steel demand falls, so do those prices.

We know that price inflation in the U.S. is coming to an end. We know that Asia Pacific markets are in decline. We know that high margins in China means there's a lot of play in that price. Then if Asia Pacific prices fall, we now know that U.S. prices must come down to meet it, or else incentivize imports.

If you look at the equity space, there's really just not much here. The U.S. steel was the biggest initial benefactor from tariffs. But they've given back most of those gains as Wall Street really caught onto this trend in the middle of summer.

On the momentum side, we see all those integrated blast furnace producers. U.S. Steel, ArcelorMittal, AK Steel, they mostly produce flats.

Flat steel is connected to the auto industry, which is in decline. It's connected to white goods for housing, which the housing market is also beginning to weaken just a little bit. If you're going to make a bet in this sector, what I would suggest that you look at are EAF producers who produce rebar. That's going to be companies like Nucor, Steel Dynamics, and Gerdau.

The other added advantage they have is that they can flip a switch and turn the facilities on. Whereas, blast furnace producers can take months to ramp up and ramp down. They're unionized operations. Takes a long time to react to anything in the market.

Raw materials producers are doing fine for now. But as we said, it's pretty connected to steel demand, so it's hard to say how much longer that's going to last in general. I think they'll probably market perform to declining from here on out.

I don't want to leave you with a bummer. I do want to talk about a market that I think does have a positive outlook here over the coming years, and that's uranium, really, swear. A couple of things have happened over the past year that have really helped. Cameco shut down the McArthur River mine, the largest in the world. And KazAtomProm took 20% of production offline for three years. The market's now likely under supplied. We've seen a 40% run-up in prices. That's very good.

Unfortunately, that's still not enough for producers to make money at $28 a pound. There's only about four to six mines in the world that make money at that level. To meet 90% of the world's demand, the price needs to be at $45. I know you guys have heard this story I don't know how many years coming to this conference, but with the production cuts, we think that this time there's actually something to it. The production cuts put the market in deficit, we think this year, possibly early next year. Inventories are going to start to come down, we think, over time. More importantly, when that production is reintroduced at a later date in 2019, 2020, we don't think that supply is going to be able to get back up to meet that demand line.

In addition, there's some other entities that are coming out to soak up some pounds out of the spot market. There are a number of contracts that are rolling off over the next couple of years that will need to be contracted at higher prices or else they risk putting their suppliers out of business.

Supply cuts plus demand growth is a pretty solid outlook. We see prices getting up to test $30 in early 2019, probably up in the 45 range by the beginning of 2020. It'll be a gradual move that moves with the seasons, but we're generally pretty excited about it.

If you guys have any questions, Money Map Press's booth is booth three right outside. I'm going to be here all week and I love talking about the resource markets. Thank you guys so much for your time. Look forward to talking to you again.