The Solari Report

July 12, 2018

2nd Quarter Wrap Up The Equity Overview and Rambus Chartology

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C. Austin Fitts: Hello and welcome to The Solari Report. Today is Thursday, July 12th. I am Catherine Austin Fitts and I'm delighted that you could join me for the 2nd Quarter 2018 Wrap Up: The Equity Overview and Rambus Chartology. If you haven't checked out the web presentation for the 2nd Quarter 2018 Wrap Up, take a look at the charts that we have for the close of the 2nd Quarter. You can see the full year in those charts. In addition, there is the 2nd Quarter Rambus Blockbuster Chartology, which he finished early this week. It's another very insightful analysis from Rambus. I'm deeply appreciative for his support in making these available to our subscribers. As you know, I think Rambus is the best natural technical analyst I've ever worked with, so it's a pleasure to have his materials as a resource.

Let me talk a little about what the charts say. I'm not going to walk you through them, but you can skim through them at your leisure.

The stock market has been consolidating this year after reaching a high at the beginning of the year. I remember back in 2011 thinking, "Could it possibly hit 1,300?" Well, the S&P is over 2,700, and so it's been quite a run. Rambus at one point called it the 'most hated bull market in history'.

The US stock market is up for the year, and it's over-performing the other markets. Many of the global markets are down. In part, this is thanks to Trump's trade wars and, of course, the problem is that if it gets worse and gets out of hand, everybody is going to suffer.

If you look at the market, it's remarkable how hardly any of the sectors are strong. There are a few sectors that are carrying the whole market, tech being the leader, but energy as well. There is also pharma, consumer discretionary, and defense. US real estate is finally coming back and is in the black.

Let's just look at the current close – the July 11th close. Consumer discretionary is up almost 14%, crude oil is up 16.36%. That is the ETN. Aerospace is up 4.04% and the U.S. real estate ETF is up 2.25%. The homebuilder ETF is down 8.42%, but the overall S&P is up 4.63%. It's amazing the incredible financial steroids it has taken to accomplish this.

China and Europe are down, so the China large cap ETF is down -7.46%. Their small cap is doing better; it's down -3.41%.

India is down 5%, and let's look at Europe. Germany is down 6% and the European VGK ETF is down 2.23%. So, again, the US is outperforming both the emerging markets and Europe.

If we look at fixed income, it has come back a tad, but it still reflects the higher interest rates. Again, the Fed is following the market higher.

The intermediate treasury ETF is down almost 2% for the year, and the long treasury ETF is down almost 2.25% for the year. That is an improvement over where it has been. It has come back a little.

The predictions from many that we would see explosively higher interest rates are not coming true. There are a variety of different forces – both demographics here and in Asia and Europe, around the entire Northern Hemisphere –that are very deflationary. Clearly, technology and information technology are very deflationary.

Let's just look at some of the key points that Rambus made in his analysis, which I think are very important. One of the things that I love about Rambus is that he always steps back and looks at the long run. He really helps you get perspective away from the noise.

The first point that he makes is that the US dollar is still in a long-term bull market. I absolutely agree with that. If anything, the trade war so far is helping to support the US dollar and stock market over-performance. The danger, of course, is that you get into the US dollar bear trap in the emerging markets. We've lent massive amounts of dollars globally, and China and the emerging markets have really levered up with dollar borrowings. Now that Trump and the markets are making it harder to get those dollars, you could run into serious liquidity problems. Those liquidity problems could turn into a problem for everyone. If there is a risk to the environment that I want to keep an eye on, it's that.

As I said, Rambus puts up a chart of the US industrials and calls it 'the most hated bull market in history'. It's rather funny.

He had a point that I want to stress. I'm going to read exactly what he wrote because I couldn't agree more. It's very important and not sufficiently appreciated by many of the market commentators whom subscribers tend to listen to:

> I would like to finish up this quarterly report by looking at four FANG stocks.

FAANG, of course, is Facebook, Amazon, Netflix, and Google.

> If our secular bull market is going to move higher, we will have to have some strong legs under it to achieve much higher price objectives. As we've discussed previously, I believe the secular bull market has to do with new technology that is going to drive this secular bull market a lot higher over time – areas like biotechnology, artificial intelligence, and robotics, just to name a few.

Those are not the only the companies that do that, but the companies that successfully apply those technologies to their core businesses. As I've said before, I think the real fight with China is not over steel, or soybeans, or any of the things that the fight is occurring on; I think that the real fight comes down to who is going to be the tech leader. Right now, the US is very concerned that China could overtake it in the tech area.

When you look at the importance and the power of technology to the US over-performance, it can't be stressed enough. What power and superpower model comes down to are tech leadership, naval leadership, and space leadership. All three are 'must-haves' if you're going to continue to be the leader. If you watch Trump, he is very concerned about all three. It has to do with the hiking of the military budget, some of his fisticuffs with technology, the tech leadership in Silicon Valley, and, clearly, the announcement of the space force and Pence leading the 'space group'.

It's also the reason you are going to see continued immigration of people with high IQs into the United States. There are really two immigration stories that I am going to be talking about more in two weeks when I discuss the *Rise of the Asian Consumer*. The reality of the problem is, when you bring capital and manufacturing and other capabilities back to the US, there is not going to be a labor constraint because you are going to immigrate the people you need in the sophisticated areas if you don't have them here.

After Rambus did this report for us, he also started on a subsequent review of the bond market. One of the things that he pointed out is a sign of deflation, that there shouldn't be explosive higher interest rates, or what the charts are saying. I would note this week a comment from David Stockman which I tweeted about, "Twenty-two countries with negative 2-year real yields: Good thing central bankers know what they are doing!"

He listed approximately 16 that have negative yields, but then he looks at their CPIs and points out that the real yields are negative. It's very significant.

In fact, if you look at what he has for the CPI, he is using government CPIs. The real CPI is higher and is worse than he is suggesting. There is no doubt that the harvesting of labor and certain fixed income, particularly in the intermediate to long area, is one of the greatest sources of subsidy keeping this game going.

If you haven't looked at the Chapwood Index, I would strongly recommend you do so. I have recommended it a couple of times, (and I'm trying to get the person who prepares it to come on The Solari Report) It is presented on a website that tracks the top ingredients into household budgets. If you look at their analysis of what those numbers have been for the last five years and the price increases for the last five years, inflation in the United States is running from 8% in the low inflation areas to 13.5% in Silicon Valley. That absolutely fits with what I'm experiencing and hearing about across the country.

In the newspaper this morning (in Bucharest), I think that the Romanian government is more honest than ours. They said that inflation was running at 5%. Here is what is interesting: Food prices are rising at 3.8% and non-food prices are rising at over 7%. I suspect that energy is part of that. Services (and I would assume labor as well) are rising at 2%, which basically means that you are financing the game by squeezing labor. It's another reason I don't think that inflation will explode and bring significantly higher interest rates, although I do think that rates will go up further.

Where does this leave gold? Rambus shows why the charts say that it is uncertain. He basically says that it could go up or down. We are at an inflection point, so it is uncertain and I'm not as bullish. I think that gold will not be strong. We have too much strength in the US and the US dollar from tax reform, repatriation of capital, and new technology. So, the odds are very good that most people will feel that the system is working, and that is not going to be good for gold – certainly in the shorter intermediate term.

I am in Bucharest with Jason Bawden-Smith who walked me through a great analysis of what the obstacles are to continued US over-performance. I would like to address those because, unfortunately, I think that the US's ability to deliver steroids into the equity markets is much greater than other people think. I wish that I was wrong, and they were right, but let me just walk through it.

First of all, **Rising Interest Rates**. Rising interest rates are not going to be a problem for the major corporations. Traditionally, the stock market can digest 100-150 basis points a year with no problem. Right now, we are running at about 100 basis points rise per year.

This is particularly the case when government is as friendly supporting contracts and regulations. I talked in the last Equity Overview about the fact that Jeremy Grantham had thrown in the towel and recognized we have a Congress and political establishment combined with a corporate establishment that is basically overly friendly. Instead of having free market, we have a situation where, if not monopolies, we have significant oligarchy of a kind. Unfortunately, that game is crowding out free market players and squeezing the free market players. It's one of the reasons productivity is not increasing.

The reality is that it means that corporations can deal with a fair amount of leverage and manage rising interest rates, which won't make a big cut to their profits.

Rising interest rates are not a major problem for the game so long as the corporations have income, which I am going to get to because it underscores my fear of 'piratization'.

The second thing is **Supply Constraints**. When you bring back this much capital, when you reduce taxes and encourage significant investment, not to mention if you are bringing back the financial coup money, you run into real supply constraints of land, inventory, and labor. The reality is that most market commentators don't understand the extent to which superhuman efforts can be used to deal with supply constraints.

You need several hundred thousand acres to expand Silicon Valley? No problem! You have the Santa Rosa fires. You need a high IQ work force – significant people suddenly back in the United States. No problem! You simply bring in significant people through immigration from Asia who are educated and eager for the opportunity

When I was in Silicon Valley a month or two ago, there was no doubt that everywhere I went to it looked as though the Chinese and Asian population had increased about 10-15% from the last time I was there in 2017. Don't be surprised as we swing back operations if we see significant immigration.

Another constraint might be real resistance on the part of American leadership to play this game. If you watch the issuance of options to corporate leadership and then the stock repurchases, more than a few people have noted the fact that it is really criminal to the extent to which equity has been drained off by a combination of companies borrowing money to buy back stock. This is driving the options of the insiders and the value of the options up, and you would think that the pension funds would say something, particularly given how underfunded they are. However, that is not happening.

One of the big swing questions in all of this is: How much of the missing money is available for reinvestment or the money on the bailouts? If you look at the financial coup money, potentially there is an extraordinary amount of money to be reinvested, depending on where and when.

You could argue that it has already been invested elsewhere so it's not available, but it's a big swing question. If some funds are available, it's going to be far more than the repatriation of corporate cash.

The other questions are: Where is the real income going to come from with productivity not rising in the economy? Where are all of these companies going to get their profits from? That is one of the reasons I am worried about 'piratization'. Another is, if you look at the early indications from the Trump Administration and the latest White House re-engineering proposal, they are clearly working their way to major privatization. I think the indications that they have given us in the data documents such as the White House re-engineering proposal, are the tip of the iceberg.

I think it's very important when you look at the equity markets, and you assume that the bull market is 'long in the tooth' and it's going to go away, don't underestimate the ability of the system to deliver steroids – whether it's the financial coup proceeds, new technology or the ability to hold up corporate profits with privatization.

I want to revisit the fundamental model of what is happening. For those of you who haven't read my online book, *Dillon Read and the Aristocracy of Stock Profits*, I strongly suggest it. It was designed as a case study to help you understand the basic model. The basic model goes something like this, and this is a tornado that has been working its way through our economy for the last 20-30 years, particularly since the early 1990's when the WTO went into effect:

The politicians do something that cause stock prices to go up or company PEs to go up or both. So, whether they pass a rule, or they issue a new contract, the company's profits or their PE goes up, and therefore, their stock goes up. That creates capital gains for investors. The capital gains take a portion of those gains and kick them back to politicians as political contributions. The number one source of political contributions is capital gains on both stocks and real estate, and 'around and around you go'.

We're watching Washington and Wall Street in a dance where Washington, basically, engineers the rules, and engineers the contracts, and engineers the purchases, and engineers more and more. We have a giant sucking sound of more and more of the economy working through the Federal budget in a way that props up the stock market. Again, *Dillon Read and the Aristocracy of Stock Profits* was designed to be a case study to help you understand how it works.

Part of the problem is that it makes the economy weaker because productivity is lower than it would be if you had a free market process instead of a centrally controlled engineered process. Competition over time dies. That's why I thought it was so relevant that Jeremy Grantham finally threw in the towel and admitted that much of this, and a higher stock market was being engineered and pumped up through Washington.

Needless to say, if that process causes the stock market to be held up with steroids, the quantitative easing that came following the bailouts and as part of the bailouts, was one of the most massive deliveries of steroids that we could ever possibly imagine. It was actually greater than anything I could imagine.

What this has done is left us with, essentially, a privileged class, which is happy to execute all this for extraordinary compensation. If you look at our executive pay to labor ratio, it's significantly higher than other countries. The reality is that it's also supplemented by prison labor (read aka 'slave labor').

The massive quantitative easing is over, and one of the potential supply constraints is that the Fed is reversing that quantitative easing by trying to work down their balance sheet and raise interest rates, but here comes Donald Trump with massive fiscal stimulus in the form of military budgets and tax cuts. That's not enough because how are we going to get income? I think it's going to be 'privatization/piratization' and government regulation and enforcement that forces more small business market share into large corporations.

Let me offer you a couple of things that you need to understand. One is that there is an extraordinary opportunity in terms of re-engineering government that has never been taken advantage of. When we have watched corporations re-engineer aggressively in the United States, – more aggressive than in Europe, which is one of the reasons Europe's quality of life is higher – it reflects the integration of new technology and downsizing employment and increasing corporate productivity. I think the impact on wider productivity has caused it to drop dramatically as a result of this vicious cycle when government subsidizes a considerable amount of corporate profits.

There was an extraordinary opportunity to re-engineer government and government employment over the last 30-40 years. If anything, government employment has been rising, and it doesn't need to be. We have massive amounts of layers of government. So why do we need to send $1 to Washington and then have it come back in a very 'paperful' state and local process?

I've told you many times about the fact that when I became Assistant Secretary of Housing in 1989, I did an analysis of the programs that I had authority for at that time. $0.30 on the dollar went into the local community, and $0.70 went to a whole layer of Federal, state, and local intermediaries. My analysis showed that when those programs had started, $0.70 on the dollar went into the local community.

Now with technology, it should have risen. It should have gone from $0.70 to $0.80 to $0.90, and instead it has gone the other way.

It has dropped to 30%, and that is the cost of a negative return on investment of government money being used to prop up employment in a variety of ways, as well as prop up corporations.

If you and I were going to say, "Okay, let's truly re-engineer government, and let's truly privatize things that it does make sense to privatize,"-there are things that it does make sense to privatize. There are many more things that should be back-sourced and in-sourced into government like all the payment mechanisms. There is a reason $21 trillion is missing, and that is because you have private corporations running the accounting and payment mechanisms, which is a serious breach of any sane internal financial controls.

If we were going to truly re-engineer government and make it productive and efficient and privatize that which makes sense to be privatized, there is an extraordinary opportunity to massively increase the productivity of government performance. If anything, that would take money away from corporations because corporations are being massively subsidized. Then the reality for the rest of us is: If we are going to dramatically improve productivity within the government sector, how are we going to shift employment? This brings us back to the issue of, not just re-engineering government, but automation of many different sectors because we are going through a period of accelerating change brought about by automation.

I think I saw a number that said four million people supported themselves in the United States by driving trucks and cars. Basically, the premise in five to ten years is that all four million of those people will be out of work.

What is interesting is, if you look at the size of the true opportunity, let's just presume that what is actually going to happen is not the true opportunity, but the kind of 'piratization' that we have seen over the last 20 years. If you look at all the different symptoms that Washington is in a state of fever over all the money coming back and the possibility of the 'piratization' that is in the President's White House proposals, it is significant. For one thing, he is proposing to privatize Freddie and Fannie. So essentially, the Federal piece of the housing market can be flipped in very astonishing ways, particularly if they throw in some of the other housing GSEs and operations.

Let's just assume that it is going to be 'piratization'. The amount of money and mega deals are going to be extraordinary. The problem is that once it gets going, if there is no one to stop it or oversee it, we're talking about the kind of fever and fraud that we saw with the housing bubble. It could even be worse because what you are then going to get is a 'gutting' of operations.

Why do I think it's going to be as bad as all that? One of the reasons is the disinformation is off the charts. I have never, in the last 20 years, seen the extent of the disinformation, and I absolutely calibrate the level of the disinformation to the extent of the need for stock market profits to come from privatization and other steps to use government to shift market share from small business and proprietors into corporations.

What I'm saying is that if you look at what it's going to take to continue the bull market between here and massive integration of new technology, it's going to take 'piratization' and covert warfare.

Those forces are lining up to make that happen. To get it to happen, they need to do a couple of things.

The first thing that they need to do is to 'gut' the civil service. If you look at the President's proposal, one of the things that it proposes to do is rip up the US Office of Personnel Management, known as OPM. We are watching unprecedented disinformation attacking the Office of Personnel Management. You had this group who came out with a big attack on the SES, which is the leadership within the civil service. Then they attacked me because I said that they were wrong. In fact, I think that what you need to do is to make the SES stronger and put them in charge of payment and accounting. If anything, you need to go the other way. Of course, then they came out and said that I had never been Assistant Secretary of Housing, which was kind of odd.

We just had Martin Armstrong come out this week with a new statement that the deep state was, in fact, the civil service, and it all went bad after 1999. Of all the lies I've seen on this topic, this was about the worst one. The deep state goes back far deeper and greater than the civil service. The civil service, or a portion of the civil service, is only a part of it, and it is far from the most powerful part of it.

If you read Prouty or David Talbot, you will understand what the deep state is and why Martin Armstrong is telling, not only lies, but outrageous lies. I'll leave it to you to guess whether he's incompetent, gullible, just simply entertaining, paid to be unethical, or a combination. Who knows?

In addition, we now have David Wilcox and Robert David Steele saying that Trump has gotten the missing money back. It couldn't be more ridiculous. I've had a couple of great allies say, "You know the missing money is back when A, B, C, D, and E happens," but let me tell you when you know that the missing money is back. You know that the missing money is back when the Federal debt is retired. You know that the missing money is back when the pensions are fully funded. And you know that the missing money is back when you and your family have received $65,000 per person returned of your capital. And you know it is back when all the underground bases, space ships and gold are on the federal balance sheet.

Otherwise, if you are hired with capital that has been repatriated or your house is purchased with capital repatriated, you're just being bought with the money that was stolen from you. That's not getting your money back. You just can't believe some of the things that they've said.

Now we have a person who is even worse named David Degraw going around trying to claim that he is the leader of the missing money story. Who knows where he is going to take it? I keep getting various people emailing me about the shenanigans that he has been a part of in the past.

Then we have other people jumping in – Roger Stone, etc. There are more, and I will talk about some of this later in Money & Markets.

The reality is that if you're going to do this kind of 'piratization', essentially what you are talking about is the people who lead the financial coup coming in to get the last round of assets that they couldn't steal out the back door; they have to steal these out the front door. So, the last thing they want you realizing is that they are, basically, buying a variety of different assets or situations or commanding certain situations with money that has been stolen from you. It's essential to try to reposition the missing money story.

The last thing that they want to do is to be held accountable to return that money. The extent of the disinformation shows that they are truly afraid of it. If we use the missing money story as leverage on the pension funds, they should be seriously afraid of it.

There are different spins that came up. One is that Trump got the money back, but the other thing is, "The Pentagon has been seriously bad about accounting, and so trillions aren't really missing. It's just a few billion. It's not real."

Of course, I believe the obvious reality of all the hardware flying around the planet. However, the disinformation is very significant. This tells me that this relationship between re-engineering the government and keeping the stock/bull market going is very real. Normally, you don't have this kind of fever in terms of people getting excited about the privatization combined with this level of disinformation unless you're talking about the kind of movement of capital that we saw in the 1990's.

The last time that we saw disinformation of this extent and professionalism pertaining to whom is really behind in financing and overseeing this was in the 1990's when the housing bubble began and globalization began.

Another phenomenon that is part of this that I want to mention is the growing move of ESG (Environmental, Social, and Governance) or responsible investing. The quote that I put in the commentary was:

> The demand for environmental, social, and governance (ESG) or responsible investing (RI) is growing at a rapid pace with nearly USD $23 trillion of assets being professionally managed under RI as of 2016, an increase of 72% since 2012… Responsible investing has gone mainstream, driven by two major global trends: The increasingly material financial impacts of mismanaging ESG risks, and the rising decision-making power of millennials with their strong desire for sustainable investing.

This is from two analysts at Jeremy Grantham's firm, GMO, in a study that they wrote in March of 2018.

Why do I bring this up? People are really angry about the corporate model. If you look at the extraordinary waste of the corporate model to date – both through the government subsidization process that I'm always talking about or the environmental damage because ionizing the atmosphere is very damaging – people are really furious. The question is: How do you make corporations look good?

There is no doubt that the millennial generation is willing to hold institutions individually accountable. I see much more willingness of the millennials to shun or walk away. Sometimes it's misguided by some rather clever politicians, but the reality is that I think it's sincere.

The establishment understands that if they want to run the world through corporations, they are going to have to find a way to make corporations either be better or look better. It's a topic for another day whether or not this is anything other than another whitewash, but it is serious.

One of the reasons I am interested in it is because I am working on screens. We've launched them in my other company. One is called 'Solari World' and the other is a space screen. We haven't announced them. We will probably announce them this fall before the end of the year, but they are operational now.

One of the reasons I wanted to do a Solari screen is because I'm so sick of seeing what I would consider to be whitewash screens. Somebody needs to do a real screen.

If you are interested, we wrote a great 2016 3rd Quarter Wrap Up on Investment Screening: *Can We Filter for Productive Companies?* I believe that the answer is 'yes'. So, whether it's whitewash or real, expect ESG to grow.

What does this all mean to you? This is what it comes down to for me. Despite extraordinary and accelerating change, I want you to have a free and inspired life. I am going to talk a little about Americans and what this means.

Employment is going to be good in selected sectors. If you are in high technology or defense, there is going to be plenty of demand for engineers. In space, there is going to be plenty of demand. If you are in the right sectors, there is going to be plenty of demand. If you are in the wrong sector, it is going to be dreadful.

You need to make sure that your skills are relevant. There are going to be small business opportunities, but you are going to have to be very, very savvy, and you are going to have to be extremely high skilled. This is a time when you have to keep up with technology. Whether you like it, or you love it, or you hate it, you need to understand it – AI, block chain, and robotics. It's a high-tech environment, and it is accelerating. You need to know what tech is going to do to you.

If you are a truck driver, then you need to understand that you have three to five more years, and then you need to take your skills and be prepared, by that time, to have something else to do. I think there will be plenty of opportunities, but we all have to have extraordinarily high learning metabolisms.

In the equity markets, be prepared for a correction. Don't assume that the bull market in equities or the dollar is over. If I'm right, there are plenty of steroids that can be brought to bear on this.

I keep saying it year after year, but we are way overdue for a much bigger correction. The way to protect yourself on the downside is to have a hedge strategy.

Watch out for getting in the way of the supply constraints. I hate to say this, but if these people need several hundred thousand acres where you are, your house could get burned down. That is the way of the world.

I got a message from somebody saying that someone had posted a comment on their website that a friend's house had burned down in California. Apparently, the fire started, and lo and behold, the electricity in the fire hydrants for the water pumps mysteriously did not work. Is that true? I have no idea. I think we are looking at a corporate establishment and an investment establishment that is simply going to apply the 'Nike' provisions of 'Just do it', and, basically, if they can create natural disasters, and if they can engage in weather warfare, they are going to do it. Not only in the third world; they are going to do it in the first world – in our world. So, watch out for getting in the way of the supply constraints.

Watch out for liquidity issues coming out of the emerging markets if we do get a serious bear trap with liquidity issues in the emerging markets. If anything, there are going to be good opportunities. Remember that the long-term growth is still better in the emerging markets, and I think that is going to continue. They have less steroids; their companies are a lot less pumped with steroids and ditto in Europe.

I think that the real risk is the swamp speed traps in war. I talk about white-collar speed traps. I think the way the 'powers that be' in the United States are going to deal with political opposition is they are going to create white-collar speed traps from sea to shining sea, audits, and regulatory compliance. A couple of weeks ago, we had a wonderful subscriber who is an attorney, write in and say, "The average American commits three felonies a day and doesn't even know it." I'm very concerned about the white-collar speed trap.

I posted a story recently about a 20-year-old in Ohio whose girlfriend was 17. Apparently, in Ohio it is legal for someone who is considered an adult for purposes of having an affair if they are over 16. So, it is perfectly legal for this 20-year-old to have an affair with his girlfriend who is 17. They 'sexted' each other pictures that they were taking in the nude, but apparently that is a Federal offense because you have to be 18.

The 20-year-old is being indicted by the Feds, and he is basically having to defend himself against a charge, which could put him in jail for 30 years. That is what I call a 'white collar speed trap'.

'Piratization' fever is underway. If you work in government – whether it's federal, state, or local – you need to assess what it will mean or do to you. It gets very granular extremely quickly as to what it will mean. For example, Trump is saying that he is going to privatize Freddie and Fannie, and he is going to privatize the post office, and he is going to rip OPM in half. You need to take a look at what that is going to mean if you work in government because I think government is in for some significant changes.

That includes governments where there is a real tension between paying the pension funds and paying the current labor. The solution will be significant downsizing or more 'piratization'.

Pay down your debt. This is an environment where I don't think that interest rates are going to be explosive. At the same time, I think that it is going to be harder to get a yield on your investments. If you look at the cost of consumer debt, it's very expensive vis-à-vis what you could do on investments. Generally, you want to absolutely pay down your debt.

Finally, I continue to be long-term bullish on gold for all the reasons that you know – the reasons the Chinese are hungry for it, and the reasons the Russians are hungry for it, and the reasons the central banker buyers are hungry for it. As an investment category this year, I don't expect it to even touch what the successful application of technology of real operations is going to do.

In fixed income, I believe the bull market is over, although Rambus is making a good case that it might not be. I think the bull market is over, and you have to be very, very careful about where you are in that market in terms of credit quality and maturity.

In 2008 during the financial crisis, we saw that market drop. The fixed income intermediate and long bonds dropped as much as 50%, so you want to be very, very careful about quality. The quality issues are much greater now, so you want to be very careful about quality.

For now, if anything, you want to float up with the short-term interest rates. You don't want to go long and watch your securities drop or your bonds drop in value.

Be cognizant that we are in a modestly rising interest rate environment, and you would rather float up then get the higher rates by going long. However, you want to really be concerned about quality.

That's what it means to you. There is a great deal of change and plenty of opportunity, but it's also easy to get clocked, so you want to pay attention. It's one of the reasons I constantly emphasize to keep your overhead down and feel free to invest in your own knowledge and your health – the best investment you can ever make. They can destroy your business with a white-collar speed trap. I can't say that they are unable to destroy your mind because they tried to destroy mine, and I am aware of the tools that they can use. Even so, the reality is, if you can walk away with it in your mind, it is a great investment.

It's going to be a period of change. Watch for the 'piratization' fever. I think that if you haven't been a part of privatizations; I've done literally billions and billions of them. If you haven't been a part, it's hard to understand how it can roll through the economy like a financial tornado. There is no doubt that a major financial tornado is building, and I think that many of the constraints on that tornado are easily blown by. That is the message that the Santa Rosa fires, unfortunately, have had.

Those are my comments on the Equity Overview and the performance of the markets in the first half of the year. My expectation is that if anything, given the trade wars and a variety of the uncertainties on the international scene, we will see very choppy markets between here and the 3rd Quarter Equity Overview.

What we will see are many decisions made that will inform how Washington proceeds with some of the plans underway. So, I would expect when we speak next in October, it will be very interesting to see what is unfolding in the world of Washington and 'piratizations' and the 'piratization' fever that I am certainly seeing emanating and waving out of the DC beltway area.

Ladies and gentlemen, thank you again for joining me on The Solari Report. Based on what we are seeing in terms of 'piratization' fever, I have to say again, "Don't worry about whether or not there is a conspiracy. If you're not in one, you need to start one."

Ladies and gentlemen, good night and good luck.

MODIFICATION

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

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