



# The Solari Report

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October 17, 2019

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## 3<sup>rd</sup> Quarter Wrap Up - Equity Overview & Rambus Chartology with Catherine Austin Fitts



Catherine Austin Fitts

## 3rd Quarter 2019 Wrap Up – Equity Overview & Rambus Chartology

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### **Summary:**

This week is the 3rd Quarter 2019 Equity Overview with the quarterly blockbuster from Rambus Chartology. Check out the web presentation [here](#) for the quarterly financial charts and Rambus Chartology

### **Ten Key Points:**

1. (Page 5) We are in a global bull market for equities.
2. (Page 6) The Bull Market has been the beneficiary of falling interest rates and rising levels of sovereign debt and central banking bond and stock buying.
3. (Page 6) The US Stock Market continues to outperform Europe, Asia, and Global Markets.
4. (Page 7) That outperformance of the US Stock Market has been primarily a large company phenomenon.
5. (page 8) These large US Companies have been the beneficiary of astonishing levels of US government support and largesse.
6. (Page 9) Those large US companies are facing a perfect storm of opposition.
7. (Page 10) Never underestimate the power of the political class to deliver steroids to monopolies.
8. (Page 14) Do you want the US stock market to go up?
9. (Page 16) Where is the opportunity?
10. (Page 17) Where is the opportunity?

## Subscriber Resources:

[3rd Quarter 2019 Wrap Up Web Presentation, Financial Charts & Rambus Chartology](#)

[Jeffrey Gunlach, Just Markets, doubleline.com, January 8, 2019](#)

[The Next Capitalist Revolution, The Economist, November 15, 2018](#)

[An Age of Giants: Across the West powerful firms are becoming even more powerful, The Economist, November 15, 2018](#)

[GMO 2nd Q 2019 Quarterly Letter, Bigger's Been Better](#)

[Global Stock Market Valuations and Expected Future Returns](#)

[Chapwood Index](#)

[Opportunity Zones: Prototyping Community Technocracy with Patrick Wood](#)

[Technocracy with Patrick Wood](#)



**C. Austin Fitts:** Hello and welcome to The Solari Report. This is Catherine Austin Fitts. It is October 17, and this is the 3<sup>rd</sup> Quarter 2019 Wrap Up Equity Overview and I am glad that you could join me.

In ‘Subscriber Links’ we have a fair amount of links for you to review. I have extracted what I think are the most useful pieces to help you understand the key points that I want to make about the **global equity markets**. The first is, of course, that we have our web presentation for the 3<sup>rd</sup> Quarter 2019 Wrap Up. We have both financial charts and the **Rambus Chartology** there. The Rambus Chartology is particularly good this quarter, but they are always great.

Rambus does outstanding technical analysis on both the US and global stock markets. There is some real breakdown of a look inside the markets.

If you are trading the markets and you use technical analysis, I strongly recommend a subscription to Rambus. I am very appreciative that he allows us to publish his quarterly deep dives on different aspects of the market. This quarter he focuses again on the global stock markets and precious metals.

The second link is **Jeffrey Gunlach’s** *Just Markets*, which was his annual overview for Doubleline. It’s at the Doubleline.com website, and it’s an excellent overview of the challenges ahead in financing the US government, as well as the coming squeeze in the corporate bond market. He really shows you how the US debt is spiraling up.

I have recommended that to you before, but it really gives you an overview, which is important if you are going to look at global markets.

There are two pieces from *The Economist* on the growing problem of the large monopolies in the United States and its impact on slowing productivity. The first is called ‘the Next Capitalist Revolution’ and it was the overview of a bigger piece called ‘An Age of Giants Across the West: Powerful Firms are Becoming Even More Powerful’. They really ‘ring the bell’ on monopolistic developments and the cost to productivity.

Then I have a link for the **GMO 2<sup>nd</sup> Quarter 2019** quarterly letter entitled *Bigger Has Been Better*. GMO is Jeremy Grantham’s firm, and I have quoted him before on the increased problems of monopolies developing in the US market and what harm it can do to productivity.

Finally, an old favorite, **Global Stock Market Valuations and Expected Future Returns**, is listed. It's an article that updates regularly. It shows you that if growth in the markets is based on GDP and markets return to historical means, what kind of returns will be produced. It gives you a very long-term perspective on the markets.

These materials are going to help you understand the key points that I want to make.

## **Ten Key Points:**

### **1. We are in a global bull market for equities.**

If you look at the Rambus technical analysis, the message is very clear. The bull market is still on, and it's not just technical analysis. My fundamental analysis says that the **Planet Equity bull** that I've talked about since 2014 is still on, particularly if anything is going to drive this it is continued growth in Asia and the integration between Europe and Asia along the Silk Road.

There is a push globally to securitize everything, and we have many more assets to go, including real estate as I described in the 3<sup>rd</sup> Quarter Wrap Up last year, *Mega Cities*.

**Risk is definitely rising.** We have trade wars, we have a breakdown of international trade agreements and system, and we have a slowing of globalization – which means that many companies and governments are choking on their debt. We have falling productivity for a variety of reasons. And, of course, we have the politics of 'peak everything'. Part of that is playing out as concerns over the environment. There is plenty of friction in the global economy and global relationships.

The '\$64,000 question' is: How fast and when can they bring the energy price down – whether it's lower cost of renewables, cold fusion, wireless recharging, or other types of technology? We have a race between 'peak everything' and the successful application of new technology. Depending on how that goes, things could turn positive or extremely ugly.

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## **2.The Bull Market has been the beneficiary of falling interest rates and rising levels of sovereign debt, and central banking bond and stock buying.**

One of the GATA people once said, “There are no markets, just interventions.” The interventions to keep the bull market going are quite significant. We now have \$15 trillion of negative interest rates. We see the Bank of England come out and say they don’t believe in negative interest rates. Part of that is to handle very high debt levels that are being pinched by the slowing trade and the structural changes.

Part of what is being digested is the **rebalancing of the US-China relationships** which had to happen. It very much kept a false prosperity going in the US, and it means that many companies are going to have to reengineer global supply lines because the national security issues between the two blocs are very significant.

Of course, the **Anglo-American Alliance is reengineering**, whether it is Make America Great Again or Brexit. It is all part of a move, and that is a tearing apart between Europe and the Anglo-American Alliance. We see warnings today about the trade tensions between Europe and the United States, and that is really Europe and the Anglo-American Alliance. The danger of that is coming apart.

There are real tensions among the central banking community about the extent to which the central banks are taking interest rates negative and buying equities.

If the central banks keep buying equities, the question is: Will they buy the whole planet? That is one way to keep Planet Equity not only going, but overwhelming everything.

## **3.The US Stock Market continues to outperform Europe, Asia, and Global Markets.**

Since the low point in 2009, as shown in the chart in the commentary this week, the S&P is up 309%, the NASDAQ is up over 400%, Europe is only up 108%, and China is up 82%. Those are respectable returns, but nothing like the US.

#### 4. That outperformance of the US Stock Market has been primarily a large company phenomenon.

If you look at any measures of S&P as a percent of GNP or P/E ratios, it is quite high. I would like to read something from the GMO 2<sup>nd</sup> Quarter letter, which I recommend very strongly:

If you will accept a little oversimplification, the last decade or so of global equity market performance can be summarized as follows:

U.S. stocks have profoundly outperformed stocks in the rest of the world, whether other developed markets or emerging markets. This outperformance has been partially driven by U.S. P/E ratios expanding more than in other markets. But the largest driver of the outperformance has been the massive superiority of earnings growth in the U.S. relative to anywhere else. This superior earnings growth has been driven not so much by strong top-line growth, but by expanding profitability by U.S. companies relative to sales, gross profits, or other measures that can plausibly be used as proxies for economic capital. Unlike in past cycles, this rising profitability seems to have been neither a result of, nor a driver of, increased corporate investment.

Digging a little deeper, we can see that the improvement in profitability has occurred only in the largest companies. These companies have been out-earning their smaller brethren by increasing margins over the past 25 years or so. The long period of their improvement suggests this effect is not something we should expect to correct over a single business cycle, but my guess is that the world in the future will be less favorable to these large, dominant companies than is true of the current environment.

If we were to adjust the assumptions of margin reversion in our forecasts to account for a slower pace of this reversion, our forecast for U.S. large cap stocks (as well as high-quality stocks) would improve noticeably, but the adjustment would still leave them looking meaningfully worse than the other groups of equities we forecast.

Translated, what the author is saying is **trouble ahead for US large caps**.

So, here is what *The Economist* said last year, November of 2018:

Since 1997 market concentration has risen in two-thirds of American industries. A tenth of the economy is made up of industries in which four firms control more than two-thirds of the market. In a healthy economy, you would expect profits to be competed down, but the free cash flow of companies is 76% above its 50-year average, relative to GDP. In Europe, the trend is similar, if less extreme. The average market share of the biggest four firms in each industry has risen by three percentage points since 2000. On both continents, dominant firms have become harder to dislodge.

Incumbents scoff at the idea that they have it easy. However, as consolidated markets become domestically, they argue, globalization keeps heating the furnace of competition. But in industries that are less exposed to trade, firms are making huge returns. We calculate the global pool of abnormal profits to be \$660 billion, more than two-thirds of which is made in America, one-third of that in technology firms.

That is huge, so let me read it again:

**We calculate the global pool of abnormal profits to be \$660 billion, more than two-thirds of which is made in America, one-third of that in technology firms.**

One of the things that you have been hearing me discuss a great deal since I started The Solari Report is **centralization**. That is the price of uneconomic centralization.

**5. These large US Companies have been the beneficiary of astonishing levels of US government support and largesse.**

They don't call it the **Military-Industrial Complex** for no reason. Whether it's contracts or whether it's purchases or whether it's favorable tax treatment or whether it's the massive support of the NSA and intelligence agency interdependency with the telecom's and the social media firms and the tech firms – all of which Snowden and Bill Binney and Tom Drake have described fantastically. I don't need to repeat it. That is before we talk about the bailouts - \$21 trillion of missing money, and now FASAB 56. How much largesse does it take?

If the European stock market is up 100% and the US stock market is up 300%, and the NASDAQ is up 400%, how much of that came from that largesse from the transfer of technology and other ‘goodies’ through the black budget? Your guess is as good as mine, but I expect it’s enormous.

## **6. Those large US companies are facing a perfect storm of opposition.**

First and most importantly, as we get slowing globally, no doubt that large companies are running into far more headwinds globally. That is one of the reasons they are trying to push harder and dive deeper into the US and home base markets.

There is an extraordinary **political pushback to inequality and environmental problems** and all sorts of other externalities. Many of those are more of a result of negative returns on government money that show up as corporate profits, but I would say that the big problem is in the government side. That is where you have to fix it. Of course, we are not getting that; we are getting ‘wacky’ proposals reflecting real, legitimate anger from people who don’t understand and haven’t been able to bluntly say what they are concerned about, which is criminal enterprise by both government and corporations.

They say they are against capitalism, but you don’t get monopolies from capitalism. These monopolies are not the product of capitalist behavior and capitalist markets. I always tell people, “I would like to try capitalism.”

So you have **more competition**, you have **political pushback**, and now you finally have the **anti-trust establishment waking up** – both within America and in Europe. You have real taxation pushes against social media and tech. So on both sides of the Atlantic, real anti-trust and taxation issues are occurring. And, of course, as the trade war heats up with China, you are getting pushback on tech from China as well. To all Americans, the national security is spilling into all the corporate businesses.

**Technocracy** is being marketed under the guise of climate change, and it’s running into highly intelligent networks and small business and professional small farms. The ‘BS’ is boomeranging, and some of that boomeranging is going after the big companies who are supporting and promoting the ‘BS’.

There are a significant number of productive professionals and farmers and business people around the world, and they are having breakthroughs with regards to how bad the fake news, the fake science, the fake medical advice is, and the trust in the system is shifting. That can work against the large corporations – in theory even if they are not guilty of it.

Finally, you are seeing real difficulty operating against political fault lines, whether it's trade wars or real national security issues. This is happening between the United States and China, but the political fault lines are going to get trickier and trickier to compete across. It's going to make it much harder for the large firms to get the benefits they've had. They have had the 'wind at their back' for the last 20 years, and some of that positive good fortune is turning into well-deserved pushback.

## **7. Payback is coming in sectors that have carried the US outperformance.**

Let's review some of the sectors. We have had healthcare companies making glorious profits, and yet if you look at any measure of health care performance in the United States, it absolutely 'stinks'. I'm not going to blame it all on healthcare companies, but this is not a productive system.

**Health Care.** The United States is now spending – as of 2017 – over \$10,000 per person. That is significantly greater than the next largest, which is Switzerland that is spending \$8,000 per person. I assure you that if you have spent any time in Switzerland, the Swiss are much healthier than we are.

Germany spends \$5,700 per person. The Netherlands (where I am for this report) spends \$5,400 per person. So, if you look at comparable wealthy countries, on average they are about \$5,300. France is \$4,900; Canada is \$4,800.

So, we are talking about extraordinary expenditures on a per person basis. If you look at health expenditures as a percentage of gross domestic product, it is the same thing. We are spending about 17% on gross domestic product on healthcare; Switzerland is 12%; Germany is 11%. Then it goes down from there in the wealthy countries.

I would say that if you look at how much we are spending versus the performance, this is criminal. You can take a deep dive into certain examples.

**Vaccines.** One example is that legislation was passed creating a Vaccine Compensation Fund so that any vaccine injury is paid by, essentially, a fee from the people receiving the vaccines.

As soon as that fund was put into place and the pharmaceutical companies were free of liability, the lobbying and the pushing for heavy schedules of mandated vaccines became extraordinary, and we see the insurance companies engineer bonuses for doctors so that doctors are literally firing patients who won't get the recommended vaccinations.

The tactics to force people to get vaccinated is exceptional, and the FDA gets a cut for a percent of the profits because they are getting paid on patents on vaccines.

If you look at the harm being done to people to get a pharmaceutical company's stock price up a little more, it is absolutely what Rappoport calls 'Hotel Auschwitz', and he is being kind. Add to that the suppression of natural cures for cancer, and again and again we are seeing a pharmaceutical and healthcare industry which is really getting into a very severe win-lose relationship with people.

It's hard for people to fathom that it could be this evil, but that tsunami of pushback is growing, and people are beginning to understand the extent to which this is happening.

**Financials.** Another great example is the financials. If you look at what has been happening over the last 20 years, we have watched the financial industry work with Washington and state government to change the laws. What used to be illegal because it was usury has been made legal. So, we are seeing interest rate charges which are usurious. We are seeing consumer protections stripped. The perfect example is not permitting students with student loan problems to go bankrupt or extinguish their loans in bankruptcy.

You are essentially taking what used to be the way that the mob did it, and you are making it legal. It's astonishing that we have gotten used to living with legalized usury. This should all be illegal.

Let's examine a part of how the slow burn is being used and used to squeeze people. The average American is getting a return on their savings or CD or bank deposits 0-2% instead of the 8% that they used to get. So, if I am earning 0-2% on my savings, then the average American credit card is paying 15-17% in interest. So, the bank can borrow at the Fed windows for 0-2%, and they can borrow with those cheap rates because they are being supported by taxpayer credit. In the meantime, the taxpayers supporting them with the credit are then having to borrow that 0-2% money at 15-17%. "Thank you, Joe Biden".

When Joe Biden was in Delaware, some of his biggest supporters were the credit card companies.

So, I am earning 2% on my savings, but then I'm paying 15-17% on my credit card. I am also getting 8-12% – if you trust the Chapwood Index, which I do – in regular rising prices in household goods. So, I am earning 0-2% on my savings, I am paying 15-17% on my credit card, and now my household goods are going up 8-12%, and my income increase – if you believe the government statistics – is approximately going up 4%.

So, if I am making 2% on my savings and 4% on my income, but my real inflation is 8-12% and I am paying 15-17% on my credit card, it doesn't take you long to realize that I am slowly getting 'squeezed into the ground'. You add to that the bailouts, the missing money, and now negative interest rates, and we see where this is going; it goes into a deep slow burn. It's like a 'financial vampire'; it has all been made legal, but it shouldn't be. Traditionally, this kind of usury has been illegal and should be returned to that.

Between bailouts and usury, the rigged game in America, and the invisible financial arbitrage between my cost of capital and the large cap companies' cost of capital, basically, it is an engineered slow burn that is ultimately going to destroy a significant number of people in the middle class.

**Tech.** Let's consider tech. We have anti-trust federal investigations; we have state AG investigations; we have European proposals on taxation and state proposals on taxation. Some of that reflects the fact that you have increased consumer understanding of surveillance capitalism. The real problem is the private/public partnership between the US intelligence agencies and the Five Eyes system. With the big corporations, as well as the technology transfer going on behind the scenes, I think it is fair to say that with the general population, the 'bloom is off the rose' in terms of the free ride that the tech companies have been getting.

**Energy.** Of course, we see climate change really moving to target the oil and gas sector. What has been interesting in the oil and gas sector is that part of the politics is the extent to which the dollar is on an oil standard, but in the previous two years I have been getting constant feedback from the oil patch that in the fracking world we are spending \$2 to get a dollar's worth of oil or gas. The question is: Why? It's equivalent to the asset side of a balance sheet of negative interest rates. So, you are throwing 'helicopter money' at trying to turn the US into looking like it is self-sufficient on energy.

The big question is: When do we drop the energy price from new technology – whether it's from dropping renewable prices or breakthrough technology like cold fusion? I believe this is one of the biggest wild cards in the economy.

We see major rollovers next year of the oil and gas debt that can't possibly get paid from fundamental economics in the industry. It is going to be very interesting to see how that gets sorted out.

The other thing is that if you look at the move to take advantage of, what I call the place-based opportunity, the reality is the way to make money on dropping energy prices is on the real estate values. So, it's probably why there is so much interest top-down in real estate, whether it's coming through disaster capitalism or getting the millennials to buy housing.

Healthcare has carried the US stock market. That is facing serious headwinds for good reason: Tech has been carrying the market. The NASDAQ is more than 100% in terms of performance than the S&P. That is running into serious headwinds. Energy, which is important throughout the economy, is running into serious headwinds.

**Buybacks.** Now let's turn to Buybacks. One of the reasons the US market has done so well is because we poured tremendous money into buying stock back. So, you have the central banks buying, and then you have the companies buying themselves back. It has really diminished the flow in the markets. It's a way of leveraging the balance sheet, and it can't go on forever – particularly if you look at what is coming in the corporate bond markets.

So, there are many different headwinds in countless different sectors. The question is: If you were going to posit that the US market could continue strong, where are the earnings going to come from?

## 8. Never underestimate the power of the political class to deliver steroids to monopolies.

One of the things that I found humorous about Grantham was from one of his firm's commentators on investments, who is one of my favorites, James Montier. Montier couldn't believe that the US market could continue to go up. For years they kept shaking their heads.

Finally, Grantham wrote a piece a year or two ago saying something to the effect of, "I underestimated the power of the American political class to deliver steroids to monopolies."

Earlier this year, he said in an interview on one of the networks when somebody asked him, "Couldn't the US market go up more?" he replied, "You can't get blood out of a stone."

No you can't, but if you have sufficient invisible weapons and systems, vampires can steal it out of living things. I covered this extensively last quarter. I covered all the different ways that the Trump Administration could get the stock market to go up. They clearly want to get it over 30,000. I believe that is one of their internal targets.

Let's look at some of those things again. One is if you look at **FASAB 56** and the related **classification waivers**, combined with transnational organized crime, don't think that part of the border fight isn't a fight over who controls those cash flows. If you look at the 'funny business' that would go down with the Green New Deal, after the election we might see some significant privatization out of the Federal government.

There is a new one, and I've brought it up and posted a link to it. Secretary Mnuchin has come forward with a proposal to **privatize Freddie and Fannie**, which is about the worst thing I've ever become aware of. I thought that FASAB 56 was the worst thing, but if you combine FASAB 56 with this, it's unbelievable.

What he is saying is, – and we have to wait to see what the legislative language is – he is proposing to make Freddie and Fannie totally private. That means they are not subject to FOIA, and then basically allowing them to issue full faith and credit debt to finance mortgages, which means they are going to be able to sell an infinite amount of paper, take the money, and keep it entirely secret on what they do with it. They are not subject to FOIA, and American taxpayers, citizens and creditors are all going to be on the hook.

With FASAB 56, the money still has to go through the Treasury or some kind of government bureaucracy or DOD. Now it's totally private, and the way they have described this is giving them the ability to issue taxpayer credit that you and I are liable for if you are an American. The implication is that they are going to offer this to other firms as well.

Let's see if the White House approves it and what the final language to Congress is. I suspect that we are talking about the 'mother of all steroids' here. FASAB 56 in combination with mortgage fraud to the 'moon' – all done on a private basis.

The Fed came out at the end of September with a **directive on appraisals** that said that it could buy mortgage-backed paper where no appraisals were required up to \$400,000. So, I suspect that what we are going to see is a system between Freddie and Fannie and the Fed where the money is going to roll out, particularly in the first-time homebuyer market. What we are talking about is a land rush to take advantage of the place-based opportunity which is enormous. I think that is one of the reasons you are seeing the rush to override local regulations related to the 5G towers. They want to get all those towers out there for the '**Internet of Things**'. That is part of taking technocracy the last mile.

If you haven't listened to or read The Solari Report that I did with Patrick Wood on **Technocracy and Opportunity Zones**, I strongly recommend you do. It has very important background information for what is going on in America. If it is going on in America, it is probably going to be rolling out different versions of it everywhere.

'Taking technocracy the last mile' means the Internet of Things and getting really invasive into homes and into communities – both Federal infrastructure investment, as well as plenty of disaster capitalism. I think that we are seeing a large amount of disaster capitalism going after the farmland in this country.

This year is the year when the millennial generation is expected to be larger than the baby boomer generation. It's going to be the dominant generation from here on out. It's a perfect time – if you are the Administration – to start pushing money out to the millennials for first-time homebuyers. That would be coordinating with the 2020 elections.

If you can get all the millennials to buy homes and form households, that is going to be a huge part of building the Internet of Things out in places and lifting the entire real estate opportunity.

If you look at the charts on the stock market currently, two of the sectors that are doing very well are real estate and home building. I suspect that one of the reasons is that they can see this coming, and certainly the expectation is that we are going to get a major pump coming into the 2020 elections. Watch closely to see how the first-time home buying market develops between now and the end of the elections because I'm looking for a big financial wave and boom to take technocracy that last mile.

If a wave of mortgage money and low interest rates combines with 5G and the Internet of Things, and that ultimately combines with a lower energy price, we are going to see an incredible boom in the local markets.

## 9. Do you want the US stock market to go up?

I get many calls from people saying, "I'm really worried about my portfolio. I really want my portfolio to go up."

The US current stock market is – depending on how you count it – 140-170% of GDP, which is at or above the 2000 bubble high. The PE is 21 times, which is down from 24 times. It has hit that repeatedly in the last four years, but it is still fairly high. It started at about 13 times at the beginning of this bull market.

If you look at the market returning to any reasonable level of market to GDP, you are going to be getting negative returns in the US stock market. That is what GMO was describing in their 2<sup>nd</sup> Quarter newsletter.

Here is the problem, particularly with the large cap stocks: The current model between corporations and people is **win-lose**. If you look at all the proposals floating around in the campaign, all they are going to do is change it to a **lose-lose**. I'm not sure which is worse – a win-lose relationship or a lose-lose relationship.

Many of the people who have been saying that the market was going to crash for years, part of what they were saying was they were hoping that the market drop would then somehow return us back to a **win-win** model after the 'crazy, wacky' economics got sorted out. I just don't see that happening because I think the problems are not temporary; they are much deeper and systematic than a market crash is going to correct, particularly because, in that kind of environment, the psychopaths are going to have the cash and the liquidity and the weapons, and the general population is going to be at a great disadvantage.

Hence my focus on FASAB 56, and now the proposal for the privatization of Freddie and Fannie because it's creating a model where there are absolutely no markets; they are only printing a fantastic amount of money in agencies and companies that can keep everything secret and using it to squeeze politically from the top.

Another next step, of course, is **privatizing** more of the Federal government, and then it is going to go deeper – privatizing your state government and municipality. Once you get the Internet of Things rolled out, that is going to be the next step – going in and turning your municipality into a corporate entity. I hate to say this, but as long as they can print, they can keep on coming.

As long as we are in a win-lose model, a rising US stock market is bad for most people. I don't care how much money you have in US stocks. If you look at the negativity happening society-wide by the large cap US stocks doing better and better, we have reached a point where increased rises in the large cap stocks in the US are bad for productivity, bad for society, and ultimately in the long run, I think that they are going to be very bad for people in the economy.

We had a recent survey of US CEOs who said that they are not optimistic about the future. I can certainly appreciate why. We have too many factions fighting over who is going to use the Federal credit to centralize, but no indication that there is a significant willingness to shift to a win-win model. I think that anybody I've heard about or read from the corporations on ESG or socially responsible investments, absolutely fails to deal with the reality of the Military-Industrial organized crime Complex, which is what we are going to have to deal with if we are going to deal with real issues of getting to a win-win model.

## **10. Where is the opportunity?**

I don't know when the large caps 'hit the skids', and I don't underestimate the ability of the US political class to deliver steroids, but there are two strategies of dealing with it. One newsletter writer who I like is Richard Mayberry, although I don't like his strategy. He is not interested in the karma problem; he just says that everyone is going to be afraid of being killed, so **buy gold and defense contractors**. He is betting on the military industrial complex. Given their very high (and getting higher) negative return on investment, I think there is a serious embedded risk involved.

My strategy is different. I've seen too many companies choke ultimately on the win-lose risk issues. Yes, I appreciate that the US dollar reserve currency in the government can protect some of those companies for a long, long time, but many times the problem comes back to 'bite you'. What happened to Monsanto was a great example of that, which I am writing about in a different piece now.

I will never forget looking at my uncle's portfolio 'once upon a time' and realizing how much money he had made on Green Mountain Coffee. It was one of the best performing stocks for one or two decades in the US stock market, and it's a perfect example of a company that figured out some pretty useful things and made a fortune for investors. There are many companies like that around.

My strategy is **sticking with value**. Precious metals continue to perform well. There is a great round-up on what precious metals has been doing in the Rambus Chartology; he looked at global stock markets and precious metals.

Equities is still in a bull market, but the internal mixes within the market are going to change, and it's not going to change in favor of the US. That is what I believe; you are going to see small caps and value stocks in the US. There are going to be good companies that successfully apply technology.

In the foreign developed markets, you have many markets trading at a much lower market to GDP ratio than the US. If you look at that Guru Focus article you can see who those markets are, and there are many great stocks that are now available in those markets, especially as the brokers move out to try to bring in the global markets. They are trading at lower PE's. So, if you look at the dollar of earnings or the dollar of dividend that you can buy in some rather fine markets, it is much more attractive.

Then, of course, if you look at the GDP growth in Asia, that is where the real growth is coming from. But I would be careful to avoid the

**Areas of particular interest to me.** I think that there are going to be plenty of opportunities to buy **dividends in global real estate** and some capital gains, especially if we make progress on the energy price - it's something that will come eventually.

I am always very interested in **food**, and you can examine a table press of the publicly traded food stocks in the US in the *Global Harvest Wrap Up*. I have found it very difficult to find listed companies in the sector that I like. I think that it will be an increasingly important sector, but you may have to go to direct ownership or find good, private managers if you want to do more, particularly in land in this area. There is no doubt that there is a land rush on to get good farmland with good water.

The area where I think you are going to get the best returns is the **application of tech** and very innovative applications – whether it's building homes with 3D printing or applying all sorts of robotics to grow organic food and make it much more economical.

When I look for companies around the world, whenever I am travelling and wherever I am, I am looking for companies. I find excellent companies with low debt, they are not heavily dependent on government contracts or purchases, they contribute to productivity, but they don't get much attention. There are thousands of them, and thousands of hardworking people trying to make things go. But if you are going to invest in those companies, they haven't been the companies that have had the momentum because they haven't had the huge influx of government subsidy and support.

If you are going to pick them out and invest, you need to stop worrying about the index and focus on **enduring dividends**. That also means that you absolutely have to be **global** because right now, there is just more available. If you look at the PE's or if you look at the market to GDP, there is more available in Europe, Asia, and even some in Latin America.

I am concerned about the emerging markets gaining the growth and productivity that we see in Asia.

Look at the Guru Focus article; it's called *Global Stock Market Valuations and Expected Future Returns*. The link is in the subscriber links. It will give you a good sense of what I'm talking about. If you were going to get on a space shuttle and go to Mars for 20 years, look at that and say, "Where would I put my money today?" You really need to think long-term about this.

My message on all these key points is: **Get back to basics; look for good companies, low debt, and good dividend growth; apply technology.** That is where much of the added value is going to be, particularly if we can reduce the energy price.

If you want to stay in US large caps – and some people do because they have a low-cost basis and don't want to pay taxes and are getting a great dividend – get hedged and stay hedged. I think that if things go the wrong way, we could take a very big drop.

There is no doubt that anybody who has been hedged for the last five years has paid a high price to stay hedged, but given where large caps are, I think that the market is very, very high relative to what you could do elsewhere.

Finally, go global. Look at market value to GDP. There are many great markets around the world with numerous great companies doing very good things.

So, those are my ten key points.

Let's talk about **special risk** issues. There are plenty of risk issues and risk is absolutely rising. That is what happens when you have accelerating change.

Central banks now have monetary largess that is really turning into fiscal stimulus, particularly because it's financing governments that have no market for their paper other than central banks. That is 'scary'.

Clearly, we have the reserve currency under stress, and with that we have the global military/cop model under stress. The economics of the global military is bankrupting the empire, and the question is: How is that going to sort out?

There was a very interesting speech by the Attorney General William Barr at the Notre Dame Law School. He talked about the ‘organized assault’ on values. All economies and all financial systems depend on trust. Trust depends on virtue. It depends on people keeping their contracts and people obeying the laws.

The problem with transnational organized crime rising to the size and shape that it is, and intertwining with governments in the blatant way that it is now is causing a tremendous deterioration in values. If you are the Attorney General, you quickly realize that you can’t make up with enforcement for a culture that has no lawfulness as its practice in daily life.

The ‘800-pound gorilla’ in the room is a combination of FASAB 56 and now the proposal on Freddie and Fannie and what they may do in the mortgage market. I don’t think that the Attorney General realizes that you can’t have a virtuous society when the money is unsound to this extent. So, debasing the currency and debasing the Federal credit mechanism ultimately, by definition, is going to lead to a **debased culture**.

We have a race to the bottom in the US brokerage system. It doesn’t give me much confidence in the brokers who have all now gone on to essentially free commissions. It is interesting to see that we see Patrick Burn, the CEO of Overstock, who did such incredible work on describing the corruption in the financial mechanisms in terms of naked short selling. He and his partners had a website, Deep Capture, about that. I think that you can still see it on the web.

He cashed out and departed Overstock, and it wouldn’t surprise me if that was one of the reasons he is concerned about the stability of the system.

I am exceptionally worried about the agricultural harvest this year. I think that we have an unsettled food supply. The environmental issues, whatever their cause, – whether they are manmade from global spraying and nuclear testing and all the other ails that befall us, or whether it’s coming from geophysical changes – most people are invariably better off investing in creating their own food supply or associating with farmers and other sources that can provide us our food supply. That is a better investment today than trying to chase yields in global stock markets.

Whatever you need to do to lock up your long-term food supply:— a food supply that is natural and fresh – I know that more than a few people are investing in farmers to make sure they have that food supply. That is a much better investment long-term than chasing yields in the markets.

Think about the harvest and think about your food supply and keep working to develop a very high-quality food supply.

**Market pushback.** We are seeing all sorts of stocks and companies not make it to the IPO market. The market is not buying their story, which is a good sign. It is a sign that it is getting much more discerning.

You see Theranos go down from pressure and writing from the *Wall Street Journal*. We see Aramco on the shelf. That is an IPO that is not going to make it in the NY and London markets, which is going to squeeze Saudi Arabia. We see WeWork not make it into the IPO market, and finally the CEO has to leave. The market is pushing back, and that is a good sign.

Finally, there is pushback around the world. You have a large number of highly intelligent, hard-working people who want to be productive, and they don't like technocracy, and they don't like win-lose corporate models and they don't like transnational organized crime, and they are starting to figure things out.

With a very deeply intelligent pushback, it is one of the reasons I want companies that I call, 'low to the ground'. They add fundamental productivity and have a healthy future because they are in a win-win relationship with their employees, with the people they serve, and with the communities they function in.

They may not have the glorious minimum; they may not have huge subsidy, but as that pushback develops, they are going to be able to endure – particularly if they have low debt and clean balance sheets.

For that to work, and for them to attract the support they need, we need transparency in markets. Unfortunately, the US is heading in the opposite direction, which is why I keep 'banging the drum' about the dangers of taking securities markets dark and large pots of money dark. So, whether it's the US government going dark or Harvard going dark, it's a big, big impediment to making the positive changes we need to go in.

Unfortunately, if you can't get the corporate model converted to a win-win relationship, the dangers politically of a lose-lose happening are much higher.

All these risks make people nervous about investment and the market. However, my complete read is that Planet Equity is on. If it's not on in the US, it is certainly on in Asia and around the world. Get to Asia and check out what is going on. A great deal of the world's business is done by companies, and there are thousands of good companies, and they are out there doing a good job. They are a sound investment in the future.

Never let the mobsters stand between us and the future because the future is going to happen, and it is out there.

Ladies and gentlemen, those are my thoughts for the 3<sup>rd</sup> Quarter Equity Overview. Please check out the web presentation for the charts and the Rambus Blockbuster Chartology. The subscriber links will be in the commentary on the home page.

I have listed for you some of, what I think, is the best analysis available on the economy and equity markets. These are people who do a tremendous amount of analytics, and they have done a very good job cutting through and getting to the key things that you need to know to understand what is happening.

In closing, don't worry about whether or not there is a conspiracy. The outperformance of the US large caps in my book proves beyond any shadow of a doubt that there is definitely a conspiracy. But here is the thing: If you are not in a conspiracy, then you need to start one.

Ladies and gentlemen, goodbye, good hunting, and good luck.

### **Related Reading:**

[William Barr Speech](#)

[GMO 2nd-Quarter Letter: Bigger's Been Better](#)

[2nd Quarter 2019 Wrap Up – Equity Overview & Rambus Chartology](#)

[1st Quarter 2019 Wrap Up – Equity Overview & Rambus Chartology](#)

[2018 Annual Wrap Up – Equity Overview & Rambus Chartology](#)

## **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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