AGORA FINANCIAL PRESENTS

CAPITAL MARKETS

HOUSE OF CARDS SYMPOSIUM

A DAY WITH JIM RICKARDS

CONFERENCE TRANSCRIPTS

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FOUR SEASONS HOTEL

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AGORA FINANCIAL

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Opening Remarks

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Addison Wiggin: First of all I'd like to introduce Jim Rickards and have him describe a little bit about what this symposium is going to be about today. If you guys have any questions, I know that you've handed them in. Pete's going to instruct you on how to give us more questions so that we can make sure that everything is addressed today. But without further ado Jim, thanks.

[Applause]

Jim Rickards: Addison, thank you for that introduction. As Addison mentioned I'll be speaking at length later today. So during the tail end of lunch I'll be on a panel, after that I'm doing a lightning round of questions with Peter. I'll be around to the breaks. So you'll have plenty of me, probably too much by the end of the day, so I'm going to keep my remarks right now brief; they're really just introductory.

I'm looking forward to the whole day and mostly looking forward to hearing our other speakers and we'll get to interact on the panel as I say later in the afternoon. So looking forward to all that. Looking forward to — met some of you at breakfast this morning and looking forward to meeting as many as possible, hopefully all of you before the end of the day.

I also just want to thank everyone for coming and thank you for being readers and for your subscriptions. I appreciate it, we really appreciate it. It's one thing to do research and have ideas and be able to make recommendations, it's another thing to have an audience of folks who are interested in it. You're the prime part of the audience so we thank you for that and for making the effort to be here today.

The theme of course is House of Cards. What is a House of Cards? Well it's a metaphor. I think we all have seen them; maybe we've put one together when we were kids or seen adults assemble them. But what we know is that it's interactive system. It looks very, can look very impressive from the outside, but we all know if you remove one card, particularly one at the bottom, the whole thing collapses and it collapses very quickly into something flat with no substance at all.

So it's a metaphor, but it's more than a metaphor. It actually is a physical representation of a complex, dynamic system where every piece depends on every other piece and if you kind of mess around with any one of them the whole thing can collapse. And that's a good description of our global international monetary system today. As you know I'm a little bit more of a global — take a global macro view. Now there's plenty in the global macro perspective that we can turn into specific investment recommendations and we do.

Some of your other speakers a little more micro. They're going to rifle shot some of the ideas they've been working on and seeing. I have those as well, but I do tend to take the bigger picture, but I know from speaking to investment managers and advisors all over the world that there are plenty of folks who have spent long careers doing fundamental analysis. They get the financial statement, they read the Ten-K's, the Ten-Q's, they read the footnotes, they meet with managers, they do fundamental analysis.

They're bottom-up stock pickers and they're really, really good at and they're getting knocked around, they're getting slammed because Angela Merkel got out of the wrong side of the bed and picked a fight with the Greek Finance Minister and then maybe the next day she gets out the other side of the bed and they kiss and make-up. And markets are volatile for reasons that have nothing to do with those fundamentals. I try to fill in those blanks.

I know a hedge fund manager actually closed his fund. He specialized in healthcare and pharmaceutical and medical device stocks. He had a good track record, but he said, "You know I just can't really serve my investors anymore because I can't read Angela Merkel's mind." I said, "Well actually I think I can, not literally read her mind, but I think I look at the same things she's looking at, understand it hopefully her way and can offer some advice on that." So that's what I'll be doing, but with a whole team, we do have a lot of specific recommendations.

Very happy to be in Baltimore. You might have picked-up from some of the introductory materials that I spent a lot of time in Baltimore. I lived here for five years and went to college here, but not only up at Johns Hopkins up at 34th Street, but not only college I also went to the School of International Studies. I got a graduate degree in International Economics.

I like to remind people that my class, Class of '74, was the last class to study gold as a monetary asset. A lot of people think we went off the gold standard in 1971 with Nixon, that's not quite correct. Technically that was a very big deal of course, but what Nixon did was he suspended redemptions. He said, "I'm temporarily suspending redemptions." If you go back and look at his speech, it's available on YouTube, and he used the word "temporary."

I spoke to Paul Volcker recently and he said to me that, "Yeah, I recommended it to the President because I thought it was a timeout. We were going to take a timeout, rewrite the rules of the game, and get back to some kind of gold standard." Of course that never happened, the temporary became permanent.

But the world kind of muddled through for a couple of years. It wasn't until 1974 that the IMF and other committees got together and basically demonetized gold for the whole world. They said, "You can still keep your gold, but we're no longer treating it as money, no paper currency is linked to gold any further. We're going to have floating exchange rates." All of that really emerged in '74.

So when I was in school we were actually taught it as a monetary asset. I say if you're younger than I am and you know anything about gold, you're either self-taught or you went to mining college, because they stopped teaching it in the universities.

But I had a great time in Baltimore. Even when I was in grad school, the school's down in Washington, but I continued to live in Baltimore because I loved Baltimore. I drove a taxi here. I got a paycheck, it was a couple bucks, but basically worked for tips. So I would drive my taxi long enough to make enough tips to go to Burger King to buy dinner and then go home and read about comparative Turkish and Argentinean economic systems, but that's kind of how I got through grad school.

My daughter went to school here also. So I'm back a lot and involved with alumnus. So I'm in Baltimore all the time. I love it. Well aware of the problems Addison referred too,

I think we all are. But it's a great city and I'm very proud of Agora for picking Baltimore. Of course we happen to be in one of the nicest locations and nicest developments really in country. You can go anywhere and not find too many places that are nicer than the Inner Harbor, so I'm glad we're here for that.

We do have time as I saw we're going to have questions, we're going to have panels, be around at the breaks. We're going to have a book signing, so plenty of time to interact and looking forward to all that. So I'm going to end with those introductory remarks I'll turn it over to other speakers. Turn it over to Pete Coyne to kind of give us the lineup for the day. But I'm looking forward to speaking to you again at lunchtime. Again, thank you for coming.

[Applause]

Peter Coyne: All right welcome everybody. I'm Pete Coyne. It wasn't planned actually, but Brian Burg is a professional House of Cards builder, he holds the Guinness Book of World Records for building House of Cards. He is in Baltimore at the Horseshoe Casino. This is no joke, we didn't plan this. So if you're looking for something to do tonight and you like gambling, I guess there's a free plug for the Horseshoe Casino, it's right nearby.

The agenda for the day is pretty self-explanatory. So there's only two things I want to highlight before passing it over to Byron. The panel discussion will have all of the speakers up here and we want to foster a discussion, but we want that discussion to be informed by your questions. The question and answer session that Jim and I are going to hold obviously is informed by your questions also.

So I put index cards at each of your seats. I'd like for you to write as many questions as possible, not just for Jim but for all the editors. If you're writing a question for a specific editor it would help me a lot if you addressed the question to the editor. So Byron King, X, Y, Z. Then I will moderate them, because legally we can't have you ask questions directly.

Some of you were asking questions such as: "How do I open a brokerage account," or "What brokerage accounts should I use?" We can't answer any personalized investment advice and we can't answer questions like that either, but you're at a conference and many people here have different levels of understanding than others, so feel free to talk to each other and I'm sure that your neighbor can help you.

So with that again I just encourage you to write your questions during the day and then pass them to the middle aisle. I'll come around at different periods of time and collect them and then sift through them in the back.

Do Good, Avoid Evil and Manage Risk: Prepare for Disruptive Tech and Manmade Disasters

Byron King: Editor, *Outstanding Investments*, *Real Wealth Trader* and *Military Tech Alert*

Click here to download the MP3 and Byron's powerpoint presentation

Peter Coyne: So with that I want to invite Byron King to the stand. Byron is editor of *Outstanding Investments*, *Real Wealth Trader* and *Military-Technology Alert* and he's going to talk to you about the geopolitical impacts on the House of Cards. So, Byron.

Byron King: Good morning, everyone. It is a pleasure to be here in Baltimore. I came down yesterday from Pittsburgh. I know some of you. There are some familiar faces out here but for others feel free to walk up as the day wears on. I'm Byron King and I am the editor of a couple different newsletters at Agora Financial.

Today they wanted a title. I gave them a title. Do good, avoid evil, manage risk. We're going to talk about disruptive technology, man-made disasters, a day with Jim Rickards and me. It's not part of the talk I'm going to give in the slideshow sense but *Military- Technology Alert*. Yesterday I had lunch with the Chief of Naval Operations, Admiral Jon Greenert. He's the Four-Star. He runs the Navy and he was in Pittsburgh for something and he put together a little luncheon and I mean a little luncheon. I mean this room would be gigantic compared to the room I was in.

The Navy has 235,000 people in it. I assure you there were not 235,000 people in that room yesterday. You don't get to sit around a table about five or six feet wide and talk with the Chief of Naval Operations for an hour and a half. I was very, very fortunate. I am very, very grateful that I was able to do that.

I'm going to tell you one thing. You'll read about it if you read *Military Technology Alert*. I haven't written it yet because I broke down yesterday and watched Hannity interview Donald Trump last night, which was fabulous. We asked the Chief of Naval Operations, what keeps you awake at night? What is the most important thing you worry about? This is the top Admiral of the United States Navy. He is the Naval Advisor to the President of the United States. He is the naval resource for Congress. What keeps you awake at night, Sir? He says, "Well, the world is what it is and we have a system of day-to-day management within the world.

But in the long-term sense, my number one concern is that Congress and the American people understand that to preserve the nation we have to recapitalize, rebuild our strategic deterrent, in particular the ballistic missile submarines." You might know that we have ballistic submarines named after the USS Ohio which was the lead ship of the class. There are 14 of them anymore. They are wearing out. They are absolutely wearing out, the hulls, the steel, the nuclear reactors are wearing out. We have to rebuilt the undersea deterrent. So there's a program called the Ohio Replacement Program. It's not a sexy name. The Chief of Naval Operations says we have to come up with a better name but that's all we have right now, Ohio Replacement Program. His number one concern that keeps him awake at night is that Congress understand the importance of rebuilding the Ohio class submarines into something else. This is a long-term program. It's happening now.

I write about it in my newsletter now. I write about it every couple of weeks. And they'll be cutting metal in a couple of years. The first ship won't hit the water until 2027. We're talking a long-term program. But for as much as we worry about short-term issues, you know riots in Baltimore, whatever; there are long-term issues that affect the nation. And those are the types of things among others that I cover in *Military-Technology Alert* that I want you to understand how important it is that we rebuild the submarine program of the US Navy for the ballistic missiles. It is a highly investable program.

You know off the top of my head I could give you four or five ideas where all that $100 billion is going to go. But I guess I just wanted to get that out very, very first, the first thing I wanted to tell you this morning. If you forget everything else I tell you in the next 40 minutes or so, if you read my newsletter, keep following because I'm going to tell you all about the Ohio Replacement Program and from an investor standpoint how people on the far outside have never been close to a submarine base, never been close to a submarine, how you can participate in that as well.

So let's move on. The House of Cards Symposium, I'm not sure what you thought you'd get here today. Jim just gave you a little bit of a taste of it. Are we going to talk about this TV show with what's his name, Stacy Keach and — or I even threw that slide in with the guy over at the casino who's building those houses of cards. We're looking at what's real and what isn't. I'm going to start the morning off by looking at what's real and what isn't. Jim's House of Cards thesis is highly scientific. It's highly mathematical. It's based on subject matters called non-equilibrium physics and complexity theory.

Whoa, you know, what's that? Well you know I'm going to let Jim tell you all about it because — but it has to do with how everything is part of a whole but if you change even one thing you change everything. On the lower right there I've got little cover of a textbook on phase transitions. Think of phase transitions. I mean you know everybody here has I think a bottle of water. We have bottles of water in front of us but you know, what is water? Well water is warm ice. Water is cool vapor, you know what I mean? Matter transforms from one thing into another. You add energy or you take energy away. You have an ice cube and you add energy, you add energy, you add energy, you add energy.

All of a sudden you got water. You've broken down those little crystalline bonds between the H_2O molecules and you go from a phase call ice to a phase called water. Well, we're going to get into that today in terms of economies, nations, countries. You can go on at a certain way, a certain state, a certain phase, whatever. Add energy, take energy away. Nothing happens, nothing happens, nothing happens, boom and then something happens. You might call it a tipping point kind of a thing as well.

Think in terms of packages of chemicals. You take a steel tube and you fill it full of chemicals and you can set it around on a stand. Those things can sit there for years and years and years and years and years and then you drop them in a string like this and these are bombs. You turn all that hard chemical substance into a massive release of energy all of a sudden. Those are phase changes, very, very rapid phase changes.

We could get really scientific. I was looking around and I found this on a site from Georgia Institute of Technology. Gotta love Georgia Tech, I mean one of the most underrated

technology assets in the world in terms of what the general public understands. Georgia Tech is a fabulous school. We could talk about thermodynamics. We could talk about first laws, changes, thermal expansions.

That's all part of complexity theory. We could get really scientific or not. We're going to talk about the study of complex systems, how complex systems related to strategy, to economics, adaptive. In a sense we're talking about how dynamics systems are sensitive to initial conditions but then you add energy or take energy away. People call it the butterfly effect you know. There's a little butterfly in the forest of the Amazon and he's flapping his wings and he's putting energy into the atmosphere and that energy radiates out over the Atlantic and it becomes part of a hurricane or something. Small things can add up and influence great things.

So speaking of what's real or not, let's go to movies. I'm going to start of with this. I saw this just the other day. It was an article about William Friedkin who is the Oscar award-winning director. He made among other things *The French Connection* and *The Exorcist*. And I thought it was very interesting a couple things. He said films used to be rooted in gravity. I mean heaviness, not gravity like Isaac Newton gravity. But they were about real people doing real things. Today cinema is all about *Batman, Superman, Ironman, Avengers, Hunger Games* — dystopian type of futures. You know fantastical type of things, you know *Superman, Ironman*, these kind of things. More about it. Most of my films, he says were about the thin line between good and evil that exists in everyone. I mean everybody in this room is probably old enough you saw *The French Connection*.

Remember how Gene Hackman I mean he went from — he was this cop and he had to go into the French drug trade and he had to deal with these horrible drug dealers and oh, the horrors of addiction that he had to go through. All of us, there's a good side and a dark side. It's a constant struggle to have your good side triumph over the dark side. Sometimes people don't and lose control of themselves.

Look at *The Exorcist*. I mean you can say well that was just a fantastical movie. Well no *The Exorcist* is rooted in the reality of Catholic dogma. I mean I actually knew — the guy is deceased at this point. I knew a priest who was a certified bona fide exorcist. I mean he went to Rome. He had some papal commission on exorcism sprinkle literally the holy water on him that he could perform exorcisms.

But Friedkin was interested in the ideas of good and evil. If there's good and evil in everyone then there's good and evil in the sum of everyone, which we call society, and certainly in Wall Street. I mean think in terms of *Greed is Good* with Michael Douglas, the famous movie and there's a little cartoon in the middle there, you know, you can quite read what it says. Just another pyramid scheme and the other guy who's on the top saying, "Well, we're all going to get our bonuses, right?"

You know I mean that's Wall Street. We used to think that bankers were boring honest people and Wall Street was greedy. Now we know that the bankers are just as greedy. It's just that's the world in which we leave and you have to deal with it. You have to deal with good and evil. Do good, avoid evil but it's a tough needle. How do you thread that needle? How do you do that?

So the reality is that in the world where we live, some markets and sectors are soaring whether good, evil, whatever. I have two charts here. Don't strain your eyes too hard. This is the Dow for the last two years. It's been up, up, up, up, up, up, up. A few little down days here and there but up, up, up, up, up. It's all good you know. This is the air space index here — up, up, up, up, up. There it goes up there.

You know I think about this and I think it's the old advice that people — you know old newsletter writers tell younger newsletter writers or newer, don't confuse rising markets with your own brains. I've done very well for example in *Military-Tech Alert*. We've had great returns, great gains from the ideas that we've put out. Yeah, we have to because look at the market for the last two years. Now the good news is that we've decided to start *Military-Tech Alert* back here, you know and we've really had a nice ride. We've picked a lot of great companies and they've done very well in my newsletter.

But like the man says; don't confuse the rising market with your own brains. At the same time many hard assets dwell in very beaten down markets. As an apocryphal chart I used the Toronto Venture Exchange, which is where all the little junior Canadian miners are. For those of you who have been around for a while, you know. In my old *Energy & Scarcity Investor* I used to go after these tiny little gold mining companies and graphite companies and vanadium mining companies and all that. It's not that they're bad companies. It's not that they don't have gold in the ground. It's not that they don't have vanadium and graphite.

The market just hated them, ran away from them. So, just as you don't confuse a rising market with your own brains in terms of writing a newsletter, don't confuse a falling market in terms of — with how bad the newsletter writer is. I mean it wasn't me. I was picking great companies but the market ran away from us. Part of it is understanding when to dodge the bullet. But then what's the timeframe too? I mean everything will rise again — gold, silver, hard assets.

So, on the point how do you make some money? Let's digress. I want to discuss for just a moment the Pennsylvania lottery because I drove down from Pennsylvania yesterday. And on the highway I saw this big billboard that said Pennsylvania, it's up to $44 million. And I'm like I'd better stop in Breezewood and buy a ticket and get my $44 million. And it's not just one lottery. In Pennsylvania you've got many lotteries. You can buy all the tickets you want. They'll take your money. And so is it possible to win the Pennsylvania lottery? Well, yeah, it's possible. Some people win. Somebody wins almost every day except every now and then they don't and then it gets up to $44 million.

But is it probable that any ticket will win? Well, not really. I mean your probability is microscopic — in the range of one of millions that you will win. You've got a better chance of dying of a bee sting than winning a Pennsylvania lottery. So it's possible to win if you buy a ticket. It's not probable at all. So the odds are against you in the Pennsylvania lottery. You have a better chance getting into Yale — six percent acceptance rate to Yale, Sterling Library there. Some people get in of course but six percent admits means 94 percent rejected from Yale. So you can ante up straight As as a high school student, superb SATs, 2400s, still not get the magic letter.

This is the Scattergram for Yale admissions last year. All those little blue and green guys up

there, those are the people who they admitted. And all those reds were the kids that didn't get admitted. Now there are a couple kids, fortunate people who did get in with low grades and low SATs. We call them hockey players or football players. But even with a great ante, I mean great grades, great SATs, all the other college stuff that you do in high school, you know you can apply and on the best day of your life you've got a what, one in 15, one in 16 chance to get it. So good things happen to good people but good things don't always happen to good people.

I mention it because possibility is not the same thing as probability. Probability, possibility. It's possible to win the Pennsylvania lottery. It is not probable. It's possible to get into Yale. Even if you're really good it's not probable. The odds are against you. It depends on risk.

Now let's think about risk. I want to talk about this for a little bit before we get into some other things. What is risk anyhow? It's the exposure to injury or loss. From my lawyer days, law practicing days, we always used to talk about risk as the probability of a permanent impairment to your capital. As an investor what is risk to an investor? Does it mean that you bought a stock and it went down? Well, okay, is that a permanent impairment to your capital? Well maybe it went back up. Maybe you bought IBM at 180 and then it went to 150 and you're like aw, man. Well if you didn't sell it at 150 it's back to whatever it is, 170 now.

So it's not a permanent impairment but look at this guy here. Maybe an hour ago this guy was a beautiful sailing ship sailing across the ocean having a great time doing his thing. He had a lot of value, a lot of valuable cargo in the hold. Then he hit something and now he's going down by the bow and this is a loss. Maybe they'll salvage the ship and have some steel to sell to the scrap mill or something but it's a permanent impairment to somebody's capital.

Or look at this Air Canada airplane. What a photo that is. Hard landing on a Boeing 747. Hard landing. How hard a landing does it have to be to rip the skin off of a Boeing 747? Permanent impairment to that capital. That airplane is never going to fly again, is it? Just think in terms of the risk of loss, a permanent impairment to your capital.

Let's talk about specific kinds of risk. Let's talk about jurisdictional risk. You know I like to use Venezuela as an example. Here's the late Hugo Chavez here. I mean Venezuela has a history of nationalizing foreign energy, mining, and other assets. You can ask Exxon about that. Ask a lot of people about that. They just decide they want it and they take it — jurisdictional risk. But it doesn't have to be Venezuela. It could be of highly developed country. Look at the United Kingdom. In the year 2011 under David Cameron, the UK government increased taxes on energy development in the North Sea, which could possibly be called the Dead Sea.

I mean the UK oil production went up, it did well and then it was falling, falling, falling, falling, falling, falling. It was falling. UK production is falling, hello, hello? Okay, let's raise taxes on the oil producers in the North Sea. What are they, crazy? But they did it because why? Well because political risk. I mean you've got crazy people even in a conservative government like David Cameron's who don't understand what they're doing so they do something stupid so they raise taxes on oil production. Guess what? Still falling.

We've got geologic risk. Those of you who remember HRT, oh, man, we had some great hopes for their wells off of Namibia. And there were four drills sites. They drilled three wells

and didn't find it. It's not that they didn't do all the right things. I mean they had really good geophysics, they had really good geology, and they had the best rigs from Transocean. They had the best drill services from Schlumberger's. The oil just wasn't there. I mean they found some interesting science that might lead to something else and quite frankly HRT has changed its name. It's Petro Rio.

They're down working in offshore Brazil. They're doing remarkably well considering what they went through. They still own the concessions off of Namibia. You know BP is actually interested in what they're doing so something might come back but still there's geologic risk. They thought there was something there but when they drilled the hole, you know the reality of the drill bit was that it wasn't there.

There are technical risks. I could give lots of examples but I just use rocket science as a technical risk. You know rocket science is really, really hard which is why it's called rocket science. If you don't believe it just try it. And you can have guys like Elon Musk saying oh; we're going to build great rockets. Yeah, yeah, yeah, everybody blows up their rockets at some point or another. You know it's really, really hard. High technology, edge of the envelope technology is really, really hard. If you don't believe it, try it.

Execution risk, you know, I mean some things are very doable. Driving a train, landing an airplane, you have to do them carefully. Don't screw it up. Somebody's going a little fast around that curve, wouldn't you say or the guy in this Saudi Airlines plane, he sort of misjudged the end of the runway there, didn't he? Sometimes something happens and it screws up. It's risk.

Let's talk about market risk. I like the Ford Edsel as an example of that. The Edsel was reportedly a good car. It was before my time so to speak. It came out in '58 or '59. I was like three or four years old. My dad didn't own one. I didn't really know anyone who had one but over the years I mean Ford Edsel has become a term of the US language. Oh, that's just an Edsel meaning that's a bad product, a bad idea, whatever. The Edsel was supposedly a good car but people didn't want to buy it. Who knows why, why didn't it catch on? The market didn't agree with what the Ford people thought. And there are other things, management risk.

I like New Coke, New Coca-Cola as the example of management risk. It was a top down decision by management. They said oh, yeah, we're Coca-Cola. We've been in business for 100 years and we have a certain recipe and everybody likes it so let's change it. Well, no, that's not — that was a terrible idea, awful idea. It's become an iconic term of how to screw things up, New Coke. But look at a different kind of management risk. Not that top down management wanted to do something different. The top down management didn't want to do something different. Look at the Kodak Company. I mean 100 years of chemical-based photography and they had a very strong market.

They were dominant in everything and then one day the researchers walked up from the laboratory and said hey, we just invented this thing called digital photography. And the top management said no, we're not going to — put it back in the lab. Just bury it. We're not going to do anything with it because we want to protect our traditional film business. Okay, yeah, that lasted for a few years and then where's Kodak now? Bankruptcy court, what's left of it, you know, the hulk. So on the new hand with New Coke you've got management

making bad aggressive decisions and then with Kodak you've got management making passive investment decisions.

Look at a very recent example with a big — you know you would think well-managed company like Boeing. I mean I love Boeing. Boeing is a great company. It's in my military tech portfolio. But with the Boeing 787, management was trying to do things on the cheap. They wanted to develop this brand new carbon fiber airplane and they farmed out a lot of the technology risk for parts and components. They farmed it out to other companies and to their suppliers — tier one, tier two, tier three suppliers.

And basically management lost control of the development chain, the supply chain, the parts chain, the R&D chain. I mean they lost control of it. They didn't know what their suppliers were doing. They didn't know what the suppliers were supplying to them. They didn't know how much things should cost. They didn't know how things ought to work, ought to behave. They literally let large chunks of that airplane get away. And then in terms of the publicity damage, I mean it was the battery fires.

Those lithium batteries would catch fire and the FAA wound up grounding the 787 for months after it was in service. They were pulling dozens of airplanes off the flight line saying park it in the hangar, park it over there until you get those batteries fixed. And it turned out that there was some issue with the lithium batteries. It was called dendritic growth where the little carbon and the little lithium molecules would kind of grow together and you would short circuit your battery and overheat and cause a fire. But this is something that the Boeing folks had passed out to their supply chain and they didn't understand it. So there's management risk. That's just another kind of risk that we're talking about.

Financial risk. What happens when the banker pulls a line of credit? These ought to be familiar fixtures here. Here's Lionel Barrymore playing the evil banker, Mr. Potter. In terms of movie villains he's probably one of the top five villains in the history of movies and here's Jimmy Stewart playing George Bailey, the potter. The banker is denying Bailey an extension of his loan and here's poor George Bailey with all these people, they want their money back. So what happens when the banker wants his money back? Now what? Oh my goodness, financial risk. Can a company handle that? Can a country handle that? Questions to think about.

How about a cascade of risks? I do not follow this company in any of my newsletters but it's a nice company. It's Kivalliq Uranium. They work up Saskatchewan in the uranium belt up there. They have done everything right. I like management. I like what they're doing. They found lots and lots of uranium. This blue here, this is their uranium resource. They build, build, build, build, build their uranium resource and this is their stock price, down, down, down, down, down.

I mean it's like the more they find the lower their stock price is. They're doing everything right. I don't get it. I mean it's a cascade of risks. It's the financial risk; it's the market risk. You know they're doing so much right but the market isn't rewarding them. Not rewarding them for now, you know what I mean but they do have the uranium. It's proven reserve.

So anyhow these are private firms mostly taking risks. They suffer the consequences. Suffering occurs as a man says when your ideas about how things ought to be don't match how they really are, which brings me to the idea of de-risking things, de-risking reality. How much de-risking is enough?

This is an image of a — this plane was developed — this is a real airplane. It was developed in the Soviet Union back in the late 1930s. It has lots of engines. It has lots of guns, lots of everything. This was a Soviet idea of a penetrating bomber, like how much defense it has on it, how big it is. Have we de-risked the idea enough? When is it time to invest in building, you know buy in?

So we get into some concepts here. You know what is it that leads to success? What is it that makes something critical? Why would somebody want to buy into a particular idea? What's the product, what's the service? Is it the right place, is it the right time, can you trust the idea? I mean you know what do these mad scientists have going on in their lives? Here's Steve Jobs and here's the first iPhone. Now when the first iPhone came out, the early reviews were this is a loser. Who needs this iPhone? We have cell phones. Who needs a phone with a camera? Who needs a phone with a video camera? Who needs a phone that can like download and play music? Who needs a phone that can connect to the Internet? If you follow the first month or so, two months or so of reviews of the iPhone, it was a terrible, terrible idea. At the same time the market loved it. Everybody loved it.

Here's another guy. Does anybody know who this fellow is? Hyman Rickover, very good. The father of the nuclear Navy. Crazy, a crazy, crazy guy. I mean he was a passed over Navy captain who had had a very good solid career but he wasn't going to make Admiral and at the end of World War II he literally didn't have anything to do when the war ended so he went to a course at Oak Ridge, Tennessee on nuclear power. Everything was top secret back then and the Oak Ridge guys, they would hand out the notes in class and they would talk about it.

Then they would bring in the notes at the end of class and put them in a safe. And he came back to the Navy and said, you know we can take this nuclear power stuff and we can build a reactor that will generate electric power. And then we could put it in a submarine hull and we can drive the submarine under the water and we can have long extensions of our endurance underwater. And then later one he said we can take nuclear missiles. We can put missiles inside the submarine and that can be part of our strategic deterrent. A completely crazy absolute science fiction idea. It would never work. Everybody knew it and they told him so.

And here we are, I started off the day by saying that the Ohio Class Replacement Program is the number one defense and strategic priority of the Chief of Naval Operations and perhaps of the entire Defense Department of the United States. Crazy ideas, you never know where it will go. Can management manage, you know? You got the right people in the right jobs. Can they raise money and spend it right? What's the theory of victory? Today happens to be the 200th anniversary, June 18th of the Battle of Waterloo. Boy, oh boy, what a smart audience we have here. I didn't use that image.

This is Borodino September of 1812. Here's Napoleon watching his troops at the Battle of Borodino just west of Moscow and here are his generals sort of watching. He was on a hill watching his troops engage with the Russians and look how depressed he is. He's winning the battle. Why is Napoleon depressed? He's depressed because he's watching his army defeat the Russians but get chewed up in the process. He's losing guys. They're getting killed. He's using up his equipment, his gunpowder, his cannonballs, his musket shot, his rifles, his horses. They're dying. They're being used up on the battle. And he's

fighting the Russians. He's beating the Russians but he's 1,200 miles inside Russia. He's not going to get any more people. He's not going to get any more guns. He's not going to get any more ammunition. Now what?

Well he's going to march on Moscow and he's going to hope that the czar surrenders to him. What is your theory of victory? To hope that the czar surrenders when you capture Moscow? And then he gets to Moscow and the place is on fire. Oh my goodness. So that's why Napoleon looks so depressed in this very famous painting of him watching the Battle of Borodino. Can he manage? Yeah. But what's his theory of victory? Oh, geez.

I mean with some ideas I like the idea of third party verification you know where somebody says oh, that's a great idea that your company has. We're going to partner up and make a joint venture. Downstream users are going to buy it. What's the value added? I mean is there somebody really who's going to sprinkle their knighthood on you, the holy water? Are you going to get a Nobel Prize for doing what you're doing? I mean you know those are things to look at in terms of de-risking ideas.

Any other aspects to de-risking? Well, yeah in the resource world I always look for resource updates. I look for new development angles in technology, breakthroughs in technology. Is there a pathway to cash flow? Is there an exit point for a company — something that can boost the story?

So as an investor you want to do good and avoid evil. You want to manage risk and then what about the dollar problems? Now what? What about the big picture stuff? Made in Washington DC problems. Now what? I'm of two minds on this. My first point, this is — you all know this, the politicians will screw us. No matter what they will screw us. They lie to us, they are incompetent, they are a horrible class of people. I mean I've met political — yet some of them are nice enough, hi, how are you, that kind of thing. But collectively they're screwing it all up.

But the other rule is that I think we can make some money until number one occurs. So hopefully we'll make some money and have some gold money here. Gold is better than paper certainly over the long term. It's depressing though I mean the political class. Can they do anything right? I mean I'm just throwing this out. The IRS is completely politicized. Lois Lerner. I mean you call the up with a tax question. They probably won't answer the phone. If they do answer the phone they probably can't give you an answer to your question. If they do answer your question it's probably wrong.

And if you act on their advice they definitely will not back up the advice they gave you over the phone. I mean I have had this experience both practicing law and personally in my life. We can't control our borders for example. I mean these guys who are acting very aggressively and everything, these are recently capture you might say illegal immigrants. They are in INS custody in a holding facility. They do not look humble or contrite to me. I mean they do not respect the law enforcement that comes with controlling your borders.

You might love or you might hate, here's Hilary reading her blackberry running things through her own private email server as the Secretary of State. I mean if she was a Republican she would be crucified. She's a Democrat so she's going to be the nominee for the President of the United States. I mean come on, can these people do anything right? She's running

it through her private server and then down here I just used sort of a symbol of this nice Chinese woman hacking the U.S. government, stealing the entire office of personnel management records, stealing all of the security clearance records for the last 20 years including mine, thank you very much.

All of my Standard Form 86s that I ever submitted for all my Navy security clearances the Chinese have them. I assure you they will be very bored when they read them. I don't have any real bad crap to — you know I mean I was totally honest. You have to be honest on the SF86. There's no good dirt on me. Maybe there is but I'm not going to tell you what it is.

Here's the VA which kills our veterans and brags about it and promotes people for doing it and here's Janet Yellen, this nice grandmotherly lady who's supposed to fix it all. You know just oh, yeah, great, I feel good about that. I feel very good about that.

So it brings me back to here we are at an Agora conference. My beats are hard assets and real resources. I mean I follow oil, I follow gold, I follow other things that come out of the ground and the mill tech.

Submarines, I write a lot about submarines. Missiles, I mean I've had people email me and say Byron, you always talk about Raytheon. Why are you always writing about Raytheon. I said well, because they're a great company and they know what they're going and you know they've been growing and we're doing very well but Mill Tech s a very good solid space to be in investment wise.

When all else fails at least you own something that's real. That's my view of the world. I mean when all else fails, when the dollar fails, when we have a currency crisis, when there are political issues, I mean I like gold, I like silver, I like oil in the tanks. You know I like big industrial things. This is the new port, new shipyard down in Virginia. It's owned by Huntington Ingalls — a familiar name if you read my newsletter.

Here's one of the Boeing assembly lines up in Puget Sound. Those are 737s but that's actually a version that goes to the Navy called a P8, you know jet engines. When all else fails I mean you can only be who you are. You can only be where you are, what you are. Whatever you're going to do to preserve your wealth and hang on to what you've got, you want it to be hard assets and not vaporware — vaporware to include U.S. dollars even.

There are evolving breakthroughs in technology. The disruptions are coming unbelievably. I mean in our Agora Newsletter family some of the things that you see, not just in my newsletter but in other newsletters are fabulous, fabulous technology breakthroughs. In the resource arena in terms of energy and materials, things are just in complete upheaval. I've been writing lately about fracking, about solar power in my *Outstanding Investments* newsletter. I haven't gotten into it yet because I'm kind of looking for the right way to begin explaining it.

But there's chemical mining. You know the idea of taking rock out of the ground and literally processing it in a different form of chemistry, such that the efficiency of what you get out of it, it's called molecular recognition technology. The efficiencies and the recoveries are stunning, stunning. I mean a couple of companies that I've followed and that I've been writing about, I will be writing about more and more, I mean I love Noble Energy. I was out in Colorado about a week and half ago. I visited the Noble Energy fracking operations.

What a company. Oh my goodness. These guys really know what they're doing.

I was out on a collection pad like 25 wells all come together in this one pad and then they process the oil and put it into a larger pipeline off to the refinery. And I'm looking around and they've got all this mechanical engineering and all these pumps and valves and all this stuff. I look over and there are a bunch of solar panels. And oh, solar panels with this engineer. I said, "Oh, that's pretty cool." I said, "How much power do you get to run your pad off of the solar panels?" "All of it." I'm like, "Yeah, right." He says, "No, all of it." I said, "Like in the daytime, right?" "No. All of it." "At night?" "Yeah, all of it." "How do you store it?" "Batteries." "Well, where are your batteries?" "Right over there."

A big room filled with lead acid batteries. Not something fancy, just your basic lead acid batteries. They charge them up by day. They drain them off by night. I said well, yeah, but you're connected to the grid if there's a backup. No. And I'm looking around. We're out in the middle of nowhere in northern Colorado. There's no electric line to this pad. They're processing 10,000 barrels of oil a day off of this pad. Ten thousand barrels of oil. That's a lot of oil. They're running it off solar power. Astonishing what they're doing.

Oceaneering, the things that Oceaneering does in terms of underwater development dating the offshore industry are fabulous. First Solar, I just wrote about that in my *Outstanding Investments* newsletter. I partnered up with Caterpillar to improve the energy efficiency of remote mining sites. Freeport McMoRan, boy oh boy, I wish I could slightly alter the management of that company. They're running a little too much as a personal fiefdom for my taste. But in terms of their assets, in terms of their oil-finding ability and in terms of their copper-finding ability, this company just doesn't quit. Unbelievable, unbelievable company.

Other disruptions that are coming in the Mill Tech side, new platforms, submarines, new bombers. I mentioned the Ohio Replacement Program at the very, very beginning. New submarines and then the next generation bomber to replace the B2. It will be called a B3 or B4 or whatever it's called, it's coming. Meanwhile everything is all about long-range, autonomous, take the person, take the man, the woman, take out of — if you can remove the human being from your platform, you get rid of those ejection seats, you get rid of the life support system, you get rid of all those cockpit displays that people need to see with their eyeballs, you get rid of all that stuff and you do it all with computers, all of a sudden you know you've got like terminator airplanes.

You know it's pretty cool. If you watched Battlestar Galactica, it's like the cyborgs. I mean it's coming, it's real. You know we see these articles about the Russian airplanes you know penetrating Alaskan airspace and flying down the east coast and all that. Suppose you were fooling around with U.S. airspace, you were a potentially hostile player and you're flying along and along comes not just a man jet but like the terminator with the little red eyeballs looking out. I mean what's that terminator going to — I think there are some amazing things coming down those lines.

The cyber warfare that's happening as we speak, the Combat Cloud. If you follow *Military Technology Alert,* you've heard about the combat cloud. If you haven't I can explain it later but oh my goodness, what's going on in terms of combat cloud. It's big data in a cloud and you're processing it and you are waging war through data.

Unmanned aerial vehicles, unmanned underwater vehicles, UVs, oh my goodness, the oceans are completely changing in terms of what's going into the water and then hypersonic weapons, things that just go fast, go far. It's astonishing disruptions. It's not your father's army, Navy, Air Force, it's not your Army, Navy, Air, it's not my Army, Navy, Air. It's completely different coming. Some of the usual suspects, General Dynamics submarines. That's where the Ohio Class Replacement is being designed. Raytheon, I mentioned them. Northrup Grumman, what a great integrating company that is. And it's the old Northrup, the old Grumman. It's not your father's Northrup Grumman anymore. They are big, big, big into the combat cloud arena.

Textron, I just wrote about that last week. Textron is a fascinating play that might become the next dominant helicopter play for aerial vehicles but technology disruptions just coming. Indeed as you might say the old ways of placing a bomb on a target are changing. Here we have Slim Pickens riding that hydrogen bomb out of the B 52 in Doctor Strangelove. I mean that was hard work. I mean think about what they had to pay this guy to sit on that bomb and ride it down, get it on the target. I'm just kidding. But the old ways are changing. There are new things coming.

People are risk averse though. Nobody wants to be the first. A lot of people do want to be the second. Here's the world's most interesting man. They don't always smile when I come to work but when they do, it's because they want something off the top shelf. I like that. That's a good attitude. It only costs a whole lot more to go really first class and that's where some of these things are going.

So, anyhow, as our day wears on, think about doing good, avoiding evil, managing risk. I hope you're all going to get a lot out of this House of Cards Symposium today. When we're finished I will collect all of your gold tickets. I will put them in my pocket just for — just kidding.

So when you see a new idea as the day wears on, a couple things to keep in mind. Is it real? Is it really a real idea or is it vaporware? What's the risk and what's the de-risk in the play? I mean where is it on that spectrum of risk and de-risk? How can that idea help you move upwards as an investor, preserve your wealth, grow your wealth, hang on to what you've got? And that's all for now so as I said, do good, avoid evil and manage your risks. Thank you very much.

100x Club: How to Turn Every $1 You Invest Into $100

Chris Mayer: Editor, *Mayer's 100x Club* and *Mayer's Special Situations*

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Addison Wiggin: Jim just informed me if you guys, anyone of you collect 220 of those gold tickets you have an ounce, it's about $1,300.00, might be worth it.

[Laughter]

Chris Mayer…

Chris Mayer: All right. I don't really do much public speaking so does anybody have any questions or anything? No? Okay, I think I'm done Addison.

No actually I have a serious question to ask you before I get into the main topic of my talk. So what would you rather have, would you rather have $750,000.00 now or would you rather have the result of a penny doubling every day for 30 days?

Audience: Penny.

Chris Mayer: Penny? Yes, they're all very smart. But at the end it's really striking, at the end of 30 days a penny is worth $10.7 million after doubling every day for 30 days. And what's really interesting is on the 29th day you only have $5.3 million, so a lot of those returns are back in loaded and they take little time. So this gets to the heart of my talk, as you'll see.

So we're gathered here today under a House of Cards banner and you know I have a very different message for you so I'm going to stick out a little from this crowd. I think I'm the only one without a jacket and tie I see. I also have — I told Addison this before, I feel a little bit like the beer salesman at the teetotaler's convention or the NRA member at the anti-gun lobby because I don't share this fear of an imminent monetary collapse that marks the theme of this symposium. And where others see disaster I see dollar signs. And where others see collapse I see opportunity.

So in any case what I have to share with you today is independent of any market view. I believe it's sort of an all-weather investing strategy. So here's my promise to you now: When you leave here today you will know the most important concept behind multiplying your money hundredfold. That's enough to turn a $10,000.00 investment into $1 million.

Now if you were to set out to do this and figure out how to do it what might you do? It's sort of like an engineering problem or reverse engineering problem in a way. So it reminds me of this old joke. There's a priest, a doctor, there's always a priest in these things, there's a priest, a doctor, and an engineer and they're playing golf. They are behind this really inept foursome that's just hacking the ball around, it's taking forever. Finally they complain to the marshal and say, "What's this group in front of us?" He says, "Oh, those are four blind firemen and they saved the clubhouse from burning down some years ago, so we let them play for free." So the priest says, "Oh that's a shame. I'll pray for them." The doctor says, "Oh well maybe I can talk to some of my eye doctor friends and see what they can do." The engineer says, "Why can't they play at night?"

[Laughter]

So I look at this hundred-bagger problem the same way. It's a very simple kind of problem. If you were going to figure out how to multiply your money a hundredfold let's look at all the stocks that have done it so far already, it's the kind of reverse engineer of what's happened.

My inspiration for this comes from a guy named, Thomas Phelps, which I don't know if you've read my material lately I've talked a lot about him. He was a Boston investment counselor. He was a Bureau Chief for the *Wall Street Journal* for a time. He wrote for *Fortune*. He was an investment partner at Scudder, Stevens & Clark. He wrote a book called, *A 100 to 1 in the Stock Market*. It came out in 1972 and what he did is he looked at every stock or not every stock, but as many as he could find at that time given his resources, stock that had multiplied capital a hundred times from 1932 to 1972.

So this is my first recommendation for you is if you haven't read the book, you should read the book. Write it down, *A 100 to 1 in the Stock Market*, by Thomas Phelps. There's a new edition out and it's about $47.00, it's not cheap. There was an out-of-print version that I had and I talked about it so much that I think it's vacuumed up all the used copies. And for a time they were going for like $250.00 a pop. I remember I had an email from a reader who said, "You know you should give us the heads-up on the book recommendations so we can buy those ahead of time and sell them." I actually had a reader who bought it for $25.00 and sold it for $250.00. *[Laughter]*

He said, "He hadn't done that well on any of my stock picks."

So what I did was I decided to update this book. Actually it was a professor friend of mine. I was a guest lecturer at the New School and we were having dinner afterwards at a very nice rooftop restaurant in Manhattan, called Barrera. If you're ever there it's near the Flat Iron building and they serve cask-aged ales which are hard to find and very good. He said I should update it. So I thought that was a really good idea. It was a life-changing meal because for the last six months I've spent all my time on this project. And Agora has spent, as Addison knows $50,000.00 just to get the data. Since then we've been manipulating and trying to figure out what we can learn.

So we got data going back to 1962, at least copies of that data and we came up with 365 names that have multiplied a hundredfold. It's really a diverse lot. There's all kinds of industries. There were some surprises too. I mean you would expect to see Walmart and Microsoft and Intel and Home Depot and those kind of names, but there are also things like Kansas City Southern, which is up something like 14,000 times. L Brands, there's a company called Tractor Supply that became a hundred bagger in just 12 years.

But they all have one thing in common and perhaps it's an obvious thing and I call it, "The law of hundred baggers." You know you might want to write this down and memorize this because this shows you the hurdle you're having to get over. So 20 percent a year compounded for 25 years is a hundred fold return. Twenty percent a year for 25 years or 25 percent a year over 20 years. So this kind of gives you a benchmark in a sense for the hurdles. If you want to do it inside of 10 years you need a 48 percent return every year for 10 years, that's a hundredfold return. If you take 5 percent, it will take you 94 years. So there's this curving slope, this sort of mountain and every hundred bagger had to get over it.

This is not meant to discourage you or depress you. I know nobody wants to wait 20 years and nobody wants to wait 10 ten years and I don't want to wait 10 years before you get a payoff.

This reminds me of the story about the Trabant, which is a popular car in East Germany during the time of the Soviet Union. So you know this is during the Communist era and everything takes forever, whatever you want to buy it takes time. So the story with the Trabant is that you would buy the Trabant today and you would get your car ten years later.

[Laughter]

So the story is the customer goes in and he pays for his car. The guys says, "Okay, it's today and you come ten years from now on this date, June 18, 2025 and you can get your car." The guy says, "That's great. Is it going to come in the morning or the afternoon?" The guy says, "Well what difference does it make?" The guy says, "Well the plumber's coming in the morning."

[Laughter]

So I know nobody wants to live this way. Nobody wants to wait forever to get paid or to get their payoff. So this hundred-x investing is not a matter of waiting 20 years for a payoff. Time is a wonderful teacher but she has a way of killing all her students.

So hundred-x investing is a matter of figuring out what really creates those parabolic returns? You know a problem well defined is a problem half solved and we've just solved half the problem, because I've given you those mathematical boundaries.

So let's just say we draw the line, we want at least a 20 percent return compounded annually. What sort of idea might we discount immediately or not look at? Anybody have any ideas, what might be a stock or a general idea you might not look at for a hundred-x at all? You could discount it. Any guesses? Ideas?

Audience: Utilities.

Chris Mayer: Utilities, perfect example. Utilities are slow growing businesses, you're not going to get a hundred bagger on a utility so that's a big part of the universe you can cut off. Another thing that I always think of is you look at a company like Apple and Apple has like a $750 billion market cap, is that going to go up a hundred times from now? No way. I mean it would be a multiple of the U.S. economy. So right off the bat you see we've narrowed down our hunt a little bit. We know we need growth; we need lots and lots of growth.

In my study of the hundred-baggers every hundred-bagger was a much, much bigger business in the beginning than at the end. So Peter Lynch has this example where he talks about what would you rather have? Would you rather pay 10-times earnings for a company that's growing ten percent a year for 10 years or would you rather pay 20-times earnings for a company growing 20 percent a year for 20 years? You would always prefer the 20-times earnings for the higher grower, because when you run that math at the end of 10 years you're going to have almost three times as much earnings. So even if the 20-P falls to ten you still have almost three-times as much earnings.

Conversely I mean in the same way you'd rather pay — if you pay 30-times earnings for 30 percent grower or 40-times earnings for a 40 percent grower, so you can't discount a

share just by looking at price earnings ratios and you'll see this happen all the time. I know I recommended a company called Interactive Brokers, IBKR, it was one of the first picks I made with this sort of hundred-bagger template in mind. I got some pushback from readers of mine because at the time it was trading for almost like 50-times earnings. But if you sort of backed out there's some excess capital there, this business was growing very fast. So today that stock is up 50 percent and it still trades at a big multiple, but the growth is accelerating. I mean they're adding accounts at 30-percent-plus clip a year.

So the other thing I talked about Apple wouldn't be a hundred-bagger as you want to stay small. And in our study of hundred-baggers the median sales price for a hundred-bagger at the start of the journey was $170 million. So that's important to know because it's not like you have to take a flyer on a $0.50 mining stock where you have to buy some $1.50 biotech project or something. I mean a $170 million is a substantial business.

But you want to stay on the smaller side of things and we need high growers. So those are two things.

But those are not the most important thing and I told you I would tell you the most important driver of these hundred-baggers. So we have to think about what makes stock go? So let's start with Japan. I was in Japan with my 16-year-old son in April. It's a wonderful place. It's clean, it really works, I mean it's amazing. You go to Tokyo, greater Tokyo is like 35 million people, it's three times the size of Manhattan. You would never know it being there. Trains work, they're clean.

I took the Bullet Train from Tokyo to Osaka. You know what they do when the train comes in from Tokyo and ends-up in Osaka. They let everybody off and there's a crew of cleaning ladies that go on and clean the train before the next group of passengers come on. I've been taking the Amtrak between New York and Washington for years and years, I don't think I've seen anybody ever clean that train.

[Laughter]

So the other thing about Japan you know the food was great, but the thing people ask me, "Well what did you like the most about Japan and what surprised you the most about Japan? I have to tell you it's the toilet seats. Now this might surprise you. These toilet seats are awesome. People come from China just to buy the toilet seats and bring them back. You sit on these things and it's like a captain's chair.

They have consoles on this side. First off the seats are heated. Now let me tell you this is a wonderful thing a heated seat. You have a little console, it has pictures of like behinds with different spray patterns that you can pick after you're done. Seriously. You can control the flow. Over here you've got sounds you can have so it masks what you're doing you know? Then yeah you've got sounds and then you've got heated seats, you've got spray control, this is awesome.

So this is where you have a big disconnect too between the macro guys and when you actually go there and a place. Because what have you heard from people about Japan all the time? They use it as an example what you don't want to have happen to your country. Oh they've had recession for 20 years, oh it's miserable there, oh it's a contraction, they've got

deflationary problems. You go there it's a very comfortable place.

Now when I was there I wasn't just checking-out toilet seats, I was also looking at stocks and seeing how the stock market works. The interesting thing about Japan is you know Japanese stocks have been cheap for a long time if you're just looking at those price earnings, ratios, and price-to-book ratios and those things, but that's not really the story.

The story is you have to look at what those businesses earn on the capital invested in them. So I was happy to see *The Economist* in their latest issue had a chart where they plotted Japan's ROE. So let me give you an example of return on equities. So if you have $100.00 invested in the business and that produces a profit of $20.00, that's a 20 percent ROE, that's high, that's a good business. In the U.S. the average ROE for a company in the S&P 500 is almost 15 times, 15 percent, that's good, that's really good and that's the average for the S&P 500 and that's why U.S. stocks trade at a premium.

You know what they are in Japan? In Japan the average ROE is like 6 or 7 percent. So that's why you know they trade at so much of a lower multiple. What makes stocks go is what return do you as an investor earn on that capital invested in the business.

So let me give you another example. You hear the macro guys all the time talk about this CAPE ratio or Shiller's PE. How many people have heard of this and know what this is? A lot of people. What it is really is just ten years earnings average. So if you look at the world right now the cheapest markets in the world on CAPE basis of Russia, Greece, Italy.

Now might Italy be cheap? Somebody throw out why do you think Italian stocks might be cheap? Help me out here. Who's my guy that gave my answer before? Well?

Audience: They're in trouble, nobody wants them.

Chris Mayer: They're in trouble, nobody wants them. Right, there's all kinds of crap going on over there. Why would you want to be involved in it? There's also a deeper reason. Let me tell you.

If you go to the Milan Stock Exchange and you look across the square you see a big sculpture. You know what that is? It's a giant middle finger. I think that pretty sums up what Italians think about capitalists and investors. When you go there those companies don't earn very much on their capital. It's hard to fire somebody, it's hard to close a plant, it's hard to open a plant, it's hard to do anything in Italy. You look at Italy on GDP per capita base it's just like a wasteland and especially in Southern Italy.

But there is something interesting about Italy that's worth mentioning. The northern part of Italy is as productive as Germany. If you were to look at a map and look at GDP per capita by regions you would see Northern Italy on par with Germany, which I think surprises a lot of people. So you don't go south. You go south when you want a good tomato and have a pasta dish. When you want to invest you go to the north, there's some good companies there.

So again it gets down to this issue of what the return on capital is.

I'll give you one more story, one example. In 2011 I was in Saskatchewan and I remember we were looking at farmland and at the time for various reasons farmland was very cheap and there wasn't a lot of competition to buy it. I was with Brad Farquhar, who some of

you may know, at the time he was part of a company called Assiniboia Capital. We were driving around looking at canola fields all day long.

Then one funny story I remember is he pulls over the car and stops at one point and he says, "I want to check and make sure we're not on fire." He gets out and looks at the car and I'm wondering and says, "What do you mean you're checking to see if the car is on fire?" Apparently when you're driving through these canola fields you can have vegetation and things get snagged on the underbody of the car and as you keep driving it gets really hot and the car can burst into flames and you can all die a horrible death. So I was glad that he did that you know.

So he eventually created a company called, Input Capital, which I've written about and that went public a couple of years ago I think at around $1.00 and now it's almost $3.00, but this is a company that's earning 20 percent returns on its capital. What they do is they lend or/and they invest with farmers and the farmers use their capital to buy seed, fertilizer, and then Input Capital gets a part of the tonnage, part of the actual crop and then sells that. I mean it's just a great model. They generate huge returns on capital. They're growing at 40 percent a year. They've gone from like a dozen farmers to 68 farmers and they have a potential addressable market of 33,000 canola farmers. That's the kind of business that can be a hundred-x. So Input Capital write that one down, that's a good one to know.

So this is the most important thing. You need a high return on capital with the ability to reinvest and continue to invest at those rates over time. So what does that mean? Again I gave you the example of if you started with $100.00 in your business and you generate $20.00 profit, you can reinvest that again, so now you have $120.00 and you earn 20 percent again, then you're up to $144.00 and you get the flywheel effect and that's how you can get big, big returns.

One of my favorite stocks and it's a good example of this is Howard Hughes Corp., which we bought in 2011 for around $40.00 a share. It was not very well understood. It didn't screen well. People looked at it and said, "Oh, this is all the junk that GDP didn't want." In fact the nickname of Howard Hughes in the documents and things people would say, they called it "Shit Co," because everything GDP didn't want went to Howard Hughes and there was a bunch of land, there was a bunch of development companies, didn't have any earnings, looked terrible. But if you dug in and understood the economics of that business something magical was going on, because they had a lot of land and a lot of real estate in Las Vegas and Hawaii and Texas and New York. A lot of this Howard Hughes had accumulated a long time ago.

So let's say you're in Las Vegas and you want to put-up a tower. In Las Vegas Howard Hughes owns an enormous amount of land there. Odds are decent you're going to be dealing with them. So they will contribute their land to your tower as part of a JV. What this means is that you as a developer or you put all the money into building this thing. At the end of the day Howard Hughes maybe spends $1 million on this thing, but because they became partners in a JV at the end of the day after the project is done they have a half interest in maybe a $50 million tower or a $25 million tower. Do you know what the returns are on that? You put down $1 million and then at the end of a year or two you're a 50-percent owner of a $25 million building or $50 million buildings, it's an enormously high return on capital, enormously high and very rare and that's why the stock's gone from $40.00 to $150.00 and I think it

could double again.

So we don't want these things to take forever, but you do have to give your stocks time. You know last year I had my son open up his brokerage account. He's 16, he was 15 then and he started with a small amount of money that he had saved, like $4000.00. You know we talked about some different stocks and I tried to just like I'm talking to you now conceptually tried to tell him what makes stocks go, what makes one stock better than the other. So he put some stocks in and beginner's luck everything he bought went up and it went up pretty quickly.

So I was just waiting for him to get his teeth kicked in. You know because he's getting confident and thinking — I remember one time he was showing his mom his account and then he hit like Refresh and he was up $5.00 seconds ago and he said, "Wow, look I just made $5.00." When you're a kid this is miraculous. It's like he's not doing anything and he's making money, his money is turning into money.

But he had an oil stock in there so he's gotten his teeth kicked in there pretty good now.

[Laughter]

Now he's become a real investor and "holding for the long-term," he says you know repeating me, because you're down 50 percent you know.

But it's my own story too. You know I'm largely a self-taught investor. True I have a degree in finance and an MBA. I have a ten-year career in banking and all that helped add to my technical know-how how to do this stuff, but I really learned the art of investing in public securities by reading and by doing.

I remember when I finally decided I was going to swear off mutual funds and I was going to manage my own money in stocks only, it's 1994 and I'm 22-years-old and my first stock I buy is Intel. Actually it was Intuit and it went up 10 percent in a week. Sold it. I couldn't believe it. I was like, "Ten percent a week. Boy if I left my money in a bank account all year it wouldn't make ten percent," and I thought that was awesome. Of course then it continued to go up and up and up and up and even though I'd done all this reading about Warren Buffett and the power of long-term investment I couldn't resist grabbing that ten percent a week that seemed like a lot to me. So the second stock I ever bought was Intel and I held onto it and tripled my money.

But think about all the ways in which society conspires against this kind of thinking. Because the noise level in today's society is so high and you've got text, you've got Facebook pages, you've got Twitter feeds, and you've got e-mails all the time. You've got this incessant 24/7 financial media cycle where they operate under this fiction that something important happens every day and every hour of every day and now every second of every day and if you turn your head you're going to miss it and it's going to cost you. This also impacts behavior in the market.

Investors didn't have to deal with this not too long ago. I mean I'm not that old, I'm 43, but I remember doing research on stocks and having to go to the library. I remember looking at what they called S&T Tear Sheets and libraries would have these binders with the S&P reports, so we come every week and every month. I would go in there and get some

financial data because that's how you got it. It wasn't like you'd go out on the web on and pull out stuff. And if you wanted an annual report you sent away for them in the mail. I remember having kind of a steady stream of annual reports coming in through the mail and how excited I was when they'd come. I'd open them up and feel like I was a professional investor and I've got annual reports coming in the mail. It was fun.

But now everything is available all the time 24/7. People forget. In that world people held their stocks longer. In 1995 the average holding period of a New York Stock Exchange stock was two years in 1995 and that was sort historically speaking. If you go back to 1960, in 1960 the average holding period on a New York Stock Exchange stock was 14 years average that seems like an enormous amount of time today even 2 years sounds like… What do you think the average holding period is today if you had to guess?

Audience: Forty-five days.

Chris Mayer: That's close, no it's months, it fluctuates but it's months, it's less than a year average.

So I think instead you know investing we should approach investing of stocks a little bit more like we might approach marriage you know unless it's a casual thing. So you get to know your stocks a little bit.

It reminds of a Charles Bukowski story. Charles Bukowski is one of my favorite authors. A short story he tells where there's an old married couple and the wife says to the husband, "What do you want for breakfast?" He says, "Eggs." She says, "We've been married for 30 years and every day you say you want eggs." He says, "More amazing than that you always ask."

[Laughter]

So the market has changed. So some of this behavior is defensible. You know the lifespan of companies have shrunk and continue to shrink. Much of this though I think is just a result of our over indulged, excessively stimulated culture assaulted with images and message every minute of every day. Executives will behave this way too, which is unless you have great owners, which is another point I'd like to make is that when you invest in stocks if you can invest along the side of a great owner you're halfway there.

If I could just rattle off some names you would know the companies immediately. I don't even have to tell you their companies. If I say Jeff Bezos or Steve Jobs, Sam Walton, Warren Buffet, you know the companies. These are some of the greatest performing stocks in the last 50 years and they all had an entrepreneur behind and they had someone who's driving it forward.

These talents are not so common but I can give you a nice list if you just look at the portfolio page of my newsletters.

More common are what I call a "custodial management teams," and I loathe these people. Like Ray Irani who used to be the head of Occidental Petroleum, he's no longer the CEO, he pocketed $70 million in 2010, he made over $500 million in the five years prior to that. How much of that success was his and how much success is just rising oil prices. Or take one of my favorite examples is Dick Fuld who used to be the head of Lehman Brothers,

who brought home $40 million, which is 1 percent of the earnings of the company in 2008 before it blew-up.

So there are good people.

So now I've told you some important keys. You know you need growth, you want to stay small, you want to give your stocks some time, and it helps to have a good owner. But you want to double-underline this part which is that you want that high return on capital again and you want the ability to reinvest again that is the all-important thing.

Now notice what I haven't mentioned and this is relevant for the House of Cards Symposium. What I haven't mentioned I haven't talked about the economy. I haven't talked about the Fed, the dollar, the direction of interest rates, the overall market, geopolitics, a long list of stuff that people spend an incredible amount of time on. My view is none of these can be predicted. They're important but they are unknowable.

This doesn't mean I'm not afraid of things or that I'm ignoring what's going on around the world. It means that I'm not making forecasts. I'm not relying on these forecasts. I'm accepting things as they are, rather than as I think they ought to be. So when you see people always say, "Well the market is too high," and the implication is they know what the market should be. You know it's a striking thing to think about.

But anyway I think it's much more exciting to learn about businesses and learn about the people and meet these great entrepreneurs and hear their story. If you read my letter you know I spend time talking about these people. Most recently we've had Chris Reed who started Reed's Ginger Brew. He started you know in his house. He was brewing ginger beer in like a pool, mixing it with an oar and taking it in his VW bug, driving it around and getting people to buy it. That's how it started. Today it's a $70 million company.

Or Mark Grewal, who started S&W Seed or took over S&W Seed, used to work for J.G. Boswell in California and he was a brilliant farmer. He was the kind of the guy he'd take a desert and in a year he'd have fields blooming with lettuce and tomatoes and onions. He's a brilliant guy. Now he has his own company and you can invest alongside him as we have and that stock has risen almost more than 50 percent since we've been involved earlier this year.

So I would say this, I'm not interested in your guess in what the Fed is going to do or interest rates are going to do. I'm not interested in anybody's guess. I'm not interested in my own guess. Bottom line is that these hundred-baggers that I've studied have powered through all these concerns and I have 365 examples on why this is so, both Phelps study and in my own. Think of all that's happened to this country over the last century, wars, inflation, interest rates all over the place, terrible things, and yet there were all those hundred-baggers and several thousand baggers.

This has taken me awhile to learn, I mean to really learn it. I've read this stuff from the great old wise men of finance. But you know talking about the macros is fun. I like to talk about it too. I write about the economy, I write about interest rates, I think about inflation, but my recommendation to you would be sit loose in the saddle with these ideas, to hold to them lightly and with great humility.

So earlier this week, yesterday, not that long ago, I had lunch with Chuck Akre who is a great investor, not very well known, 72, he's out there in Middleburg, Virginia. I'm going to write about him on Friday you'll see. Very relaxed guy. Went to lunch. He's also a big fan of Phelps' book, that's how I made this connection with him. We had a great lunch. All during this lunch all he did he talked about businesses, he talked about people, he talked about lessons he's learned in investing you know. But we never talked about where he thinks the stock market is going to go. He never mentioned the Fed. And this is the way great investors talk and believe me I've met a bunch of them, from Bill Ackman, to Ralph Wanger. Wanger you may not know, but Wanger used to run the Columbia Acorn Fund for a lot of years and he wrote a very nice book about investing called, *The Zebra and Lion Country*.

I also began my investment career in Blue Blood Banks with old, old money. This is the way they thought about these problems too. They thought about where they could put the good ones anyway, where they could put their investments and compound their capital over a very long periods of time. They weren't interested in our predictions about the economy or where interest rates were going.

I've made a lot of money in this bull market and if you haven't made a lot of money in the last five, six years you're probably following the wrong investment program.

By the way macro for me is best used kind of as a negative art. So it's easy sometimes to disprove things. I would use the example of quantitative easing most recently. When that started almost everyone thought that wasn't going to be inflationary. It wasn't and it isn't and I have that insight from understanding how bank reserves work and reserve accounting. So when the macro crowd told you to avoid say real estate investment trusts, which is an interest rate sensitive sector in 2013, I was buying them.

Then we have a company called for example, North Star Reality, which today we are enjoying a 16 percent return, investment yield on our capital, 16 percent yield on our cost basis on a stock that's double. So you have a lot of margin for error when you invest in ideas like that. So bottom line I would say if you're right about the business it overrides everything.

I heard Warren Buffett give a speech once where he used the example of Coca-Cola. He said, "Coca-cola went public in 1919 for $40.00 a share. One year later the stock was $19.00. And look at what was ahead of you. You had depression, then another depression, you have wars, you had sugar rations, inflation. You could have always found a reason not to buy it. And yet if you had just bought coke for $40.00 and reinvested the dividends you'd have over $5 million today."

Which I think is shocking. It's like those pennies; even a small amount compounded over time becomes a lot of money. Also I say as much as I discount macro predictions I'm also not advocating that everybody become security analysts either. Over time I've learned to discount my own chosen art because I have also seen very pretty, well-done analyses done on companies that just turned to dust, they were completely wrong. A lot of times you know they're wonderfully researched, but they're missing the key component of what makes stocks go. This high return on capital for a long period of time, that's the key.

So the older I get the more and more I think Marty Sosnoff was right. He's an old money manager; he's a son of Russian Jewish immigrants. He grew up in the Bronx in the 1930s.

I'm actually going to go visit him next week. But he said in so many words that investment problems do not get solved by the power of intelligence. Investing is a reductionist art and conceptual power is everything. You want to boil off that which dilutes. So there's a lot of things that don't matter in your quest for hundred-baggers.

Security analysis is not going to uncover the next hundred-bagger for you. It may help keep you out of the dogs, it may prevent you from paying a stupid price, but to get a hundred-bagger really takes vision. It takes you seeing something that's not apparent yet in the numbers. It's like the Howard Hughes' example I told you before.

Underlying that is the most important ingredient. High return on capital for a long period of time and there aren't many businesses that answer the bell

So I'm going to end here with a story of Aesop's Fables, the story of the ant and the grasshopper, which you already know, right? The ant is the industrious one who works and slaves. So winter comes around, he's prepared. Meanwhile the grasshopper he's been goofing off and winter comes and he's facing cold and starvation.

So the grasshopper goes to the ant for advice. He says and the ant tells him, "Grasshopper, you should change yourself into a cockroach and go into that house over there where you will find warmth and shelter." The grasshopper says, "That's a great idea, but how do I turn into a cockroach?" The ant says, "I've given you the master plan, it's up for you to figure out the details."

So like the ant I've given you the master plan today of what I want to do, but unlike the ant I'm not going to leave you to figure out the details for yourself. I'll be talking about these details in my newsletters and I hope you will join me for the endlessly fascinating quest, exciting quest for the next hundred-baggers.

Thank you.

Your Unconventional Rescue Plan

Ryan Cole: Editor, *Laissez Faire's Unconventional Wealth*

Click here to download the MP3 and Ryan's powerpoint presentation

Addison Wiggin: I am going to start with Ryan. Ryan is the editor of a publication called *Laissez Faire's Unconventional Wealth* and it tailors with a lot of the stuff that Jim Rickards is in because he looks at other ways of building your wealth outside of the stock market. I will let Ryan explain his investing strategy, but I think you will find it is a complement to everything that we have planned for today.

Ryan Cole, thank you.

Ryan Cole: Hello everyone.

Audience: Good morning.

Ryan Cole: I am Ryan, and I am the only thing standing between you and lunch. So, I am going to try and make this fast and sweet so that we all can get where we really want to be, and I know.

I named this "Your Unconventional Rescue Plan," and that is kind of a cheat. I very much believe in making your money in unconventional ways, and I am going to outline exactly what that means and how you can do it in a little bit. I call this a rescue plan because it is really useful during down times when everything conventional is going wrong, going haywire, the way that Jim is going to be speaking about, the way that he is predicting. Then, you don't want to be conventional; you need to be unconventional.

Rescue plan, well, that's a little bit of a cheat because being unconventional is also really good just for making money during regular times as well. Let me tell you what I mean.

By the way, that is me.

That is the way that most people invest. That is a bunch of people in a marathon. That is the way we think of investing. You are going to be doing a little bit over a long period of time. A marathon you can run anywhere between two hours and seven hours; it takes forever. At the end of it you are extremely tired and you just feel like you want to die, which is sort of the way you feel like when you're ready to retire.

If you're lucky enough to make it to the finish with enough money to retire, then you've usually wasted most of your good years. Not always. There are people who are able to do it faster; there are people who win the Boston Marathon. There are people who are able to lift cars over their heads. There are all sorts of exceptions, but for most people, you're just going to be running along in a big crowd of others hoping to make it to the finish line — which is very far away.

Trust me, I know. That's me. I actually ran a marathon. I'm pretty proud of that. I finished, in my age group, with a reverse bronze — third from last. That sounds pretty pitiful. It is pretty pitiful, but running a marathon is really tough, and that's the way that most people invest when they're investing conventionally. You are trying to eke out market gains. We can give you all sorts of advice, but the market has tremendous gravity.

If you are investing in conventional ways — whether it be with stock markets, with assets (what have you) — you can outperform the markets for a little bit, but over time you're going to get pulled back down. You're going to be making your 8 percent a year.

You can retire on 8 percent a year, especially if you start with a good nut, but it's going to take you a very long time and, of course, if anything goes wrong along the way — if you sprain your ankle in the middle of a marathon — then you're in real trouble, as we saw in 2008 and 2009. That really screwed a lot of people up 'cause they were investing conventionally.

Here is something else about marathons, which is similar to markets. I'm trying out this new metaphor, so stick with me. As you see, it is a great big circle. You are going to be going this long way around, much the way that economics goes in cycles.

Unconventional wealth, unconventional thinking, is when you completely break out of that paradigm. It's when instead of going in the great big circle, you just step from one side to the other, and all of a sudden the start became the finish. That's thinking unconventionally. It's thinking in a completely different paradigm, thinking about things in ways that no one else has, or very few people do.

One of the reasons why that is so important is because — how many of you would consider yourself contrarians? Just a quick show of hands. All right, that's a pretty good number. That's very important. Being contrarian is great. If you're going to be in the markets, you want to be a contrarian because if you are doing what's popular, then you're buying what everyone else has already bought. By definition, you've just marked the top.

If you're doing what everyone else is doing and you don't like something, then you're selling. When everyone else is selling, there is no one else to sell to. You just marked the bottom. If you're not a contrarian, you're the sucker. You're the last sucker that everyone is selling to.

However, there is also a problem with contrarianism, which is that there's a decent number of people who are onto this trick. They are themselves their own convention. There's a contrarian convention, which makes it difficult to be truly unconventional. Sometimes you can be contrarian; sometimes that will work. There are lots of times that it will work — being that guy, going against the grain.

There's of course some very smart people who spoke about being contrarians. That is buy when there's blood in the streets. I'm sure you've all heard that from Baron Rothschild. You may not realize he meant that literally. He said that during the French Revolution when there was blood filling the streets.

Warren Buffett of course said, "You want to be greedy when others are fearful. You want to be fearful when others are greedy." It's that simple. It really is. That's what being a contrarian is. But, as I said, just being contrarian isn't enough. You want to be truly unconventional.

Everyone knows what this is. This is the great big crash that hit us not that long ago, when we just missed going into another major depression by the skin of our teeth. That's what happened to all the conventional thinkers out there.

The contrarians said, "You know what? I know exactly what to do. I'm going to go to gold," and they did very, very well. That's when being contrarian is wonderful. You can do very

well betting against everyone else.

But there is a little problem. If you just stuck with that, "Oh." Gold took itself its own tumble. Maybe you would be the person who was able to buy gold at the very bottom and then sell it at the very top, but it's unlikely. Again, you're the person who is now able to lift a car by yourself. Don't count on that. You have to count on being somewhere in the middle if you're going to be part of a group, which means you're going to suffer this fall.

Actually, it is a little worse than that. That's gold price, inflation-adjusted. As you can see, from about 1970 to today, it has barely moved. You've made about 20 percent above inflation. It looks like a whole lot more because we've had plenty of inflation over that time, but you're really not making a huge difference for your retirement buying gold.

Similar with stocks, you're going to see from 2000 to today the S&P is barely up, if you adjust for inflation. You're just keeping your money if you're there. You're not really growing it, not the way you need to.

What's actually unconventional? What do I mean when I say, "Let's break a paradigm?" That's a wonderful thing to say; nice turn of phrase. But, what does it actually mean? It means you're going to serve these people. This is just one example. That's a picture from the '50s of a couple in a mobile home.

I don't know how many of you are familiar with the history of mobile homes. I'm not talking about RVs. I'm talking about the homes, which you can actually sit down on a pad; they don't have wheels. They stay where they are. It is very expensive to move them.

They had their birth in the 1920s, actually as a luxury item, because in the '20s it was before the interstate. There were no motels, so you wound up having — very rich people want to go off, take their trips around the nation, and they want to have someplace to stay. They don't want to go camping everywhere — which is the other option — so, "Hey, we'll take along a trailer behind us. We'll have our own little home." That's the way they were invented.

They weren't downtrodden until after the war. In World War II they were used as emergency barracks; they were used as storage. They were bought up in huge bulk by the government. When the war was over the government then flooded the market with all of these mobile homes. The price dropped and it became a lower class thing as opposed to an upper class thing. That's the history. It doesn't necessarily have to be a lower class thing, but that's where it is right now, for the most part. However, that's probably a good place to be.

These are all shocking numbers when I found them. You don't usually hear these numbers. The median income in America is $28,000. You always hear the average income, which is usually in the fifties or the sixties. Don't pay any attention to that. That is pulled way up by your Warren Buffets and your Bill Gates. The median income — 50 percent of the people in the nation live on $28,000 a year or less. As a matter of fact, 60 million people — as you can see — make $10 an hour or less. What can you afford with that? In terms of where you are going to stay, not very much. You can afford about $572 a month.

The average two-bedroom apartment in America is $1100 a month. These numbers are not adding up at all. Am I right? If half the people are making that little money — 60 million

people are making even less; $10 an hour — they can't even afford a regular two-bedroom apartment. They're looking at true slums.

When you saw Baltimore a couple of months ago on the news, two miles northwest of here that is what you're looking at. If you can afford $572 a month, that is your basic option. It's really, really scary. It's a really huge market. What's more, if the house of cards does collapse any time soon, that number is going to balloon. The 60 million number is just the start. We could be looking at a whole lot more poverty.

There is a great big divide happening in America right now. The middle class is dying. You're now having an upper class and a lower class, and the lower class is growing very fast.

If you've got that sort of money, you're not going to be able to buy a house. You're not going to be able to rent a very nice place. But, you can afford a mobile home. These are the people that we're going to be selling to.

You can see from 1980, 1990, 2000 single-family homes have gone up quite a bit. Mobile homes are still relatively affordable, even at $40,000. That's what you would pay to buy a brand new mobile home, which by the way is not what we're interested in selling. We're interested in selling the land underneath it — but we'll get to that in a moment.

A brand new mobile home at $40,000 — a mortgage on that is going to be pretty affordable. You're going to be able to afford that spending $500, $600 a month — less actually. You'll be able to get away with that.

This is just to show you that it's not a bad thing to sell to those who are in the lower segments of society. It's a comparison between Sears — which you may know of course had its own manufactured homes at one point. It is very middle class. That is who it has always sold to, and it's dying. Look at its performance since '05. It is down over 50 percent.

Look at Walmart who sells to the great-unwashed masses, if you will. It is doing very well. If you look at FDO — The Family Dollar Store — it has gone gangbusters. Since 2005 it is up almost 200 percent. Mobile homes are the dollar store of real estate. That's exactly what we're doing; that's exactly who we are. That is who we are selling to, and that's where the great opportunity is because that is where we're seeing growth. Especially if we have a crisis ahead — and we all know that we're going to have a crisis; it is a matter of when, not if — then that population is going to get even larger.

How do you actually make money? I hopefully have convinced you that this is a good segment of the market to be in. How do you make money? You own the actual mobile home park. The way that these work is you own the land. You provide a concrete spot for someone to plop down their mobile home.

For the most part, these parks are already filled with mobile homes, many of them already paid off from the '50s, '60s, and '70s. They're still standing there. They are completely in the clear. That is where people already are living. You're looking, usually, at 80 percent occupancy on any mobile home park that you are going to be interested in.

In exchange for your land, they pay you lot rent. In exchange for the lot rent, you basically give them the land. That's about it. There are some other things. You have to worry

about things like infrastructure; we'll talk about that a little bit. But, you don't have to do very much. It is not like owning an apartment complex where you're responsible for maintenance. No, this is their house. They are just putting it on your land, so you are able to charge lot rent and you have just about no overhead.

For the very largest mobile home parks you're talking about finding a manager, which usually is someone who lives in the park. You will give them a free lot and pay them 10 bucks a lot to go and collect the rent and take care of any issues. That is the sort of overhead you're looking at — not very much at all. The lot rent varies, of course, depending on where you are in the nation. It can be pretty good. At its cheapest it might be $50 a lot, but it can go up to $1,000 or $1,500 a lot — that is just outside San Francisco.

The important thing is you just want to be the cheapest kid on the block. All you have to worry about is being cheaper than anywhere else. In San Francisco, at $1,000, that is still pretty cheap, no matter what you've put on top of it.

One of the other nice things about this is you get static tenants. There are a couple of reasons for this. One is because it is so difficult to move a mobile home. It costs a minimum of $5,000. You need specialized equipment; you need to lift it up. You need to move it around. You can't torque it at all, or else it will break apart — very difficult.

If it is $5,000 just to move it from one lot to another in the same park, if you start transporting at any distance, then you're talking about a whole lot more. That is something, which most people just can't afford. If they are already in a mobile home park, they do not have $5,000 lying around, most likely. They are going to be staying there as long as you keep the rent somewhere where they can afford it. That makes it very nice; you've got very static tenants.

The other reason why they tend to stick around is because mobile home parks are nice. They have this awful reputation. Granted, some of it is deserved. There are some awful mobile home parks out there. But, with just a minimal amount of effort — put up some new signs, make sure that the roads are okay, edge the lawns — and these places turn into nice working class communities.

Those sorts of places, which are mostly dying, are everywhere else, but this is a place where you can go and actually be part of a community. Indeed, most residents of mobile home parks talk about how much they love being there because they did live in the slums before that and they escaped, and they are paying usually less than they did for their awful apartment. They actually have a yard now.

They have property, ownership. This is their only path to the American dream. For most people, the American dream is already dead. This is about it if you're making $10 an hour. There is a path, but this is it.

Flexible rent; I put that up there because one of the things that most people do when they mobile home park is they raise the rent. There's a couple of reasons for that. One — as I said — you've got people who are more or less stuck there. As long as you keep it affordable, it is pretty inelastic. You can raise the rent and no one is going to leave.

One of the people who really is an expert at this, Frank Rolfe — who I learned a lot of this from — is one of the bigger mobile park owners out there. He and his partner own right around 300 of them. He said one time he took rent from $75 to $250 overnight; didn't lose a single person because it was still the cheapest rent anywhere in that area. No one is going to bat an eye; they are still getting a great deal. It is easy to start making more money once you've got the park.

We are at a very, very special time in terms of mobile home parks. We're at an historic gap. I'm going to talk about a few things with that. Mobile home parks sell at a 10 cap, and you can get loans for them at 4 percent. What does a 10 cap mean? That means that whatever the profit of a mobile home park is, the sales price will be ten times that. I am not talking about revenue; I'm talking about all your lot rent minus all your expenses and all of your overhead. Multiply that times ten, that is the sales price.

Automatically, if you put 100 percent of it down, then you would be making 10 percent a year, immediately. Of course, very few people are going to actually put that much down. You're going to get a loan. You're paying 4 or 5 percent on your loan, so you've got a 5 or 6 percent gap there. That's where you're making a lot of money, especially because — as I said — you're not putting 100 percent down. You're putting more like 20 or 25 percent down. If you're talking 10 percent off of 100, then if you're putting 25 percent down, you're making something more like 40 percent, minus the interest that you're paying for the money that you put down. That is a pretty great deal. That is a lot of money. It can add up really fast.

Usually, the cap is a lot smaller. Usually it is 2-to-4 percent. As a matter of fact, with apartment complexes, they sell at a 6 cap. They've got a 2 percent gap, and they have to pay for all the maintenance. Apartments are very expensive. You've got to take care of everything inside of those: the pipes, the walls, paint every year. That is a lot of money. You've got just about no breathing space with only 2 percent, whereas this you've got no overhead and you've got this 6 percent cap. It's a huge historical anomaly. It's unlikely to last for that much longer, but for right now this is an amazing opportunity.

It is a really misunderstood one. There is a stigma attached to mobile home parks, and that keeps a lot of people away. In fact, there was one famous Laker fan who — I don't know how many of you have ever watched Laker games — was a season ticket holder. He had seats right next to Nicholson. He would be on TV all the time. He'd always come in with a different beautiful model on his arm. Everyone's, "Who is that guy? What does he do?" Lots of whispers, lots of guesses. He never said a thing. Eventually at some point he was involved in a court case and it came out, "Oh, he owned mobile home parks." He was a big mogul in that, but he kept it hush-hush because he didn't want anyone to know that he owned mobile home parks. Most people who do just say, "I'm in real estate," which is true enough.

There is a stigma attached, and that is part of why these gaps exist. Where you have people staying out because of emotion, there are a lot of places where the logic can make great sense and people still aren't rushing in. That's being unconventional, of course. You have to be able to make leaps like that. It is not for everyone. I admit that. Maybe this is not something for you. But, if you are able to make that leap, then you can see that there is a lot of potential in it.

What's more, you can usually get better deals than the 4 percent that I was mentioning before. Banks usually do not finance mobile home parks because they don't get it. They don't understand. They're like, "These are poor people. It's like we're giving a loan to a poor person; we don't' want to do that." Actually, it is the safest real estate out there. They have the lowest default rate in all of real estate — commercial or residential.

It is extremely safe. It is a great way to make money, because there's no overhead. You're barely taking any risk at all. But, banks don't get it. For the most part, mobile home parks are financed by the previous owner.

There are about 44,000 mobile home parks out there. About 4,000 are owned by the 10 largest companies. There is hardly any consolidation. Most owners are mom and pops. Most of them don't understand the business all that well. They understand how to collect money, but they don't really understand the figures. These things that I'm talking about with you right now, a lot of them are not aware of it. So, there are some incredible deals out there.

A lot of it is just personality-based. Going back to Frank Rolfe, many of his best purchases were made because he became friends with the previous owner. It was an older man who was just lonely, just wanted someone to talk with, just wanted a friend. Frank was that friend and he said, "You know what, I'm going to give it to you zero money down." That doesn't happen that often, but it does happen sometimes. You can get in with zero money down and start making this income, nice passive income, immediately.

That doesn't exist. That shouldn't exist anywhere, but it does in this because it is an un-consolidated situation, which is misunderstood by most people out there.

One other thing: set it and forget it. Once you have the mobile home park — because there is so little overhead, so little work that needs to be done — it is not like you need to take this on as some sort of job. You don't have to visit it every month. You don't have to visit it every year. You can leave it alone. As long as you've got a decent manager in place, then you'll just collect your money. That's it. It's a very passive way to make income.

One other nice little wrinkle which I like to throw in is, if you're wondering, "Okay, well where would I get this sort of money," 401(k)s, many of them consider this an investment. You can actually take money in your 401(k) and use it to buy a mobile home park. That is something almost no one is aware of. That is a really powerful way to use this.

I can go through some of the math; I have in my newsletter before. But, basically the way to think of this is: if you do this right, if you buy the right park — maybe increase the rent, maybe find some tenants for the other lots which aren't filled — you can easily double your money inside of three years. It can happen a whole lot faster than that actually. Three years, three. Double your money every three years — that's the promise; that's the headline. It can happen a whole lot faster.

Just yesterday, Frank wrote me. He had bought — I think it was two years ago, maybe two-and-a-half — very large mobile home park for $8 million. Don't let that number scare you; you can buy them for much, much cheaper. He had gotten a very large one and he just sold it, after two years, for $18.5 million. That is just the money he made off of the

sale, which is also another bonus you get. When you turn a park around — especially if you take one, which has been poorly managed, and then you make it really shine — you can make a lot of money on that.

Don't forget, during those two-and-a-half years, he was also collecting his lot rents. He was making a lot of money, a lot of return, already at that point. That's what I'm talking about when I say "unconventional." That's something, which I bet no one here has thought of — at least I hope so, or else I'm not doing my job.

What are the risks? Paying too much is of course a very big risk. You have to know what a mobile park is worth. As I said, lots of times the owners aren't completely aware of what it actually is worth. They might be asking way too little; they might be asking way too much. You've got to go in; you've got to find out what the lot rents are. You've got to find out how many people are paying. You've got to find out how much room there is to maneuver.

Most especially, you need to know the infrastructure. A lot of these places are going to be on city water or city electric, city gas. You need to know if they are, because if they aren't you can be in some real trouble. If you have to replace an entire gas line underground, that is a huge amount of money. You don't want to buy anything, which is going to need that. You need to be careful about the infrastructure and do your homework, or else you could get stuck with what are toxic parks.

Sometimes I mean that quite literally. There was one park Frank told me about where the owner had a very old sewer system which just pumped the sewage into a man-made pond. It had been going for so long that the pond was overflowing. Every time it got up to the top he had this little sprinkler system and it would just spray sewage over the entire park. You don't want to buy that park. That's just a nightmare. That's illegal, just to start with, but getting it up to code is going to kill you. You've got to be careful about what you buy.

You need to do your homework. There are lots of ways to do that. I suggest going online, doing some research. There are some places you can go to find mobile home parks, which are for sale, like the mobilehomeparkstore.com, for instance. The best deals are going to not be online. It is going to be actually doing a little bit of legwork and finding mom and pops who look like they're ready to retire, they're perfectly happy to let their park go on to the next person. Form a bond with them, buy it, and away you go.

Just in case you don't feel like you really want to risk your own money, there is another option. People like Frank — the big boys who still aren't that big — are willing to pay a 10 percent finder's fee if you find a park to sell to them. If you just want to say, "Let's see how this goes. Let's see if I can get to know this business," you do all the legwork and then you risk zero money. You just get a paycheck at the end of it. They of course enjoy all the profits from the park, but you just learned the business and got paid to do it. That is a lovely way to go if you don't want to risk anything too much.

That's a very unconventional way to go. Sometimes you can't be quite that unconventional. We all still do have to live in the economy. One of the big risk about the economy right now is of course currency. Jim is going to be talking a lot more about that.

We are at the start of a major currency war between a lot of different places. One thing you

will hear from a lot of people is, "Well, that means you should go to the only real currency there is: gold." This might be an unconventional, or an unpopular opinion: gold is no different from anything else. It is just the oldest currency, but there is nothing inherently worthwhile about gold. Indeed, silver is a whole lot more useful, if you're going to talk about industrial use. It is just something, which everyone agreed at one point we were going to use as currency. It's a fiat currency too; it's just the oldest one. It's also had its own inflations.

Nero — back in the day — was running out of money, so he started shaving his gold coins. That was the original type of inflation. There also were Romans who said, "You know what? We're just going to change the price of everything, overnight," and the value of gold was cut in half, overnight, by decree. Wherever you have idiot politicians you're going to have the same problem, no matter what the material is. That's why I'm not crazy about going to gold for protection. It can work. It will work in the short term; it definitely will. But in the long term, it is also somewhat beholden to market forces.

I like a different form of currency. It's not really a currency. You may have gotten a sneak peek already, but I like this alternative asset: stamps. Stamps, that's right. I told you I'd be unconventional, right? I'm doing my job.

Stamps — believe it or not — are an insanely great investment. It is where the Queen puts most of her money, just to give you an example. She has more of her money in stamps than anything else: more than jewels, more than titles, more than land. It's in stamps. There is a reason for that.

Stamps, over the past 50 years, have returned almost 10 percent a year. You can't find that sort of performance most places. You especially can't find it when you talk about something, which has never gone down in all that time. It has never returned less than 5 percent a year. That's amazing. I challenge anyone to give me anything, which can perform the same way. Please, I mean it. I'll write about it. I'd be happy to hear a different idea, but that's the best I've ever seen, and it's gotten better.

Since 2000, they've been going up about 12 percent a year, severely outpacing the rest of the market. That is really attractive. To be completely clear, what I'm talking about when I say "stamps" is not just any stamp, of course. I am talking about rare collectibles. These particular numbers are for the GB250 Index, which is the 250 rarest and most expensive stamps out of Great Britain. That is the gold standard for measuring stamp value. It's been measured for the longest amount of time, for one thing.

You have to have rare, valuable stamps. Knowing how to pick those out is a bit of a chore, which we are going to get to, because you don't have to do that chore. That is what you have to talk about. You're not just going down to the post office and buying something. You're not just getting something old. Something old there might be millions of them, so who cares. You're not just getting something which looks pretty because, who cares.

What you want is these rare ones. That is because the stamp market is driven by collectors. Only about 3-to-5 percent of all stamp transactions are by investors. Because of that, this is an emotional market. This is not one ruled by logic; this is one ruled by emotion. Collectors love their stamps.

How many people collect stamps here? Does anyone? Any philatelists? There we go. You love them, don't you? You're not buying them for the money value, are you?

Take better care of your stamps. My, my. He said he keeps losing them.

People don't buy it for the money, which means they just want to complete their collection. So, the price is going to continue to go up, especially because these are the rare stamps we're talking about. Supply is just going to go down; it is never going up. Something printed in 1940 is never coming back. They are just going to be destroyed over time.

Supply is dwindling. Meanwhile, demand is skyrocketing. Chinese folks — for whatever reason — love stamps. The Chinese stamp market has gone insane. Over the past six months, Chinese stamps have doubled in value. They are doing insane things like that right now. It's really astonishing, and that's because demand is flooding in and, again, supply is limited. One other nice thing about stamps is because they are emotional, because they are driven by collectors, they are not linked to the markets at all.

One thing you often hear is you want to diversify your holdings, especially because you might have hard times up ahead. That is certainly one thing that we're worried about now and we're trying to protect against. But, if you look at this chart here, you'll see that the correlation between markets has just been going up at a pretty high rate. It especially jumped when we got hit by the crash. Everything fell together.

At that point, we're approaching 90 percent correlation. If you lost a dollar in the United States, you might have lost 90 cents in England or 90 cents in China or 97 cents in Japan. It is all going in the same way. So, what we traditionally think of, as diversification is not diversification at all. You're just spreading your money over a wider distance. We're too interconnected at this point. It's a global economy. It's not an American economy or a Chinese economy; it's a global economy. So, you're just investing in what might as well be a different sector if you go to a different country.

Meanwhile, stamps — as I said — are completely uncorrelated. If you'll notice, all they do is go up. It doesn't go up a single time in that chart — just a nice straight line. It goes up especially fast when the crash hits and everyone is worried and they want to do something with their money. Instead of just put it under a mattress, they went to stamps.

Unlike with gold, after the crash, the value didn't go back down. It just slowed a little bit, but it kept going up. That's where you want to protect your money, something like that. This chart only goes back to 1995, but it has been doing this since the '50s. This is about as secure as anything gets. It's not as old as gold, but then again, it's only gone up. Gold certainly doesn't do that.

That's Bill Gross, the Bond King. His best sale ever was a stamp collection. He said, "It is four times profit; it is better than the stock market." He's a billionaire. He did it because he's a great collector; he loves his stamps. But, when he auctioned them off, it was his best investment ever. That's really saying something because he's a pretty successful investor.

How do you buy stamps? You have to know how to judge what is a valuable stamp and what is rare and what is good condition. You need to know who to trust. Those are very complex things.

There is a company called Stanley Gibbons over in England. They have experts who just specialize in, say, Victorian Era British stamps. If you ask them about something from the '20s in Great Britain, they would have no clue. It's that specialized. You need to really, really know your stuff. You need to be an expert. If you love stamps, that's fine. You can go and become an expert in whatever it is that you happen to love.

If you don't, I suggest you use the experts. I just mentioned one: Stanley Gibbons. They have a program set up where they will buy your stamps for you — whatever stamps you like or whatever stamps you want them to get for you. You can say, "Just give me a nice, diversified portfolio." You can give them any amount of money, basically — from $10,000 on up — and they will just buy an appropriate mix of stamps. Part of the reason is because, while I talk about stamps and I'm showing you all these numbers that is for the index. Any individual stamp will be a little bit more jumpy; it will be more staccato. The price of a stamp might be flat for a few years and then it will jump a whole lot.

One thing that they can say is they have never actually had to sell a stamp for a loss, as long as you kept it to term. They suggest you keep it for at least three-to-five years. One time — I was talking with Geoff Anandappa, who is the head of their investment division — they had to sell the stamp for a loss. It was because there was a family emergency and the person had to get rid of it in six months. He didn't give it enough time to appreciate. As long as you are willing to hold stamps for three-to-five years, they have never lost value, never. Not once.

You don't have to know a thing about them. You don't have to take control of them either. If you're worried about losing them, they'll keep it at their vault in Guernsey for you. What's more, they will be perfectly willing to sell it for you. One of the harder things about stamps is it is not a very liquid market. It's one of the reasons you want to keep it for a little bit longer.

Stanley Gibbons is perfectly willing to sell it for you through the catalogue or through auction. Unlike most, they will only take a cut off of the profit. Most places, if you give them a stamp to auction, they will take a cut of the entire sale price. That's a big difference. If you buy something for 100 and it sells for 200, they would take part of the 200. Stanley Gibbons would only take part of the 100, which was made. I think that they only take a 5 percent cut. That's not a very huge hit, to have an easy way to get rid of stamps when you're ready to move on or when you want to move on to a different stamp. I really, really love stamps.

It's not the only alternative asset which works like this. It is probably the best example, but here's a few more, which work in a very similar way. I want you to pay special attention to wine because probably all of you are aware that there is a huge drought going on in California right now. That is really, really bad for lots of things. It is great for wine. It means that there is going to be a much smaller supply. There is going to be not that much wine.

With less water, the sugar actually becomes much more concentrated in the grape, tends to make much better wine. The California wines that are going to be coming out this year, the ones that came out last year, there's not going to be a lot of them, and they are going to be delicious. Those are going to be some really good wines, which, over time, are going to appreciate a lot in value.

Wine actually has a very similar chart to stamps, especially if you buy the right stuff. Again, you have to do your homework and know what the right stuff is. It used to only be from about

ten regions in France. Now it is expanding a little bit; you can get some from California and Australia and they are now becoming investment grade wine, which you can look up.

I've written about that — IGWs. That is a really, really good place to put your money because, again, this is something which is a passion for people. They're not doing it for money so normal logic doesn't apply. Again, uncorrelated.

Similar thing for art, cigars, collectibles. Collectibles — by which I mean autographs, things like that — have actually outperformed stamps since 2000. They've gone up about 13, 14 percent a year. It's rare that you find something, which can actually beat stamps over a length of time. Collectibles is one thing, which has.

Those are two pretty unconventional ways to make money and to keep your money, to store your money. But, let's say everything falls apart. Let's say we're in real trouble, really big trouble. If we go back to our marathon metaphor, you just broke your leg. We're looking at that sort of a global collapse — what are you going to do? How are you going to finish?

You are going to have a cart come and pick you up and take you to the finish line. That's what this is. This is what I like to call Franklin's IRA. This is something, which Ben Franklin originally invested in back in — I think he bought it six months before the end of his life. He bought a $4,000 version of this for Boston and he bought one for his hometown of Philadelphia. They continue to grow. Over about 150 years it turned into over $5 million for Boston. Philadelphia bought The Franklin Institute. That's a good investment.

Another way to think of it is: this is true life insurance. What we call life insurance is really death insurance. It's the money you get when you die. Well, not you, but someone else gets it when you die. Real life insurance, this, is something which will pay you every month for the rest of your life, no matter how long you live. If we have some huge medical breakthrough next year and you live to be 500, doesn't matter. You're still going to get your monthly income from this, until you are gone.

This particular vehicle gives you some exposure to the stock market, but it also gives you immunity. You get to go up when the stock market goes up, and then you stay flat when the stock market goes down. It's pretty rare as well. What I'm talking about are Fixed Index Annuities. I know there are lots of things, which go out about annuities. Lots of people pooh-pooh them, and there's good reason because Fixed Index Annuities are very special.

Regular Annuities usually give you very limited gains, very slow. It's not a great way to grow your money; you're just buying insurance for yourself, basically.

Variable Annuities are just like the stock market, only you don't have quite as much upside. It cuts out the upside, but you've got the downside. That's an awful investment as well.

Fixed Index Annuities are the Goldilocks. These give you the limited exposure to the stock market, but at the same time they guarantee you against any falls. That's really important right now. This is what life expectancy is doing at the moment throughout the world. That's from the 1500s, of course. Back then; you'd live to be 35. Now, you're probably looking at 80, and it is going up very fast.

You can see there; there's another version. By 2080, 100 is going to be the average age of death. Think about that for a second. If we are retiring at 65, that means you get about 40 years to work and then you are going to be retired for 40 years. That is a long time to make 40 years of income last. How many people save half their money? That's what I thought. That's what you need.

You do? Wow, that's great. Big round of applause; that's astonishing. It's very, very rare though; it's very hard to do. You need to have some sort of insurance for yourself in case you're going to outlive your money. That's the greatest worry, the big problem. Healthcare, yes, it's getting very expensive. That's a problem; it's a drain on our economies.

The other thing is that now we are living so much it's a drain on lots of people. About 20 percent of people right now outlive their retirement income. They outlive their money, run out of it. Then, you're in real trouble. You're 92 and it is going to be pretty hard to get a job. You've got zero cash. That is not a situation that anyone wants to be in. This protects against that. That will never happen to you if you have a Fixed Index Annuity.

This is an example of what one of them did against the S&P.

This is an example of one, just showing you exactly what I told you, how the S&P goes up and down, up and down. The Fixed Index Annuity went up along with the market and then it stayed flat when the market was flat. That's because you are sacrificing a little bit of upside. You're capped on how much you can make on any given year. In exchange, you're also capped on the downside. You can lose zero percent every year, no matter what happens. That is not just from what you originally put in; that is from everything that you've made as well.

There are a lot of other options, which you can take. For instance, you can do something where you get a guaranteed 8 percent return. You pay a certain amount for that and then it sort of has a paper account, which it trades for you, which goes up 8 percent a year. You will get paid out of that account when you are ready to start withdrawing income.

You can do things like link it to your spouse so that you can die and the payouts will continue to your spouse. You can do things like link it to inflation. If you are worried that your money will not be worth as much in 20 years, you take care of that with linking it to inflation. The important thing is, this is a great way to protect yourself against outliving your money. You don't have to worry about that anymore.

That is really what we are all here for. We want to be able to retire and guarantee our income, guarantee our comfort. This does that, no matter what happens afterwards. Unless the entire country burns to the ground you're getting this money — as long as corporations continue to exist. It's really a very, very good way to guarantee yourself comfort later.

Thank you all very much. If you have any questions, ask away. I'll be up here later. Bye, bye.

Capital Markets House of Cards Symposium Keynote Address

Jim Rickards: Editor, *Jim Rickards' Strategic Intelligence*, *Currency Wars Alert* and *Rickards' Intelligence Triggers*

Click here to download the MP3 and Jim's powerpoint presentation

Addison Wiggin: I'd like to introduce to you Jim Rickards. I wrote about our partnership with Jim a couple weeks ago in the *Daily Reckoning*. As many of you know, we have been concerned about rising debt levels and derivatives in the US financial markets for a number of years, two decades. I was inspired originally, to even work in this industry by the explosion, melt-down at long-term capital management and at the time I didn't know Jim personally. But it seemed the events that transpired there were symptomatic of many of the difficulties that we continue to face in the financial markets. And for personal investors, individual investors there are a lot of pitfalls that we try to at Agora Financial we try to point out and then advise you how to invest your own money in what are potentially difficult times.

Leading up to 2008, we were writing about many of the same things and then we all know what happened in 2008. We expect that many of the buildup of derivatives, many of the pitfalls that existed in 2008 still exist today. Jim was actually at the table when Long Term Capital Management melted down in 1998. It's been a great pleasure to get to know him because the perspective that he brings to a lot of our work is derived from his own experience rather than as we do a lot, we research, and we write about the difficulties in the economy, Jim had a place at the table in 1998.

And then I'll let him go into some of his history. But what I think is most important is that Jim has spent a decade trying to find out what happened, what went wrong with the financial model that the smartest guys in the room were using at the time. The model that the fed is using and many of the Wall Street Banks hasn't changed. Many of the challenges that we face still exist and in fact, they've gotten worse. We tabulated a lot of the difficulties that arise from the derivatives build up on Wall Street and then the impact that we expect them to have on the rest of the economy.

It's been a mission of Agora Financial to try to understand the complexity of the financial markets as they are. Jim has spent a decade looking at the complex model and make up of financial markets. And he's now a champion for our cause and it's a great pleasure actually to work with him and to introduce him today to explain what he's learned having been involved in what was potentially the largest financial crisis up to 2008 and then it, of course, forecasted what would happen eventually in 2008 as well. And unfortunately, we expect that because a lot of the miscalculations haven't been corrected we expect another financial crisis to happen soon. And that's the nature of this conference, a house of cards it could be potentially devastating to many people.

And Jim is going to address the specific concerns but then we hope today to be able to provide you with ways to protect yourself and also plan for the future even if a crisis does unfold again, which we expect it will.

It's my great pleasure to introduce Jim Rickards. Thank you, Jim, for coming.

[Applause]

Jim Rickards: Thank you, again, I don't always get introduced twice in one day but happy to be with you. And I've had the opportunity to meet if not everyone then certainly a lot of you at the coffee break and in the hallways and so forth, so it really is a pleasure. I do events not exactly like this, by the way, I do speaking events all over the world but this one is a little different and I'll tell you why. But you sit at the podium, you're giving out information, and you're hopefully explaining things but I get a lot out of it also. I like to meet people. I meet great people all over the world. And you know I talk a lot and I understand that but I try to be a good listener too so I'm very interested in what people have to say and get a lot of perspective. That's one of the benefits for me and one of the perks is getting to meet folks like you and to hear what concerns people and what they're interested in and so I enjoy that very much.

This presentation is truly going to be different in a couple of ways. Number one, as I said, I've been a keynote speaker at a lot of conferences this is the first one where I was able to work with a team, the Agora team, and my publisher published a newsletter and really plan it from the ground up. So this is our baby, if you will I'm not just kind of flying in for a quick speech. I was very involved in putting this together so I'm glad we were able to do it. Very much along the lines that we would recommend and the way, we'd want to build it from the ground up.

But the other thing I'm going to do that's very different, you know when you speak a lot, and I do, you have kind of a standard presentation. Now I always vary it. There's always something new. There's always something fresh so it's never the same twice. But there is a core set of things that I go through that are similar from one presentation to the other even though we change it up a little bit. And I thought to myself you know, this group, this is a special group and I just want to thank you for I know that this is the group that has the subscriptions to the most publications, the most interested readers, the most engaged and we're very, very grateful for that and appreciative of that.

But it occurred to me that a lot of you may have heard me speak before or seen me speak at some event or watched a video tape, a podcast, or a TV appearance, et cetera and probably have some flavor for how I look at things. Some flavor for what I think about the fed and interest rates and the global macro economy and China and SDRs and a lot of other subjects that I know everyone is interested in. And I can do that again and maybe we will cover a little bit of that in the Q&A.

But I said for this group that's the most engaged and the most interested why not do something completely new something that I have never done before? So the vast majority of what you're about to see is new stuff. It's sort of the summary, if you will, of work I've been doing for 15 years. But I said let's put that all in one place. And I'm not going to speak very much about what, meaning if the fed is going to raise interest rates, we'll talk about that later. I'm going to talk about the how. How do we do what we do? In particular, the impact system that I know a lot of people are interested in and we're going to talk about that later.

Well, okay, impact, it's a great way to capture an idea, and we put the results in the publication. There's a trading methodology that goes with it but what's behind it? Where do those ideas come from? What's the methodological process? What's the thought process that goes

into it? And that's what I want to talk about today. So not the what, not the high level buy this, sell that, and again, we will get into that a little bit but kind of what's behind it. And I think it's important to share — I kind of don't have to in the sense that I could just make recommendations and people can follow them or not follow them. But it's important to me for people to understand that we're not just logging on and reading some blog or figuring out a consensus or heaven knows not doing what everyone else is doing, that we actually do have something behind it. And it's really that going behind the curtain and talking about that that I want to focus on today.

So let's jump in. We have about an hour. I'm going to start with a section I call war games and in particular, what the work I do at the intelligence community and the Pentagon, the Department of Defense in financial warfare. Now in 2009 I was invited by the Pentagon to facilitate and then later participate in the first ever-financial war game. Now the Pentagon had been doing war games forever. They didn't need any help from me in instruction of war game except this one was different it was the first financial war game.

So we're not allowed to use anything kinetic. Kinetic, that's just stuff that shoots and explodes and missiles, bombs, Tomahawk cruise missiles, et cetera. None of that. The weapons were stocks, bonds, commodities, derivatives, and currency. So the things that you trade and the things that you invest in those were the weapons. But this was not kind of an economic competition this was war. You were out to diminish and degrade the economy and the capabilities of your rivals and at the same time enhance your own powers. So it was warfare fought in financial space and what would that look like?

And as part of the design group we did this at the applied physics laboratory, which is actually very close to here it's about halfway between Washington and Baltimore. It's near Laurel. That's a picture of the lab right there. Don't try to drive in; they'll stop you at the gate, it's top secret. This is where there they — a lot of things that the companies that Byron recommends, you know Lockheed and Northrup, they manufacture these things, you know cruise missiles and so forth but that technology was invented at the applied physics laboratory. Most under contract for the United States Navy and then on the name has the invention they can then license it out for manufacture but a lot of this stuff was invented there.

So this is a top secret physics primarily weapons and space exploration laboratory. But they also have something called the warfare analysis unit and that's where they do these war games. So I was part of the team that put it together I call it playing Risk for adults if you remember the board game Risk, I played it a lot when I was growing up. And so we got to write the rules; so what would the teams be, how long would it go on, two days, three days, et cetera.

We invited in 100 experts from a lot of sources and people were busy and it's hard to get them to sit in one place for three or four days 'cause people don't usually have that much time. So we did it over two days, which was still a big commitment. The attendees were some of the people you would expect so we had people from uniform military, so a three-star general was there, people from the CIA, people from also the treasury, the fed, other government agencies. We also brought in people from think tanks; you know the Carnegie Institute and others, Brookings. From the universities we had people there from Harvard.

So I call this group the usual suspects and I say that with respect. They were brilliant people with a lot to contribute but they're the usual suspects because they're always on the list for things like this for these war games. These are the people who get invited back time and time again. And I said to the Pentagon, I said, "Look, this is new. This is different. This is financial war. War is all about deception, manipulation and fraud that's how you conduct a war so I'd like to invite some of my friends from Wall Street to come down because I think that will give us a much more realistic scenario."

And they agreed with that so I was able to inject a little Wall Street thinking into this. These certainly are people who know how to work around the edges. We did it over two days. When I got back, I said to my wife, "I have good news and bad news." I said, "The good news is my team won. The bad news is I played China." And I was on the China team but I won't go into much more detail it's all covered in chapters one and two of my book *Currency Wars*.

But one of the things we did is we cooked up a plot where Russia and China put their gold reserves in a vault in Switzerland and created a bank in London. And this bank would issue a new currency and that currency would be backed by the gold in Switzerland. But here's the kicker, they said from now on if you want Russian natural resource exports or Chinese manufactured goods you have to pay for it in this new currency. And oh, if you want some you can trade with us and earn it or we'll lend you some or you can put your own gold in the vault and go to London and get some of the currency and join our new currency, it was a gold backed currency. And the idea, obviously, was to run the dollar off the road.

Now what we said is look, this isn't something that's going to happen the next day. You don't do a war game to figure out what's going to happen tomorrow you do a war game to figure out what's going to happen five years or ten years in the future so that you can actually begin preparing for it today. That's why you do these scenario analysis. So we knew it wouldn't happen the next day but we felt strongly that this was the way the world was trending. A very prominent Harvard professor, I won't mention him by name 'cause I never want to say anything negative about somebody but this Harvard professor was a good guy, in fact and said, "You are wasting our time." He said, "Don't you know gold is no part of the international monetary system. It never will be again. This is a ridiculous scenario you're wasting our time."

And I said, "Well, okay I hear you. Let's just see how it plays out." Well it played out in very interesting ways over a couple days but here's my point. This was in 2009, since 2009 Russia has more than doubled its gold reserves. They've gone from about 600 tons to over 1,200 tons. China has increased its gold reserves 3 or 400 hundred percent. No one knows the exact number because they lie about it. They're not transparent. They say officially they have about 1,000 tons. It's very clear that they have something 3 or 4,000 tons; again, that's an estimate. We do have some information from Hong Kong gold imports, Shanghai gold exchange. Mining output, they mine it in China they're the largest gold producer in the world and they don't export any they keep that gold about 400 tons a year.

So we can form an estimate but it's only an estimate because they're non-transparent about it. But Russia has more than doubled its gold reserves; China has increased its gold reserves three or four times. So China and Russia are behaving in ways that are exactly along the lines that we warned the Pentagon in 2009.

Now the dollar's still king of the hill. The dollar's still the leading reserve currency and it may be for a while but these are trends worth watching. And hopefully we served the Pentagon well by taking them over the horizon.

I want to talk a little bit about financial wars that are going on today. So okay, in 2009, we did a war game that was a forward leading scenario, but we are in a financial war today. We are in a war with Russia today make no mistake about it. It's not a shooting war. They invaded Crimea. They've, obviously, been in and caused a lot of difficulties in Eastern Ukraine. Nobody left, right, or center thinks it's a good idea to drop the 82nd Airborne into Sevastopol and Crimea. That's not going to happen but the president did not want to be seen to be doing nothing so he responded to Russia with economic sanctions.

Now, unfortunately, the White House thinks of economic sanctions as sort of an extension of diplomacy but Putin thinks of them as an act of war. I think Putin's right about that they are an act of war. Not kinetic as I said but economic warfare. And one of the problems that's going on is that we were in an economic war with Iran, financial war with Iran in 2011–2012 and it was very successful. We were having a lot of success.

First of all, we kicked them out of the dollar payment system that was easy because we controlled the dollar payment system. But there's another system in Belgium called swift that is controlled by international banking syndicate and a board of directors. And Iran said okay, we don't care if we can't deal in dollars, no big deal we'll just sell oil and you can pay us in euros and those would go through swift.

But we got together with our partners and kicked them out of swift. That was a big deal, by the way, it was the first time that a major country had been — we use with my national security friends we use the expression deswifted. I don't think you hear that in the media much but we talk about it in Washington. We deswifted Iran and kicked them out. That was serious because now they could ship their oil but they couldn't get paid for it at least not in anything that they wanted. You could pay them in Indian rupees but how much can you buy, you know, so they were just going to pile up rupees in Indian banks, they couldn't get hard currency.

People started smuggling dollars in from Iraq 'cause you could get dollars in Iraq bringing them over the border. People took their money out of the Iranian banking system, bought dollars on the black market, which they used to pay the smugglers in Dubai who'd bring in the iPhones and the HP printers. The Iranians are like us, they like the same stuff but they had to pay for it in dollars and they got the dollars on the black market. The Iranian rial collapsed. It lost over 50 percent of its value. There was hyperinflation in Iran. There was a run on the bank because people were taking their money out to get dollars on the black market. The Central Bank of Iran had to raise interest rates to 20 percent to stop the run on the bank.

So here we were, 20 percent interest rates, run on the bank, hyperinflation, a collapsing economy. We were pretty far down the road to regime change in Iran without firing a shot through financial war. Now December 2013 the president in effect left them off the mat, you know in wrestling you get your opponent pinned you can either let them up or break his arm, we chose to let him off the mat. The president relieved some of these sanctions in

exchange for these nuclear uranium enrichment negotiations that are going on. We'll see, that's supposed to come to a conclusion on June 30, we'll see what happens.

So we eased up the pressure on Iran. Well Putin watched that, right. Putin's watching us and well, you guys really aren't that serious. You don't go for the throat. You had Iran down, you let him off the mats, and we put economic sanctions on Russia and Putin's saying you're not going to push it too far. But just in case you do, there's a big difference between Russia and Iran. Russia's capacity to fight back is much greater. Iran really couldn't do very much. Russia's different; it's the eighth largest economy in the world, depending on the time of day first or second largest energy producer. Highly integrated with Europe. Large population, large landmass, and Putin has a 6,000-member cyber brigade.

These are uniformed military in cyber warfare it's a cyber-brigade. These are not Ukrainian hackers trying to steal your credit card number these are Russian military and intelligence assets trying to shut down the US financial system if they choose to.

So one of my concerns that the White House has not really put this in a game theoretic context where okay they escalate, Russia shoots back, we escalate, they shoot back. Where are you going with that? In the Cold War, we thought about that all the time in terms of nuclear war fighting scenarios and one of the reasons that Russia and the United States never fired a shot at each other during the Cold War, we didn't. There were proxy wars in Vietnam and elsewhere but we never fired a shot at each other as far as the Russians or the Americans were concerned. And the reason was every time you did the war game it ended up in a nuclear holocaust. There was no limit to the escalation

Now that we're in financial wars, has anyone thought about it in that same game theoretic space? Has anyone thought about the fact that if you take it too far you're going to escalate it into the financial, cyber financial warfare equivalent of a nuclear war. I fear not that's the concern. So I'll leave it there, we have a lot more to talk about, but the point I want to make is that as investors and as people with retirement savings or money you've earned from businesses or as entrepreneurs, et cetera, you have enough to be concerned about. You've got to think about inflation, deflation, interest rate policy, is the stock market a bubble, is it not a bubble. You've got a lot to think about.

Well here's one more thing to think about, which is you could wake up one day and the New York Stock Exchange could be closed and when I say that that's not hyperbole, that's not an exaggeration. On August 22, 2013, NASDAQ was closed for half a day. We've never been offered an explanation as to what that was. I suggest to you if it was benign, we would have heard about it because it'd be in their interest to explain it and reassure everybody and if it were a malicious attack by the Russians there would be good reasons not to tell people 'cause it would panic stock market investors.

And this, by the way, is part of the case for hard assets. Now I could talk all day about gold and we'll talk a little bit more about it, but in addition to the monetary qualities of gold and the wealth preservation qualities of gold, which I like, obviously, I also am coming to appreciate the fact that it's non-digital. You can't hack it, you can't erase it. And I run into people all the time, I run into billionaires thinking well, I've got all this money. I say, really, where's your money? And they go I've got stocks, I've got bonds, I've got money in the bank, I've

got all this. And I say really, it's all-digital. You may get a paper statement in the mail from Merrill Lynch once a month but that's all digital wealth. It's all stored in computers, it can all be erased, it can all be wiped out.

Or maybe temporarily you don't have access to it because they close down an exchange. These things will happen they have happened in small ways. In 2010, the FBI and Department of Homeland Security found a Russian attack virus in the NASDAQ operating system. Just go back and look at the July 2014 issue of Bloomberg you'll find the story there. So this isn't like top-secret stuff, some of it is, but what I'm telling you is out there and you have to understand the threat.

When I go to the Pentagon and I was there recently, I was there May 8 and we did another war game on May 8. When I go there this is what they talk about. They don't talk about the Chinese aircraft carrier. They don't talk about Russian troublemaking Eastern Ukraine. They talk about cyber financial warfare that's one of the biggest single concerns.

So I think as investors you need some of your assets in hard asset form. And it's not just gold it can be land. Land is not digital. It can be fine art. It can be silver. There are other ways to hold it but get something that's out of the digital world because that world is extremely vulnerable. So we'll talk more about this but I just want to make the point that financial warfare is not just a theoretical future looking concept it's something that's here today. We are in several financial wars.

This is just a simple illustration of the interconnectedness of the system. Don't wrack your brains on this. This is a stylized representation so it's not as if every one of those lines is a real event although it could be. This is really to illustrate how things work. This is a 128 node network so all these little — it's hard to read but these are all numbered nodes. You can pick any one of them and make it an issue. Will the fed raise interest rates or are we experiencing deflation or what's Gordon, David Cameron going to do in the UK. See, these are all issues. And I've got the United States and these are our intelligence allies, the five-I's. China, emerging market in Europe and et cetera, you can see this.

Now here's the point, so the United States was angry at Russia because of Ukraine and we want to put sanctions on Russia. But Russia does a lot of business with northern Europe so the United States said to northern Europe we need you to help us with the sanctions because if we do it unilaterally like that then Russia will just do business with you. So we need you to put those sanctions on Russia as well. And they did, the Europeans did. The Europeans said major Russian corporations with euro and dollar denominated debt cannot refinance that debt in European capital markets, that's true today. That's one of the sanctions that was imposed.

So that's pretty tough. So we call Europe, they put the sanctions on Russia, so we're ready sticking it to Russia, right. We're poking a stick in Putin's eye. These poor Russian companies they're not going to be able to refinance their dollar denominated debt. Some of them are going to go bankrupt. Some of that debt's going to default. Here's the problem; who owns the debt? You do. In other words, check your brokerage statements do you have a Morgan Stanley emerging markets fund, do you have a BRIC fund? BRIC the R stands for Russia. You might not even know you had it. I ran into people and I said do you have a 401K and

they go yeah. I said you got any bond funds in there? Yeah, I think so, yeah. Well have a look any emerging markets funds? Well, I do have one. Do you know what's in it? No. Well call your broker and find out you might find that you've got some Russian stock.

So this is an example of the interconnectedness. We get Europe to put sanctions on Russia, they put sanctions on Russia, the debt defaults, but we own the debt. This is how interconnected things are and this is how you have to think about things if you really want to understand all the potential dangers.

Now we're going to digress 'cause we're going to have a science lesson. And the point I want to make is that when I do financial analysis and I have recommendations and I talk about the macro economy I don't do it in a vacuum and I don't do it by reading some blog. I use science, I use math, I use models, as do others. The Federal Reserve has models, I happen to think they're models are badly flawed and I'll tell you why. But I have my own models but mine are different. And this is an illustration of what's called a paradigm shift and I just want to explain what that is.

You've all heard the expression paradigm shift but it's one of those things that first of all, overused. People use it all the time and don't' really know what it means. And they also use it for every little thing, again, without understanding the real meaning of it. So it's almost as if I wear a blue tie every day and one day I show up in a red tie and you go ah, there's a paradigm shift, Jim's wearing a red tie. Well that's not a paradigm shift I just changed my mind about the color of tie.

The paradigm is bigger than the model. Okay, so there's reality, there's the life that we all live. But if you want to do applied mathematics and try to understand it a little bit better at least in a way that you can get useful information you create a model. Well a model is just really a set of assumptions and a set of equations that somehow reference or mimic the real world that we're trying to understand. But the thing that's higher than the model is the paradigm. The paradigm is the way you understand the whole world. And when you have a paradigm shift that doesn't mean you tweak your model or you changed a few equations or added a new variable. What it means is your whole outlook, your whole way you understand things changed. That's what a paradigm shift is.

We are going through a paradigm shift right now in financial economics but here's the point and this comes from a book, by the way, by Thomas Kuhn *Structures in Scientific Revolutions*. And Kuhn made the point paradigm shifts don't happen all the time, in fact, they're rare. And they happen very slowly. You would think gee, if somebody woke up with a better idea, everyone's thinking about something one way and somebody thinks of it another way and it looks better and you go hey, that guy's got a good idea let's do it that way. That is not what happens. There is enormous institutional inertia, embedded opposition to the old idea.

So let's say you're a Ph.D. candidate in the finance department at Harvard University. You're 27-years old; you're the smartest kid who's come along. You've got an idea for your thesis and you go to your professor. Well your professor's probably 55 or 60 or maybe 70, has been doing things one-way for the last 40 years, almost certainly a Neo-Keynesian. And you say, professor, I'd like to write my thesis on the stuff Jim Rickards is talking about, you know complexity theory and all that, you'll be laughed out of the room. You won't get a

faculty appointment, he won't be your advisor, you won't get published. You say, you know professor; I would like to write the 999th variation of some sub variation of Neo-Keynesian fresh water economics. Oh, great idea.

In other words, there's a tendency to favor what's happened before and there's a tendency to disfavor what's new. So to get the new thinking in actually takes a long time. So when I say we're at the beginning of a paradigm shift don't think that we're all going to wake up tomorrow and look at the world differently. Some of us, maybe the people in this room will, I certainly do, and there are others I'm not alone but this is going to take a long time. And so we're going to be living for a while in a world where there's a better way to look at things but the old way is still the prevailing way and that's going to create all kinds of problems and misunderstandings and I'll talk about those a little more specifically.

I understand that's a little bit abstract so let me give you a concrete example. From the first century AD until the 16th century AD, so a period of 1500 years, the reigning school of astronomy or cosmology or the way of the understanding the universe was called the Ptolemaic System after an astronomer Claudius Ptolemy from the first century AD. And he said it was fairly simple, that the earth is the center of the universe and the moon, the planets, and the stars all revolve around the earth. And they revolve in concentric orbits what's called a nested spheres. And these orbits are circular. And this is obvious because when you wake up in the morning, you're on the earth, you wake up in the morning and the suns over there and it goes up and it goes down over there and you wake up the next day and it's over there again. So obviously, the sun's revolving around the earth, I mean how obvious could that be?

And this was the prevailing view for 1500 years. Now these people were not stupid. They were great poets and artists and scholars and St. Thomas Aquinas in the 13–14 century, they were as smart as anybody today, and this is what they believed. There was a little problem though. As observations got better, in economic space or scientific space we would say it's the empirical data started to roll in, they noticed that the planets were not exactly where they were supposed to be. So in this illustration, it's a little dark but see this yellow circle, well that's the path of Saturn, right, 'cause Saturn, right, 'cause Saturn revolves around the earth according to this theory and Saturn's supposed to be on that path. But they notice that Saturn was actually over there its' supposed to be there and it's over there. Well, what's up with that?

Well one thing you're supposed to do as a scientist when you have a theory and it has a prediction and you get data that's different from the prediction you're supposed to question the theory. You're supposed to say you know, maybe my theories not right 'cause the data doesn't back me up. That's not what they did. What they did is they said well, there's a very simple explanation. You got these big circles but there are these little circles on the big circles. In fact, they go in the opposite direction. So you're moving clockwise but there are these little circles that go counterclockwise all the way around and they call those epicycles, right.

So they kind of made this up to explain the fact that the data didn't fit the original theory and then they start doing the math. Well the math got more and more complicated and this went on for hundreds of years. And they were racking their brains but they had it all figured out. They tweaked their models. They did not change their paradigm they tweaked their models to fit the data, which is not what you're supposed to do. You're supposed to

look at the data and question the model or question the theory.

Well this went on for a long time and then finally our friend Copernicus came along and said you know, that business about everything revolving around the earth maybe the sun is the center of the solar system, if not the universe, at least the solar system. And maybe the earth revolves around the sun and all the other planets revolve around the sun. And over the course of the next hundred years, Tycho Brahe and Johannes Kepler came along, better telescopes, better observations, better math. And they said yeah, what if the orbits are elliptical not circular. And all of a sudden, they came up with a new model in which the earth was just another planet revolving around the sun along with the other planets and the orbits were elliptical. And lo and behold, everything worked.

In other words, the times when the planets appeared to be moving backwards that's actually kind of what happens when one's at the far end of an elliptical orbit before it turns it looks like its moving backwards relative to the earth if the earth is moving the other way. So everything worked but that took 1500 years. But even when Copernicus, you say hey, Copernicus came you with this idea did everyone embrace it right away? No. It took 100 years. It took 100 years from roughly 1500 to 1600. By the early 17th century, this was settled science.

But I give this example to illustrate how tough it is to change the way people think once they've been thinking about it a very long time. I also use this to illustrate the fact that just because you get bad results and bad data doesn't mean people throw out the theory. What they do is they come up with little epicycles, little crazy little things to explain away what appears to be an anomaly. And that's what's going on today in financial economics. They, they meaning the federal reserve, the monetary researchers at the federal reserve, IMF World Bank, elsewhere universities, I shouldn't pick on the fed, I mean this is university, Wall Street. They all think that the sun revolves around the earth and it doesn't.

So what is the new science? And by the way, a quick footnote on Addison's introduction, I'm not the only one who's made this observation that these models don't work that there's serious flaws in them. And one of the best known was Nassim Taleb, author of *The Black Swan* I don't know if you've read it. Its 500 pages. It's heavy. It's kind of a 30-page idea in a 500-page book. But it's interesting. He's a philosopher that talks about growing up in Lebanon. I've actually met him he's a very funny guy. But his point was he demolished the old way of thinking this normal distribution. I'll come back to that but he just demolished, took a baseball bat, and just smashed the bell curve for 500 pages.

And he was right. But when he was done, he kind of threw up his hands and said stuff happens good luck. And he's right, stuff does happen. But I got to the same place but I wasn't content to say stuff happens good luck. I said, okay, this doesn't work. You're right about that, Nassim. But what does work? Is there a set of models, is there a set of equations, are there relationships that do more accurately describe how things work. So I kept going, I got to the same place but I kept going. And so this is the new paradigm, the new science.

By the way, this is what's behind impact so when you hear impact it's a great way to capture what we're doing. We have specific recommendations and we'll talk about that. But this is the science behind it so when you see these things in your newsletters I just want

you to know there's a lot going on sort of behind the curtain.

So we have three branches of science. The first is complexity theory, I'm going to talk about all three of these so we don't have to go through. The first is complexity theory, the second one is something called inverse probability, and the third one is behavioral psychology. Now all three of these things have different origins. Complexity theory was invented or discovered in the early 1960s by a meteorologist, by climate scientists and computer scientists. Inverse probability is a 250-year old formula that as Rodney Dangerfield said, didn't get no respect until about the 20th century. So it sort of was ridiculed for 150 years and then more recently it's getting a lot of take up, I use it all the time. And the third is behavioral psychology. This also came out of work that's done in the 1970s and the 1980s.

This is the oldest of the three although only used fairly recently. These two, 1960s, 1970s so this is new stuff in their home base, in the home base of computer modeling and psychology and other areas. Taking this stuff into finance, importing it into finance that's very new that didn't even start probably until the late '90s, early 2000s. I didn't invent any one of these branches of science but I've studied them and I learned them. But what I am doing along with a few others is I'm taking them and I'm bringing them over to capital markets and saying this works. This stuff works better than the equilibrium models and things that we talked about a little bit earlier. So this is the new paradigm. Don't' expect to see this in any textbooks for maybe another 50 years but we can tell you ago but it today.

Let's start with complexity theory and this is not going to be a math class this actually is easier than it looks. This is a basic core function or core equation of complexity theory and I'll explain it. This, by the way, is what Wall Street uses, you probably recognize VAR, value at risk. This is the equation, there are many, many, many variations to this, and it can to on at great length. But this the basic equation that Wall Street us to manage this. I am not going to explain this because it doesn't work. This really is junk science but I put it up here just to show you that they have their equation, I have mine. And this is what's called a recursive function but lets' just kind of take a little bit of a deep dive in this.

So there's the equation right there. Okay, now a couple things about this, first of all, this is a very simple equation because I give you a value of S1 and I give you a value of R, you can solve for S2 on a pocket calculator so it's just one minus S1; it's there twice, right. So I tell you what S1 is and I give you a value for R. So you get one minus S1 times S1 times R equals S2. You can do this on a pocket calculator it's not difficult. But here's where it gets interesting this is what's called a recursive function. Recursive means that you take output of one iteration and that becomes the input on the next iteration. So you solve it and then take that solution and plug it into the next one and do it again and do it again and again and again. And take the output and plot it on a graph and see what kinds of relationships and curves and wiggles and collapses you get and then this is very, very revealing.

So just to kind of give you a simple example. So I'm going to give S1 a value of 0.75 and that's arbitrary it could be anything, that's the number I chose. I'm going to give R a value of 0.1. So this is .75 times 1 minus .75, which is .25 times .1. That's a trivial equation you solve for S2. But then when you get S2, which is easy I'll actually give you the number right, there it's .01875. You get S2 and you plug it in there. There's S2, there's S2, you plug it in, same R, you run it again, and you get S3. Then you take S3, plug it in there

and there, run it again and you get S4. And dot dot dot just means keep going and you could do this a million times.

So it's very simple. A simple equation, get a result, plug it into the next time with the same equation, run it again, take that result, plug it in. And that business of taking the output and making it the input that's a feedback loop that's' what we mean by recursive equation, but this math is not that difficult. Now what's the answer in this example? So I said S1 is 0.75 and R is .1. So the first result you get S2 is .01875. Let's run it again what's S3, .00184. Run it again, not hard, what's S4, .0001836. So that's S1, S2, S3, S4, I could keep going.

What's happening to my output? It's approaching zero, right. You go a couple more times that's what you get you're approaching zero and then you stay there. You can run this equation a million times, you can run it a billion times, and you're always going to get zero. That's what's called a fixed-point attractor. That's when the graph of the times series or the output goes to a place and stays there, it gets stuck there.

Now not every recursive equation does that. This one does and I chose it for this reason to illustrate this point. Some of them do other things and I'll show you that in a second. But what does this remind anybody of, S1, S2, S3 get to zero, we're stuck there. Does that sound like fed interest rate policy?

[Laughter]

QE1, QE2, QE3, rates get to zero and we're stuck there forever. Now that's a conjecture. I want to be clear, that's a conjecture on my part, a theoretical conjecture. I'm not advancing that as science but it's interesting to me that this is what they — by the way, they'll teach you this in the physics department. People who know nothing about finance will teach this to you when you're doing complexity theory.

But I find it interesting that in a recursive function, the feedback loop is zero and you're stuck there and you can't get out forever. So let's kind of watch that space but I think it's interesting and I query whether zero interest rates are not a global fixed-point attractor and all the interest rates in the world are going to zero. You know Australia is still two and a half percent but they're on their way to zero. China's a little higher than that but maybe they're all on their way to zero and maybe they're all going to get to zero and maybe they're all going to stay there, so that's something worth considering.

Now sometimes you run the equation and you get this. You take this same equation, change the R, make R an integer, change the S and this is what you get. You don't get a line at zero forever you get something that looks like this. Now this is not a tye-dye t-shirt. This is not what you get in finger-painting class. This is actually the output of an equation that's exactly like this with different variables run X number of times and actually, if you run it to infinity you keep getting this. And they do add color just to illustrate it so you can see what's' there it's a little more interesting than black and white.

But these forms and squiggles and shapes are the graph of the output of a recursive function. This is complexity. Now a couple things about it, notice that black blob there it has a certain shape. It has a little head on it, a couple wings, kind of fat, you know a little head. What does that look like? Well, it looks just like that. Notice there's a bigger blob there?

That little one on top looks just like that and what does that look like, well, it looks like that big one. And notice these ones over here all along the side; they're all the same. They're different sizes but they're all that, you know it's like a blob with a head sticking out of it and a couple little arms. But if you took that little black blob there and put it under a microscope, you know what you'd find, a little one on top that looks exactly the same.

This is what we call scale and variance. Scale and variance means that no matter how big you make it or how small you make it you see the same thing over and over again. And what you see here is the same shape over and over again repeated at different scales. That's very symptomatic of what's called fractal mathematics it's the kind of output you get from complexity theory. And think of it as a coastline, it has big inlets but you go in the big inlet and there's a little harbor and in the harbor there's a little nook and cranny. If you graft it, all they would all look the same they're just different scales so this is scale invariance.

Can we think of anything else that exhibits scale invariance? How about the stock market? So here's a graph, so okay, this looks like a bubble, right, some kind of bubble and it crashes, okay. But that's at one scale but look at this at a slightly different scale. You'll see the same thing; see that little rise there and the crash? Okay, now that was not a big day that was just a couple of Dow points. So this happened and nobody cares, yeah, its two Dow points or whatever. But as the complexity theorist, as a scientist I say that is just a little version of that.

And by the way, if you did a minute-by-minute take you'd find little tiny miniature versions of that. In other words, the stock market exhibits scale and variance. The numbers are not the same. This will cost you real money. This is like nothing. But I'm interested in the patterns. I'm interested in the physics. I'm interested in understanding the dynamics behind it. And that little crash right there is exactly like that big crash right there.

So this is how you can see things coming and if you understand how the stock market works the little crashes are the same as the big crashes. Yeah, they cost you more money, they make more headlines, but the dynamic is the same. And if you get the dynamic right then you can being to understand how this all works. By the way, this is the 1929 stock crash. It doesn't matter, I could have picked a lot of different crashes I just happened to have this one but this is the peak in 1929 and here's the crash after that.

But the point is stock markets and not just stock markets but commodities markets, currency markets, all markets exhibit scale and variance, fractal mathematics, and non-normal distributive risk.

Everyone in finance assumes the opposite. The assumptions I'm explaining to you and I'm trying to back it up with real data, are not the assumptions that are used in modern financial theory today so that's one of the reasons we're getting such bad results. Here's our old friend the bell curve, let's just kind of take the half, the positive half. So this is normally distributive risk and one of the characteristics of this is that it goes down to zero. Let me just show you what's here. So this is the frequency of the event.

How often does it happen? That's what the X-axis is. This is the severity of the event. So the more you go out there the more extreme it is. So this sort of acts the way you would expect you would say well, the normal events, the little events happen a lot and the extreme events happen much less frequently. So you would expect the curve to be downward sloping

from left to right. That these extreme events are less frequent and these not so extreme events happen all the time that's what this curve shows.

But the question is how extreme and how frequent because the extreme ones are the ones that are going to wipe out your net worth. Well what the bell curve says, what the normal distribution says, when you get out here about six standard deviations, this hits the X-axis for all practical purposes that never happens. When something out here, when it's on the X-axis that has a frequency of once since the beginning of the universe. Not something I would worry about as an investor.

And Jamie Diamond in his letter to his stockholders for JP Morgan a few weeks ago referred to 2008 as something that happened once every three billion years. And I'd say Jaimie that's embarrassing because you're using the bell curve to explain the severity of the event. The fact is when you get data — and this is not theory — get the data, put it on a graph; look at what's called the degree distribution, which is what I'm showing you. It's not a bell curve, it's this. This is a power curve.

Now it also goes down from left to right downward slope and you would expect that extreme events are less frequent that tiny events. That's true. But notice that this deteriorates and there are far fewer events in the kind of friendly, not too important category 'cause see how fat that is and that's a little skinnier. But then when you get down here it's really shocking 'cause this does not hit the X-axis this just kind of keeps going. Look at that gap. That gap when you come over here to the Y-axis that's the frequency of extreme events. This curve is telling you they never happen because it's practically on the X-axis. This one is saying they don't happen that often but they do happen.

And this little red dot is meant to illustrate things like October 19, 1987 when the stock market fell 22 percent in one day. One day. That would be today in Dow points about a little over 3,000 Dow points. If the Dow falls 300, you all read about it, it's in the newspapers and on the blogs. Imagine the Dow falling 3,000 points in one day. That's what happened in percentage terms in October 19, 1987. That's one of these guys, okay. This curve is telling you they never happen. This curve is telling you they do happen that's a much better fit to the data.

Go back to the sun revolving around the earth or the earth revolving around the sun. Remember I said they saw observations, empirical observations that did not fit the theory and what did they do? They made something up. They made up epicycles. Well this, this is an empirical observation that doesn't fit the theory. Right, 'cause the theory says it should never happen. It actually does happen, okay. So what did they do? They made up fat tails. They made stuff up and I don't know how else to describe it. I work with Nobel Prize winners and 160 IQs and the fathers of modern financial theory I know most of them and that's' what they did. They said, oh, outlier. Well, we have black swans. What is a black swan, right?

But if you look at the power curve, it actually fits the curves. It's not exactly on there but to illustrate the point, this is one where the data fits the theory, this is one where the date does not fit the theory. If I saw this, I would say the bell curve doesn't work. What modern finance did is they said well, the bell curve works except eh, when it doesn't and

then you lose all your money but they're outliers, don't worry about it. So I want to go over this but here's my point. This is not just a sterile academic debate about the shapes of two different curves. If it were, I wouldn't waste your time with it. These curves represent completely different systems. Right?

Power curves represent defector mathematics, the complexity theory, all the things I was talking about. Bell curves represent normally distributive risk and pretty well behaved predictable systems like rolling dice or playing roulette. So it's not just about the shape its about what the shape represents, it's about what's behind them. And again, when I see this data and I say okay, this theory doesn't work, this theory does work, what does this theory tell me? It tells you something completely different. What it tells you is that the capital markets are a complex system.

And I would say that that's the most important question in the world today in the world of finance because our capital markets are complex systems. If they are complex systems then everything Wall Street is telling you about how to understand risk is incorrect. I'll just say it's wrong. If they are not complex systems you can skip the rest of the lecture, but I would submit to you that they are complex systems and I'll tell you exactly why.

So if you went to a physics department, so you go to the physics department at the University of Georgia or the University of Michigan or MIT or any other fine school and take complexity theory from someone who doesn't know anything about finance, so it's not a finance course or a complexity finance course. Go to the physics department. What will they teach you about complexity theory? What are the hallmarks of a complex system? Well there are four: diversity, connectedness, interaction, adaptability. Let's apply those to capital markets.

Do we have diversity? Sure, you've got bulls and bears, longs and shorts, fear and greed. Every kind of, you know probably have 100 opinions in this room so we have plenty of diversity.

Connectedness. Absolutely. We're plugged in. We got Bloomberg, Reuters, Dow Jones, Thompson Reuters, chat rooms, iPhones, TVs, you know squawk box, e-mail. We're over connected but we're certainly connected.

Interaction. Well what good does it do to be connected if you're not transacting? Well we're transacting trillions of dollars a day in stocks, bonds, commodities, and derivatives.

And finally, adaptability. That refers to changed behavior. So if someone's doing something does it impact your behavior? Certainly yes, I've spent a lot of time in hedge funds if you lose money in hedge funds you better change your behavior fast or you'll be out of business. So is something you're doing affecting what other people are doing? Well, of course it is. So you get into these feedback loops that's what the recursive function is that I illustrated earlier.

So diversity of view, connectedness of participants, interaction among the participants, and adapted behavior where your behavior affects my behavior and vice versa. An example of that let's say you live in an apartment in New York or Baltimore and you wake up in the morning and you don't know how cold it is outside. You look out the window and everyone's got down jackets and hats pulled over them and big mittens.

Are you going to go out in a t-shirt, probably not. You're probably going to get your warmest jacket. You know your behavior you have adaptive behavior based on what you see other people are doing, so we certainly have that at markets. So capital markets are four for four big time in terms of what a complex system is. So they certainly are complex systems.

I want to give a very simple illustration here. This is some work done by the London School of Economics having to do with the connectedness of the system in dynamic instability. Now what they're showing here and I apologize, some of those dots are a little hard to read by color but I've put some big ones in to illustrate it. So blue is technologies, green is real estate, black is energy, white is basic materials, and green is finance. There are five major financial sectors. Every dot is a company. So IBM is down here in the blues and Morgan Stanley is over here in the greens and Exxon Mobile's up here in energy and so on.

And the lines are connections between the companies. So Morgan Stanley does a swap agreement with IBM you draw a line from here to here. Now you don't do this by hand what you have to do is pick your company's, pick your factors there's software that will do these graphical representations. You put it in the software, push a button, and here's your output.

But what we're trying to illustrate is what's called the density function. Now where do we start? Well, you would expect some connections; of course, there's some connections. But notice how these are distinct, these are five distinct arms, you know it looks kind of like a spider, an insect of some kind or an octopus or whatever, but they're the same.

Now this is 2003, this is 2008. What is happening, what's happening to our system as we move through time from 2003 to 2008? Two things are happening. Number one, it's becoming more and more dense. That density, that clustering function is getting more dense. Number two; everything's being sucked into finance. By 2006, real estate has disappeared. Real estate is completely sucked into finance and then more and more. So its finance becomes the center of our universe and it's one big blob.

Now here's my point: in 2007 just before the crisis started, well actually, just after the crisis started and people are saying well, how bad is this going to get? Ben Bernanke who was chairman of the Federal Reserve said this will be contained, this will blow over. A bright physics student, a second year physics student looking at the same data who knew nothing about finance he would look at this and say your system is about to explode. Your system is about to collapse. Because you are so densely connected, a small perturbation, a small problem in any part of the system is very quickly going to ripple through the whole system and take the whole thing down like a house of cards.

Now here's my question: how could Bernanke get it wrong and a grad student of physics get it right? A grad student who knew nothing about finance. The answer is he understood the dynamic. He had the right paradigm. If you get the model right, you'll get the right result. If you get the model wrong it doesn't' matter how smart you are or what you're the chairman of you will get the wrong result. So that's my point. Understand the complex dynamic interactions; understand the house of cards and you'll see the collapse before it happens as any bright graduate student would here.

So let me just spend a couple of more minutes on some more features. So I talked about

complexity and density let's just go back to this. Okay, you get the fact that this is dense, this is connected, this is highly complex, but why does it have to collapse? What would cause the collapse? Well the answer is diminishing marginal returns to complexity. Now diminishing marginal returns, any marginal return curve looks kind of like this. So here's complexity, right, so we move out here we're getting more and more complex. As we move up here, we're getting more and more benefits. So we trade complexity for benefits.

We agree as a society to make our society a little more complex but when we do that we get some benefits at least at first. But after a while what happens? You're adding complexity but the benefits are slowing down. And then you get out here and they stop. And now you keep going and you add complexity but what's happening to the benefits, they're going down and if you keep going far enough you'll actually have it makes society worse off. So this is a diminishing marginal return curve.

Now what's happening in here? Well this is a bunch of rice farmers in China in the year 500 AD. And they are working hard and they're growing rice and they look around and there's a river nearby. And they say you know what, if we got together and dug an irrigation ditch from the river to our rice paddies so we could flood our rice paddies we could grow a lot more rice. But I can't dig it myself so why don't we all get together and dig the ditch.

So a bunch of farmers get together and they dig a ditch. Okay, now they've added complexity, right, 'cause they had to organize five guys and probably one of them was in charge and he probably had an assistant, right. So you add a little complexity but you get a big payoff 'cause you get that irrigation and you get a lot more rice. That's in here. That's when societies begin to get more complex.

But what happens up here? Well, all of a sudden the assistant needs an assistant and you got a water commissioner and an irrigation commissioner and an irrigation tax but we're still getting benefits, okay. And when you get over here where are you? Well, I like to compare the R&D budget for the Boeing 787 that we talked about this morning with development budget for fire, okay. The R&D budget for fire was zero. Somebody struck two rocks together and something caught on fire and they repeated that and it worked. So the R&D budget for fire was zero.

The R&D budget for the 787 was $37 billion. Have you been on a 787? I can't tell the difference. I mean I went in the head and I thought it actually was a little bit smaller. So the example is at the beginning in here you spend nothing and you get big payoffs. Out here, you spend $37 billion and you can't tell the difference. That's huge inputs with little outputs and you get to the point where there are huge inputs and negative outputs. That's when societies collapse.

So that's what the negative marginal return curve is. Now how does it work in actual society? Well what are the sources of negative marginal returns? Why does the curve not keep going up? Okay, we had complexity but we get more and more stuff for our money why does the curve not go like that why does it bend down? Why do you get to the point where you're adding more cost but not getting benefits and in fact, making things worse? Well the answers are taxation, bureaucracy, regulation and what I call elite rent TA's, so people who suck the system dry.

People who — see I have nothing against Bill Gates being worth $50 billion 'cause Bill Gates gave society more than $50 billion worth of productivity. So he took some money out of the system but he gave more than he got. But the bankers don't do that. They take stuff out of the system and give you nothing in return. So here's Mayan society at the height of the Mayan period and notice this guy up here being carried. That's Jamie Dimon, right, this is a very complex society, okay and that's Lloyd Blankfein, he's looking pretty good.

These guys, that's you and me, we've got no clothes and we're carrying Jamie Dimon on our backs. So my point is this is a society that's out here 'cause the priests and the tax collectors and the elites are sucking the system dry and we're all walking around with no clothes carrying them on our backs. So this is a society nearing the edge of collapse and that's me at some Mayan ruins. It's nice to visit but there's no society there today there's just ruins. So that's' how society collapse because you get to the point of diminishing marginal returns where the elites are taking everything out of the system through taxation, bureaucracy, regulation, they're sucking you dry. You're contributing but you're just carrying them on your backs.

And people have theorized about the collapse of civilization forever. I mean going back to the time of the ancient Romans they had theories as why the Greeks collapsed. The Greeks actually theories as to why the Greeks collapsed. And today we have theories on all of the above.

And the typical theory runs like this: the historian finds a cause. It's well this guy was an earthquake their city fell down because there was an earthquake. Somebody else said well this was a disease. They got plague and they died because of disease. And somebody else says well this one was a drought. Terrible drought and they all had to move and that was the end of the society. They look at these specific causes. That is not what causes the collapse of civilizations because if you dig deeper into history what you'll find is that the place that had earthquakes had had earthquakes before. The place that had a plague had had plagues before. The place that had a drought had droughts before. So it wasn't the plague or the drought or the earthquake it was the response function. It was how the civilians, how the citizens responded to the plague or drought.

And when you're here, when you're here you say hey, let's get together and rebuild after the earthquake or let's get together and rebuild after the drought or the diseases or whatever. But when you're out here, when you're carrying Jamie Dimon around on your back and you're being taxed to death and then you suffer adversity people say I'm out, I'm checking out. It's just not worth it to me anymore. My payoff from society is not big enough to get me to sacrifice to rebuild this thing and that's how societies collapse.

So the warning I'm giving is we are getting to the point when you have to spend $37 billion to make your airplane a little better but essentially indistinguishable from the one before. Or pay the amount of taxes we pay, have the amount of regulation we have, when banks are sucking you dry, when everything is take, take, take and nothing's given back that's when you undermine society, destroy confidence in institutions and that's how society collapses.

But this is an example of complexity theory I'm not here to give you a history lesson I'm

using history to illustrate the operation of complexity theory in terms of what we were talking about.

So I want to go on to the next section, which is inverse probability and I'm going to go through this quickly. Another fancy equation but it can be expressed pretty simply. This is an updated expression of a 250-year-old rule called Bayes Rule. But basically here's what statisticians like to do and here's what actually most economists like to do, they like to get data, data, data, data, data, data. They get a whole bunch of data and they do regressions and they do correlations and then they come up with a theory. What if you don't have the data? What if you have one data point? What if you have to make a life or death decision and you don't have much to go on what do you do then.

Well the eggheads and the statisticians say well, sorry, I can't help you, good luck. But there is a method for doing it. What you do is you come up with what's called an A priority hypothesis. It's a guess but it should be a smart guess based on whatever information you have. It may be a few scraps but you make a smart guess and that's this that's the probability of a cause given the data. And you assign it some weight. I'll just pop ahead. So here's the same expression probability of a cause given the data. I don't really know, I'm not certain about the answer but I have a pretty good idea based on what I do know so I give that an 80 percent weight. So that's my A priority hypothesis

Then I go down the road and time goes by and I get some data and I put that in the numerator of the fraction. Now the denominator is 100. It's always 100. That's like all the possibilities in the world. So I've got a prior of 80 percent, I've got 100 in the denominator and I start getting data and I stick it in here and I observe it. And say okay, what's my fraction? If it's greater than 80 percent I got you know what I'm on the right track. I was guessing 80 it's actually 80 or higher it looks like I'm right. If it's a lot lower than 80 percent if it's 20 percent I say you know what I was probably wrong about this I need to rethink this. This is a way to test your assumptions and test your hypothesis using data that you don't have yet.

And think about it, that's the world we live in. We don't know what employments going to be next month. We don't know what GDP is going to be next year. We don't know what inflations going to be a year from now. And most of the economists, Johnnie Ellen she stayed independent, which means she's going to wait and find out that's why she doesn't know what she's doing. But if you can from an assumption and then test it with real data, you can actually look over the horizon and see things before they happen.

I was on CNBC in November 2014. Now remember where we were in November 2014. Second quarter GDP was about three percent and third quarter GDP was five percent, unemployment was coming down, the taper was over, everyone was happy days are here again the economy's finally achieved self-sustaining growth. And all of Wall Street was betting, well everyone knew there was going to be a rate increase in 2015 there was no doubt about that but was it going to be in March or June? Was it going to be March 2015 or June 2015? You could get a good debate about that.

And I went on CNBC in November 2014 and I said, "Growth is going to fall off a cliff. The growth is going away and the fed will not be able to raise interest rates." And I'll talk

to Peter about sending you that link, some of you may have seen it but we can send the link out to the mailing list and watch the interview. You'll think I did yesterday 'cause you'll hear the same thing today. But I didn't, I did it last year. Now how did I know that? Was I smarter than anyone else, no. I know these people I'm not smarter than they are I guarantee it. Do I have a crystal ball, no, that doesn't work. Did I wiretap the room at the Federal Reserve? Well, I didn't but even I did I think I'd know less than I know now.

But what I did do is I used this equation. I used this and based on the data I had and then I tested it as we went along and I had a lot of confidence in that forecast. And the March people have been carried off the field, the June people have been carried off the field, I think your September people are going to get carried off the field. I don't see how the fed is going to raise rates and we're back to that fixed-point attractor that I hypothesized earlier. So we do have methods for looking over the horizon. They're not infallible they can be wrong in some cases, but they give you much better results than all the other things you're using and this is what we use.

By the way, we use this at the CIA. And when you're at the CIA, you get the problems that are called underdetermined. Underdetermined means you don't have the information you need to solve the problem, right, 'cause if you had the information you could give it to a high school kid and they could solve the problem. You have to solve the problems, the life or death problems where you don't have enough information. So what do you do? We use Bayes Rule all the time. It's not perfect but it's better than the next best thing. The enigma machine, I don't know if you saw the movie Imitation Game a great movie out last year where a British scientist cracked the code of the German enigma machine. They used inverse probability and they're using it in Sweden today to track down Russian submarines 'cause you can't see the submarines or find them very easily.

So in the real world of tough problem solving, life or death problems where you don't have the data we use inverse probability all the time. But they don't use it on Wall Street; they don't use it at the fed because they like a lot of data. Well good luck 'cause you're not going to get the data.

Behavioral psychology is the third leg of the stool. Again, I've got to move a little quickly here 'cause I'm over time. These are the pillars of modern financial theory. Efficient market hypothesis, normally distributive risk, risk free rate, rational expectations, equilibrium modeling, value at risk. They're all wrong. Every one of these things is a theory contrary to human behavior, contrary to observed data.

Psychology has done experiments that undermine all of them. You know what we found out with psychology? We found out that people have recently bias. That's when you tend to overweigh the last thing that happened. In theories, in statistics, there's no reason why the last thing should be any more important than the one before but we do. That thing that happened today, man, that's really sticking in my mind.

Anchoring is the opposite that's when we overweight the first thing. Something bad happens and we always remember it. Now you notice regency bias and anchoring are exact opposites and people exhibit both. I didn't say this made sense I'm just telling you what people actually do. They overweight the first thing 'cause it was traumatic and they

overweight the last thing 'cause they remember it.

Confirmation bias, you get a bunch of data all the ones that disagree with you, you throw them out. Ahh, they're wrong. The ones that agree with you, yes, good data, you know. So that's confirmation bias.

Risk aversion, people don't like to lose money, that's easy.

Herding, safety in crowds. There is social science research that shows economists are worse at forecasting than monkeys and I do not say that in a disparaging way. But if you give a bunch of monkeys, give them outcome, market up, market down. Market up, market down, euro up, euro down and let the monkey's throw darts they will be right half the time and they will be wrong half the time 'cause they don't know what they're doing. Economists are actually wrong more than half the time. Economists stink at economic forecasting they're worse than monkeys, but why is that? They're not dumb; again, these are all smart people. It's because of herding.

It's because they would rather be wrong together than out on a limb. 'Cause you go out on a limb and you're right somebody might say nice job but if you're wrong, you lose your job. You get fired. You're an idiot. You're out here and you're wrong. So the first economist that comes up with a three percent estimate for a GDP growth in 2008 and you talk to the next guy he goes yeah, three percent. And then you talk to the next guy well, I think three point one. The next guy I think two point — they cluster around three percent 'cause they would all rather be wrong together than step back and think about what they're actually doing.

So herding is, this is all human nature. I'm not defending it or disparaging it, I'm just saying this is what people do based on a lot of experiments. So here's a simple one, give somebody a choice, you can win $4,000.00 with an 80 percent chance of success, or you can have $3,000.00 with 100 percent chance of success. Now here's how a statistician, here's how the fed would solve the problem. They go okay, choice A, well, that has an expected return of $3,200.00, it's just $4,000.00 times 80 percent, $3,200.00. If I give you 100 percent chance of winning $3,000.00 that has an expected return of $3,000.00.

So they go well $3,200.00 is greater than $3,000.00 so that has a higher expected return so choice A is the rational choice. You know what people actually do when you give them this choice in an experiment; they take B like almost all the time they overwhelmingly take B. So economists say well, you people are irrational. You're idiots. You're taking the lower expected return why wouldn't you take $3,200.00?

Now this experiment does two things, it pulls the rug out from under the efficient market hypothesis. All the assumptions about rational behavior turn out to be empirically wrong because people don't behave rationally. But I would take it a step further and say you know what instead of calling people irrational or implying they're dumb for taking the lower expected return let's put that in context. Let's put it in the context of our ice age DNA because we haven't changed genetically since the ice age.

So here's a choice, there's our cave men and he's got to go out and get some food, he and his tribe and they have 99 percent chance of getting food. But there's a one percent

chance you're going to be eaten by the saber tooth tiger. Now Janet Yellen would say, hey tribe, get out there and get some food. Your odds are huge, you're going to come back with lots and lots of food and you're all going to survive that's the --- that has a higher expected return. But this guy's thinking you know, maybe it's not my lucky day. Maybe I'm the guy who gets eaten by the saber tooth tiger I want to improve those odds.

So my point being, going back to the example and I repeat the example there. This thing about expected value, about the $3,200.00 being more than $3,000.00 that's actually true if you can play the game 1,000 times. Actually, if you can play the games 100 times take A. If they're going to say you lose the first do it again, do it again, do it again, do it again. If you can play the game 100 times do A, because you will get about $3,200.00 times 100.

But if you can only do it once, you know if the saber tooth tiger eating you is game over you have to think about it differently those one percent odds don't look so narrow. So this is an example not only do people take choice B that's empiric but I don't' think they're so stupid. I think they're actually thinking the way we should think, which is getting wiped out is not a good result and you have to bear that in mind.

So I'm just going to wrap up here and I'm way over time and I apologize but we are trying to cover a lot of ground. So here's my original chart. Complexity theory that's the core recursive function. Inverse probability there's Bayes Rule. And behavioral psychology, one's greater than the other but people take the smaller one 'cause they have their own reasons.

And what we do we work right here. So we might favor one more than the other in a particular case but sometimes we use complexity theory on Monday and inverse probability on Tuesday and so on. We use all three of them. We work right here. This is the impact system. This is what's behind our recommendations. And I'm going to skip this, it's interesting but maybe we'll do it some other time.

The fellow you've never heard of, the Raven. This was a guy who lived from 1881 to 1959 and for the first half of the 20th century he accurately and early predicted every disaster: World War One, Weimar hyperinflation, great depression, World War Two, Cold War. He got every single one of them right. He was an Austrian who became a Swiss banker. I'll show you a little quote. He says right here, he's talking about King Edward the Seventh and King Edward the Seventh told his cousin the Kaiser of Germany that England and Germany would not go to war.

And Felix Somary, the Raven of Zurich the guy I'm talking about said, "Doubtless the king too had spoken in good faith but I was uncertain how much insight the king could have into the situation. I had seen six years earlier how little informed more capable rulers had been. On behalf of those friends whose assets I was managing I converted bank deposits and securities into gold and invested in Switzerland and Norway." A few days later, the war broke out.

He was using, he didn't call it complexity theory 'cause that wasn't invented until the 1960s but he was using exactly the same methods I've described here.

So I've gone pretty much over time. I've got some stuff on gold but maybe we'll talk about that in questions. And I think if you're familiar with my books, I thank you very much for

reading them and if not everything I've discussed here is covered at greater length in the book. And on behalf of Agora and my publisher and our newsletters and your support, I thank you very much.

[Applause]

Peter Coyne: There's kind of a funny guy in the audience while we're waiting for — this gentleman set up Jim's slides. Jim, someone asks you if a Tom Clancy type movie is made of *Currency Wars* who will play you?

Jim Rickards: It's funny, I actually wrote a treatment, believe it or not, I have a literary agent but I have a Hollywood agent and with my publisher, they have the publishing rights but I retain the book and movie rights. So I actually did write a treatment for a kind of intriguing kind of plot and I was able through my agent to get some meetings in Hollywood and on the Paramount backlot and DreamWorks and got all the way into Steven Spielberg's bungalow. He wasn't there that day but I got to talk to his number two guy and presented that. And I did actually meet with the guy who's the executor of Robert Ludlum's estate who was the producer of the *Bourne Identity* and some of those other movies. So stay tuned we may see something like that.

There was a movie last year, I think it was called, I'm not good at movie titles but Jack Ryan something. But basically, the plot was Russia is conspiring to damage US capital markets and our hero, Jack Ryan, goes and puts an end to it. So that was played by Tom Cruise so maybe Tom Cruise would be a suitable selection but I'll leave that to the producers.

Peter Coyne: He's still working on the PowerPoint so another reader asks if the perfect fed chairman suddenly appeared what would their policy be?

Jim Rickards: A perfect fed chairman would actually raise interest rates 25 basis points. Now I've been saying all along that they're not going to do that and I'm sticking to that. And I say one of the reasons they won't do it is because they'll crash markets around the world. But I think they should do it and take that medicine because the crash that's coming will be a lot worse than the one we would have if they started to normalize interest rates. And I actually said this and I was on CNBC in August 2009 with our friend Joe Kernan and Becky Quick on Squawk Box about 6:30 in the morning.

And this is August 2009 so almost six years ago and they said what should the fed do and I said they should raise interest rates 25 basis points and everyone was appalled and what's wrong with you. And I said there's no liquidity crisis now. Now the economy was in bad shape, in August 2009 unemployment was over 10 percent. We were still technically in a recession. Growth was weak. There were problems all over the world. It was not as if there was a rosy scenario but I said raise interest rates 25 basis points at a very slow tempo.

The kind of Janet Yellen's talking about today she says maybe we'll wait six months for the next one not the next meeting. If they had done that beginning of 2009 or maybe 2010, I'll cut them a break they could have got interest rates up to about 1.75, you know one and three quarters let's say by 2012 and they could have plateaued. And if they had done that guess what they could do today, they could cut them. The fed missed a whole cycle. The time to raise rates was 2010-2011. Growth wasn't great but there was growth. There

was no liquidity crisis; there was no shortage of money. I've never seen so much money around. Growth was weak. Growth stinks.

We've got currency wars, we've got a lot of problems, but I've never seen so much money. I've talked to managers they're like I'm doing dumb deals, I know they're dumb but my clients are banging on me, you know these are private equity guys, real estate guys, commercial real estate guys and women. They're saying my clients are making me do these deals 'cause they want the yield and they want to get the return. They want to put the money to work but I as the manager, as the sponsor, know that these deals don't make sense. I'm hearing that all over the place. And there was no shortage of money in 2009 and there's no shortage of money today what there is is a shortage of growth and a shortage of structural reform and things we really need to do to get real growth.

If they had followed my advice then and believe me, they didn't and they weren't listening to me, they could have got rates up, they could have normalized them somewhat for the amount of growth we had. And today we may be in a recession today, I'm not saying that with certainty but we might be. It looks like negative growth in the first quarter tracking about one percent plus or minus for the second quarter, let's see how it plays out. But if we're not in a recession, growth is going to be like one percent for the first half. But that's' the kind of environment where you want to cut rates but they can't because they're at zero. Why are they at zero? 'Cause they never raised them when they should have and could have so they missed a whole cycle.

So my advice would be the same, raise them but you are going to sink emerging markets 'cause the capital flows are going to come into the dollar. You are going to hurt exports, you are going to hurt growth, you're probably going to take the stock market down 30 percent. Is that fun, no, but it's better than a crash where it goes down 80 or 90 percent because we let this bubble get even bigger. Harsh medicine but maybe the patient gets cured instead of going terminal.

Peter Coyne: Another reader asks and this will segue nicely into what we want to talk about. So they say in a collapsed scenario that gave rise to civil disorder how long do you think that disorder is likely to last and how do you think order will be restored?

Jim Rickards: If there are what I call money riots and money riots are not political riots, they're not race riots, they're money riots because not only has wealth been wiped out but you find banks are closed, money market funds have suspended redemptions, exchanges are closed. All these things have happened before, by the way. When I say things like this people go oh, you're really making things up. They've all happened before. The New York Stock Exchange was closed for five months from July to December 1914. Banks were closed; every bank in the country was closed in 1933. Stock markets have fallen 90 percent and more times than I like to count.

So everything I'm talking about has happened and will happen again the question is what are the catalysts, what are the circumstances under which that might happen? In that world given what we've been through with '98 with the dotcom crisis, the 2008 crisis, loss of confidence in political leaders, loss of confidence in institutions that's a world where you might see money riots. That would be met with paramilitary force and military force.

A kind of neo fascist response. It would be put down pretty quickly because the state forces — I like to remind people that states don't go down without a fight. Where a lot of analysts go wrong they analyze countries. They look at Greece, they look at Japan, they look at the United States for that matter and say these finances are not sustainable and this isn't going to work out and all that.

And they analyze countries like a corporate balance sheet. Like you're looking at Worldcom in 2001 because they went bankrupt. I actually did look at Worldcom in 2001 for a hedge fund I was working with and I said these guys are going bankrupt and at the time, the Lehman Brothers were recommending the bonds. So you can see that in corporations. You can predict a bankruptcy or get a good sense. So people look at countries the way they look at companies they got their financial analyst hat on and they go this is all non-sustainable. But what they forget is countries are different they have armed forces, they have surveillance, they have eavesdropping, they have drones, they have massive computing power, military power, tear gas, night vision goggles, flash bang grenades, and armored cars.

So that's what you're up against if you're not happy about losing all your money or being locked out of your money. They'll tell you they're not taking it you just can't get to it. You can get $300.00 a day for gas and groceries and really why do you need more than $300.00 a day for gas and groceries. That's how the government will put it to you.

So I think that scenario will likely play out and I don't want to say certainly. The only reason I back away from certainly is I still hold out hope that it's not too late. I mean there are structural reforms that the country could undertake that would prevent that from happening and I could tell you what they are but I don't think that's the likely outcome. I think the likely outcome is we're all going to carry around the Mayan priest that I showed you earlier and that that we'll pass the tipping point, pass into negative marginal returns, pass into collapse and social unrest. And that will be met with in effect a neo fascist response.

And that brings me to gold. And I not only get two introductions to that I get to do two slideshows but I'm glad because they are the slides that I left out but I'll just go through them really quickly.

So okay, Jim, you're talking about dynamic system analysis, systemic collapse what does that mean? How does that play out? What is the collapse of the international monetary system actually look like? And what I tell people is this has all happened before. It does not mean that we all go live in caves and eat can goods. It doesn't mean that. What it means is that we go through a very rough time financially and we come out of it but when we come out of it, we're in a different world with new rules of the game.

So what I want to do is look ahead and say okay, we've been through it before and we have a sense of how it plays out what are the new rules of the game? One of the most likely is the issuance of SDRs that stands for special drawing rights and I know that makes people's head hurt and they go what's a special drawing right? It's world money. It's issued by the IMF. It's fiat currency. It's just like the dollar and people go wait a second, isn't the SDR backed by a basket of hard currencies. It's not.

Now there is a basket but the basket is used solely for the purpose of calculating the value of an SDR. So if you said okay, I got an SDR what's that worth in dollars or what's that

worth in euros? Well, it's a simple math problem the basket is around so you can do those conversions so you can come up with an equivalent cross rate but it's not actually backed by the basket. It's not backed by anything.

Well if its world money why didn't they call it world money? Well why didn't they call the Federal Reserve the central bank of the United States? The answer is Americans hate central banks. We had two we got rid of both of them so when the power elites wanted to come up with the third central bank of the United States they said, hmm, we better not call it the central bank of the United States so let's make up a geeky name so they came up with the federal reserve system.

It's the same thing SDR is if we called it world money that sounds a little spooky, right, 'cause there's got to be some world governance behind that. So they called it special drawing rights and then we don't understand what it is but it's really incredibly simple. It's printed money printed by the IMF.

Now here's my point, in response to the 2008 financial crisis the Federal Reserve took their balance sheet from $800 billion to over $4 trillion that's how much money they printed. Now if somehow they had got that back down to $800 billion I would say well, nice job, guys. You put out the fire, you normalized your balance sheet, and you normalized interest rates and go away and come back the next time we have a problem. But they didn't, they're still at $4 trillion and so is the Bank of England and People's Bank of China printed more money than the United States, European Central Bank, all the central bank vouchers are bloated.

The fed has leveraged 80 to 1 on a skinny little capital base and if you mark the bonds to market they would be insolvent. So the fed looks like a really bad hedge fund. So now you have another financial panic worse than 2008, which is what I'm talking about what's the fed's reaction function, what are they going to do? Go from $4 trillion to $8 trillion, $12 trillion? What's the outer limit of that? Well the answer is legally there is no outer limit. And people say they'll just print and go to $8 trillion what's the big deal? Legally they can but I think politically and psychologically they cannot. I think they will bump up against an invisible confidence boundary where people will finally say you know what, I'm out, get me out of dollars. This is going nowhere just get me gold or land or art or whatever I need to preserve wealth.

In that world where the fed is at the limit of what it can do there's only one clean balance sheet left in the world. The IMF is only leveraged about 3 to 1. They have a clean balance sheet. They could print one or two or three trillion SDRs. Three trillion SDRs is equivalent to about $4 trillion and they're worth about $1.35 today. Print three trillion SDRs, hand them out to all the members and then its money. The members can use it between themselves, sell a balance of trades, pay for imports, buy Caterpillar tractors, buy some Byron's military equipment, and get the game going again. But that will be highly inflationary. The fed having sought inflation and failed to get it the IMF can pick up where they left off and print four trillion or so or three trillion or so SDRs. So that's one possible outcome.

The other outcome is a new gold standard 'cause remember this will all be about restoring confidence if we get this far. And maybe the SDR will work I actually don't think it

will. I think they'll try it. You have to distinguish between trying it and it working. They will definitely try it. You will see SDRs issued by the trillions in the next financial crisis. Whether it works or not is a separate issue so we need to watch that very carefully. It might partly because no one understands them. And we wouldn't have them in our pockets we'd still have dollars.

SDRs are not walking around money they're for the big boys. They're for countries to sell balance of payments, pay for oil, and a few other things. We'll still have dollars but they'll be like Mexican pesos. Like you go to Mexico, you get some pesos. I go to Turkey I get some lira. Well you come to the United States you'll get some dollars but it will be local currency walking around money not the global reserve currency that will be the SDR.

But let's say it doesn't work what else could you do?

Peter Coyne: Could I interrupt you for a second? Last night and I don't know if you're willing to speak to this but you just mentioned that SDRs wouldn't be pocket money but we talked last night about a possibility of making a synthetic SDR. And I wonder if you'd just explain how an investor would go about doing that with with ETF or whatever and what the benefit would be.

Jim Rickards: Sure. You can create a synthetic SDR. The SDR has four currencies in the basket right now. They're probably going to expand that to five later this year. You'll probably see the Chinese yuan included in the SDR basket. And some people have said that's the end of the dollar; gold's going to go to $10,000. Gold is going to go up but it's not going to go up next October because they put the yuan in the SDR and it's not going to be the end of the dollar. The dollar will collapse but not so soon.

So the point is, so you're going to have five currencies in this basket. Well, we know what they are and we know what the weights are you can find it on the IMF website. So you could synthetically create an SDR investment just by either picking out the currencies in the same weight and then rebalancing or maybe more interesting approach pick out stocks of issuers in those currencies. So you had, you know the British pound is about 11 percent of the SDR. That's probably going to come down by the way it's too high but you could have a portfolio with 11 percent UK stocks, the dollar is about over 50 percent, the euro's in the for about 25 percent. You could create that basket out of currencies or stocks to nominate those currencies and that would be a synthetic SDR.

So if they're going to use the SDR to inflate the dollar but you own something that tracks the SDR that's a different kind of inflation protection. A little bit complicated but I'm talking to Peter and we're going to work on something like that so just wanted to explain briefly what that is but you may be hearing about that in the future. But you can't get very many real SDRs but you can synthesize it and some of the big sovereign wealth funds do that. That's why the yuan thing's a big deal because if the yuan is included in the SDR, which I expect it will be, people like Norway are going to have to go out and buy yuan bonds to rebalance their portfolios to mimic the SDR and that's' going to give a little uplift to yuan bonds. So there are some interesting investment plays around those developments.

Now the competition for the SDR is gold and let's just talk about gold for a minute. We could go back to a new gold standard. There's not a central bank in the world that wants

a gold standard I can promise you that but they may have to have a gold standard. Not because they want to but because they have to because it's the only thing that works. It's the only thing that restores confidence, let's the exchanges reopen the doors, ends the money riots, et cetera.

Well, people say yeah, we want a gold standard. Well you talk to people and you say what do you mean by a gold standard and they don't actually know. People don't know what a gold standard is. Any gold standard is just some relationship between paper money and gold because we're not going to really walk around with gold coins. I mean if you're an investor I do recommend physical bullion but for day-to-day transactions that's not very convenient. So it's a fixed relationship between paper money and gold.

What's their definition of paper money? If you're thinking about dollars are you going to use M0, M1, M2, those are all different, they're different amounts. Second question you have to answer is how much gold backing are you going to have and a lot of the Austrian economists bang the table and say it's got to be 100 percent because we don't' trusts governments. Historically that's not true gold standards have worked with between 20–40 percent backing. In the 19th century, England had a gold standard with 20 percent backing. In the 20th century up until 1971, the US was 40 percent backed. So you can have a successful gold standard with 20–40 percent backing. The third thing you have to answer is who's in like who's in this system.

The US could do it alone we've got 8,000 tons of gold but if we did, if you back the dollar with gold the dollar would be the only currency anybody wanted. They wouldn't want all the other currencies because they're not backed by gold so they would collapse in value, which would be very deflationary and that would destroy the economy for a different reason. So you probably have to invite China and Europe and Japan into this club.

So let's say you're going to have a gold standard, you're going to us M1, I think it's' a reasonable estimate. You're going to have 40 percent backing I think that's' a reasonable estimate. And you're going to include all the major economic blocks. What does that actually look like in terms of the dollar price of gold? First of all, who's got the gold? The United States is there we've got the 8,000 tons but look at Europe. Now is not one country this is the 19 members of the euro system but they have 10,000 tons that's one of the reasons I'm kind of bullish on the euro. Down here is the IMF, the IMF disparages gold but they've got 3,000 tons. Here are our friend China, now they lie. I put the official number here as 1,054 tons but they're actually up here somewhere around 4,000 tons and possible even higher. So China imagine they're kind of up here and then there are the rest of the countries. This is everyone else in the world and there are no big players there.

So you can see who has the gold it's Europe, the United States, IMF, and China. So let's see what a gold standard looks like with those countries. So I put in the US, Europe, ECB, and China and I'm assuming M1. So GM1 that means global M1, so the M1 of those three groups and 40 percent means 40 percent backing. What is the implied non-deflationary price of gold if you have 40 backing using GM1? And when I say non-deflationary price people say you can't have a gold standard 'cause there's not enough gold. That's nonsense there's always enough gold it's just a question of price. Now if gold is $1,200.00 an ounce then yes, there's not enough gold to support world trade and world

finance. But given the money supply and given world trade and finance what would the price of gold implicitly have to be in order to support the financial system, as it exists today that's what I mean by the non-deflationary price.

And this is simple math. So the answer is about $7,000.00 an ounce. When you hear me talk about $7,000.00 gold, I didn't make it up. I'm not trying to get a headline. I'm telling you this is eighth grade math based on publicly available sources. I'm telling you what the implied non-deflationary price of gold is in a world where you use M1 with 40 percent backing. Now what happens if you use M2 that's a bigger pot of money with 100 percent backing? That's $44,000.00 an ounce.

Now I'm not predicting $44,000.00 gold. It could happen but that's not my forecast don't go home and tell your friends Jim Rickards says gold's going to $4,0000.00 but I am saying it's going to $7,000.00 and possibly higher. There's this global M1 with 100 percent backing. If you use M2 with 40 percent backing, you get $17,000.00.

And by the way, these are moving targets because the central banks print money faster than I can update the slide so that $7,000.00 by a little bit closer to $9,000.00 today. But the point is this is the price that gold has to be in order to avoid deflation in a gold standard. It's not a guess it's math and so that's where I've got gold going because I think it will be required.

The third scenario, I mentioned the SDR and a new gold standard, the third one is the one I mentioned, which is collapse and a neo fascist response. You might get all three. You might get SDRs as a temporary solution that might degenerate into money riots with neo fascist response and then at the end of the day they go to a gold standard to sort of put out the fire. So don't rule out getting all three. But that's what we're doing with the impact method, that's what we're doing in our newsletters we're watching developments all the time and we are always staying over the horizon.

I spoke with General Haydon recently, retired four-star generally, head of the NSA, head of the CIA, among other things, he used the expression ridgelines. He said you have to look over a couple ridgelines. I've always said over the horizon but I think I'm going to steal General Haydon's metaphor. We have to look over a couple ridgelines to see where the financial enemies are and that's what we're doing with our newsletters. And I talked about the books.

Again, I appreciate everyone's support as readers and subscribers.

Strategies and Opportunities for the Monetary House of Cards

Dan Amoss: Analyst, *Jim Rickards' Strategic Intelligence*, *Currency Wars Alert* and *Rickards' Intelligence Triggers*

Click here to download the MP3 and Dan's powerpoint presentation

Addison Wiggin: I'm going to introduce Dan. Dan is actually a very like-minded with Jim. In fact in his writings Jim has described Dan as his doppelganger. If you look at the two of them that's probably not an accurate description. *[Laughter]* Dan's a little bit taller, but they think a lot alike and Dan has been a partner in putting together the impact strategy that Jim has been using. So without further ado Dan Amoss and take it away Dan, thanks.

Dan Amoss: Thank you Addison and thank you everybody at Agora Financial for putting together this great event. Today I'm going to talk about the strategies and opportunities available to you in this monetary House of Cards.

But before I start Peter wanted me to remind you many of you have asked about options trading and setting-up accounts and I just want to remind you at the end of every issue we have links to resources for you to find how to set-up a brokerage account, how to make an options trade, et cetera, the basics. So you can find that at the bottom of every issue of our trading services.

But for today I want to focus more on our front-end letter, *Strategic Intelligence*. Specifically how we go about finding ideas, where the risks and opportunities lie.

So one of the core tenants of this portfolio is that currency wars create winners and loser. An offensive move to use the war terminology would be what we've seen from the Bank of Japan, from the European Central Bank over the past year or so. They've made offensive moves, they printed money, they bought government bonds, and they weaken their currency. That gives a temporary GDP boost to their export sector.

So with the lag you've seen these economies start to pick-up at the same time the U.S. had fallen back. But that inevitably leads to counter offensives, it's not a static system, it's very dynamic. With the Fed as we just saw yesterday and as Jim outlined they're backing away from this tightening policy. They're either going to move it back on a calendar basis or they're going to say, "This tightening cycle will be much slower than everyone is expecting on Wall Street."

The problem is at the end result with each of these offensive and counteroffensive moves the monetary system becomes more fragile. There's no historical record of central banks that once they do this you can't just undo it and go back. If you run through all the recursive feedback loops that you get from you know collapsing bond markets and stocks and et cetera central banks would never knowingly pull back from this and have a real tightening cycle that we saw in the '70s and '80s and '90s.

So since the monetary House of Cards is getting bigger and bigger there's risk of both inflation and deflation and we recommend that you have some investment exposure to each outcome. Right now as Jim has written deflation is the much bigger concern. We see it in all the data and Jim follows the same data that the Fed follows. But for inflationary risk there are a few ideas listed there.

I'll just call out one Franklin Nevada is a gold royalty company and interestingly tying it to Chris' idea earlier of input capital which does the canola farming royalties it's a very similar model. This is a company that can create a lot of value. It has a very repeatable playbook of either buying — they layout money out front and return it for a royalty stream on a mine, on a gold mine and they don't have the risk of reinvestment of rising capital costs, et cetera. Or they buy a stream in which case they make an agreement to buy gold that is small fraction of its current market price and they get to resale into the market at a higher price.

That's an example of a company that is flexible, that is high quality, high return on equity type of company whose return on equity can really accelerate if gold price get moving to the upside.

For the deflationary side of your portfolio the key holding that we recommend is the Wasatch-Hoisington Treasury Fund, which is managed by very seasoned bond investors with decades of experience. They hold the macro view that similar to what Jim say the Fed is not being successful in its goal of creating inflation and eventually we believe that the Fed will have to pivot either with QE4 or do something more dramatic like helicopter money to get inflation going. That's why for that outcome you want to be positioned in more inflationary-geared ideas.

Drilling down a little more on bonds. The best type of bond to hold now are U.S. Treasuries, just simply because you're not being compensated for credit risk in other areas of the bond market, in corporate high-yield corporate bonds, or investment grade corporate bonds. The chart I show you here the price of TLT, which is a popular treasury ETF, and investment grade and junk bonds. As you can see at each point when deflationary fears pick-up people pile into treasuries and out of anything with credit risk. We are sort of in that environment now where if the Fed keeps talking about slight tightening you'll get people more and more concerned about all the junk debt that was issued and is currently maturing and will have to be refinanced over the next few years.

This chart is interesting. It tells me — it's one I like to follow. It tells me that we're light in the bull cycle for the overall S&P 500 Index, because people are ignoring the fact that since the beginning of 2014 you've seen junk bond spreads rise. Another way of viewing that is at any point where these buyers are read that means people are selling junk bonds and they're buying treasuries. And historically if you look at that lined-up with the S&P 500, S&P 500 has been flat or down in the last two episodes, but this episode since the beginning of 2014 people have just — you know momentum has fed on itself, people are hurting and they feel bullet proof.

But ultimately stocks are the value of stocks are determined by the long-term stream of cash that they can deliver to shareholders' hands. There are very few companies that you should just buy and hold forever, the type of companies that Chris recommends that can compound their capital at a very high rate and can afford to pay it out as dividends without having to reinvest to maintain their business.

But this chart was interesting. I ran across it in something Russell Napier wrote, who is a very good strategist. He wrote a book called, *Anatomy of the Bear*, which I highly

recommend. But he points out that this chart of U.S. pre-tax corporate profits it comes from the Bureau of Economic Analysis and it takes a lot of noise out from inventory, valuation adjustments, and capital, and makes adjustment for capital consumption.

Historically whenever this number has diverged from the S&P 500 Operating APS, the number that everyone else focuses on, it shows that this is the signal and the other one is the noise, because there's so much, there's so many ways I've seen through my career these large companies have a lot of ways they can use accounting to paint a misleading picture of their earnings. A lot of that tends when they're running out of room to do so especially in a slower economy, with slower nominal GDP there's less growth opportunities they eventually run out of room to paint a misleadingly high picture of their corporate results. And what happens during recessions is you see massive write-offs and people sort of don't focus on the write-offs and they just look ahead to the next cycle. But in this case there are signs that corporate profits have peaked, therefore, stocks having run far ahead of the stream of cash flow they can deliver to shareholders are risky at the current level.

This chart was published by a money manager named, John Hussman. I highly recommend his weekly articles that he posts on his website, hussmanfunds.com, but he does a lot of quantitative work on determining what the long-term drivers of the S&P 500 returns are. This chart is simply a measure of the S&P 500 relative to the gross value add and the economy. Gross value add he can explain if you look on his website he does a great job explaining it, but it's basically a measure of economic activity. He incorporates some international activity because the S&P 500 companies earn a lot of their money overseas. But anyway the market right now is — the only time it's ever been more expensive was in the 2000 bubble.

What's really interesting is this next chart is he — there's a very tight correlation between his ratio and returns out the next ten years. So using this ratio there's a very, very tight historical relationship he concludes and I agree that the likely return for the S&P 500 which everybody has piled into indexing will be zero for the next ten years and it won't be just flat, as you know stocks are highly volatile which has you know huge peaks and valleys, but at the end this is a rhetoric to the idea that you hear often as a justification for holding stocks today there's no alternative, zero rates you know that you can't earn anything in the bank.

Well you would definitely take zero in the bank for ten years over the very high likelihood of zero with a very volatile return in an index fund over the next ten years.

So the board market is expensive and there are many signs pointing that way, which stock market sectors cheap. Gold stocks I argue are insurance for a collapsing monetary House of Cards. The good news is that I mean you may have bought in recent years, but at current levels they're so depressed that as history shows there's a lot of signs that they're bottoming.

The chart on the left is the chart of the HUI Gold Index, relative to gold and so what it costs to buy a basket of gold mining stocks versus their primary product, gold. So you're not paying much to own the companies that mine the product right now.

The chart on the right is the Dow versus the Barron's Gold Mining Index in the 1973, '74 bear market. And that's just one example of how gold stocks can buck the trend of a bear market.

Historically I often get the question of, "Why would I buy gold stocks. If you're bearish in

the overall market wouldn't gold stocks fall with the Dow and other stocks?" But history shows that at this point and in the 2001 bear market when gold stocks have been this cheap, every time they have bucked the market trend and they have been a great portfolio hedge in a bear market. So I advise allocating to this sector.

Gold stocks are highly critique for many good reasons. They destroy a lot of value. You know Barrick has made headlines for all the aggressive merger and development activity they did when gold prices were too high and they destroyed shareholder value during the last bull market. But I would retort that gold stocks, the properly selected ones can offer a lot of great options.

First being operating leverage as gold prices rise, earnings can rise faster than revenues given their fixed costs, the mine's already there. Financial leverage, some carry debt in their balance sheets, most of them don't, not too much anyway. Ore grade leverage, the value of a lower grade ore body can rise much faster if it's not profitable to produce at $1,200.00 an ounce, but it is at $1,300.00 or $1,400.00, the value of that project can increase 300 or 400 percent once you get above that hurdle rate.

Merger and acquisition optionality. Anyone who's been defensive and been very smart about how they manage mining company can create a lot of value for shareholders because there's amidst the carnage in the junior mining sector which has been through a horrific bear market, there's a lot of quality gold projects trading at steep discounts.

So what catalyst is needed to spark the next gold stock rally? Gold prices need to rise basically for the lack of a better description. So how do you know gold cheap, because gold doesn't pay interest of dividends? All you can do is look at market behavior of how willingly people trade paper currently for physical gold. Jim gave a great description in Chapter Eleven of *The Death of Money*; about what happened after the 2013 gold crush when it fell from $1,900.00 to $1,200.00 very quickly. People were clamoring for physical gold. You know refineries were refining and shipping gold to the east, et cetera. So that to me indicates that people and there's been a floor in the futures market in this $1,200.00 for years it's lasted. So demand is there.

I think gold stocks are cheap; gold is cheap, so here are two ideas to capitalize on it. The first is Agnico Eagle. As I was mentioning earlier if it's a well-managed company they're in the catbird seat now, they have their pick of a lot of junior mining projects to scale-up at a very quick rate once gold prices turn and they can increase their return on equity at a dramatic pace. But they own eight mines in Canada, Finland, and Mexico, so you want to be in safe mining jurisdictions.

They're on track to produce 1.6 million ounces this year. This is a very shareholder oriented management team. They've paid a dividend for decades. They're disciplined on capital spending. They have low capital and operating costs. Most importantly optionality, they've taken this opportunity the last couple of years to slowly take you know 10 percent, 15 percent stakes in a lot of these junior mining stocks, which might lead great takeovers.

So they're sort of diversifying their shareholders' capital into options that with further development and drilling could become enormous value creators for their company on the future several years down the road.

So this is one more to buy and hold. It's superior to many of the other larger cap mining stocks.

This just illustrates further the optionality and it's just Credit Suisse production forecast for the company based on their existing mines which slowly deplete over time and like any company they need to reinvest that capital to sustain their business. But I think $50.00 is a realistic one-year price starter for this stock, which is 60 percent above current levels.

A more aggressive pick would be a little company called Premier Gold Mines. It trades in the Toronto Stock Exchange primarily, but they do have over-the-counter listing. They have great assets, five projects; some of them joint venture partners and I like how management has not bet the company on one asset. They are in safe jurisdictions, Red Lake, Ontario, right down the road from Goldcorp's highly profitable mine there and in Nevada. They've been proactively raising capital. They raised a lot in the secondary offering when their stock was at a higher price from institutions that are around $6.00 a share and you can buy for less than half that price now in the market. They have a lot of cash relative to their market cap.

This just describes a little about how they intelligently are funding their development and they're transforming from an early stage explorer to a producer very quickly. The reason they're doing that is have this portfolio of mines and they selloff with 50 percent joint venture interest to a large existing producer who's looking for growth. They take the cash from that and they're going to use it to fund the capital development of their other mine in Nevada.

So I've been very impressed by management's stewardship of shareholder capital and I think this stock if gold gets a head of steam could get up to $8.00, which is a 200 percent rally from current levels.

So to recap. Currency wars create winners and losers, but ultimately the monetary House of Cards essentially rises higher and higher, the system gets less stable. I would keep your bond holdings limited to U.S. Treasuries in this environment. Stocks are expensive so be very selective about what you own. Gold will benefit from a teetering House of Cards, it trades like an option. Again, gold shares is like an option against instability in the monetary system, so that value of that option will increase as people get concerned that central banks have build this House of Cards and it's starting to look shaky.

Then two ideas to buy and hold are Agnico Eagle mines and Premier Gold Mines.

Thank you.

Panel Discussion

Dan Amoss, Ryan Cole, Byron King, Chris Mayer, Jim Rickards Moderator: Peter Coyne

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Peter Coyne: For the second half of 2015, what's your number one forecast?

Byron King: I'd say the biggest investment related forecast I could make in the next six months is that we're going to see a swoon in the price of oil as the summer wears on, particularly if this whole thing with Iran, with the nuclear negotiations, comes through. If the sanctions lift on Iran, Iran has at least — and this is a lowball number — they have at least 34 tanker ships, ultra-large ships, stationed in the Persian Gulf and around the world, loaded with oil, ready to hit the markets. You will see a flood of oil out of Iran initially that'll drive prices down. It'll be a buyer opportunity in the oil and oil service sector when oil prices drop. So look for oil prices into the fifties, and then, as the year wears on, they'll drift back up, and by next year we'll be in the sixties and maybe $70.00 a barrel.

Peter Coyne: Now before we continue onto you, Jim, we want to foster discussion. So I know that we agree on a lot up here, but as respectfully as we can I'd like for us to disagree and make this interesting, also. So, Jim, if you want to comment on what Byron says, or if any of you want to chime in, let's facilitate that. So, Jim, pass it over to you.

Jim Rickards: Byron is absolutely right, of course, about the kind of — it's called the overhang. The amount of oil that's in storage being held off the market, and the capacity of the frackers who actually when the price collapsed and all of their projects became non-economic, they actually pumped more oil out of existing wells because they wanted to get cash flow to pay their bonds. They stopped drilling new ones immediately, because that was non-economic, but they actually stepped up the production. So there was a ton of oil around. There's no question about that. But I see oil in a range for the rest of this year, and almost all of next year, of about $50.00 to $60.00 a barrel. If it goes to $49.00, don't call me up and tell me I'm an idiot.

But things overshoot. It could go to $45.00 or something. I wouldn't rule that out. It may go up to $62.00. But think of a broad range of $50.00 to $60.00. And it's going to stay in that range. So right now it's at the higher end of the range, so the idea that it could come down close to the $50.00, if that's consistent with what's Byron saying, I agree completely. But I don't see it collapsing to $39.00, $35.00 a barrel. It'll go back up. The reason is simple. Which is Saudi Arabia controls the price of oil. They are the swing producer.

When you have the largest reserves, and the lowest production costs, the price of oil is whatever you want it to be. And if they want to flood the world with oil, and Byron's right, there's plenty of it around, they can make the price lower. And if they want to turn off the valves, they can make it higher to some extent. So the price of oil is going to be what they want it to be. They have a strategic objective. It's really a linear program, or optimization problem, which is don't start with the answer, start with the question.

What price of oil would put the frackers out of business, but not deprive Saudi Arabia of any more revenue than is necessary? If you frame that question, and then solve it, the

answer is $60.00 a barrel. So that's the price at which most of the fracking will go broke, but Saudi still makes a decent amount of money. So that's sort of their target. And there's a range that overshoots. And by the way everything I'm saying is absent an extreme geo-political event. If Iran shuts the Strait of Hormuz, all bets are off. So let's put that in a separate bucket.

But so I think it will trend down. That's consistent with Byron. But I don't think it'll go much below $50.00. And it'll stay in that $50.00 to $60.00 range for all of this year and next year, because that's how long it will take to bankrupt the frackers.

Peter Coyne: Real quickly, could you give a sentence or two? Number one forecast for 2015.

Jim Rickards: Sure. Number one forecast is a stronger Euro. And I say that and people fall off their chairs, like, "Haven't you read about Greece? Don't you know that Europe is sinking into the Atlantic Ocean?" But what people forget about currencies, and one of the reasons I find them easy to analyze, is that cross rates are a zero sum game. If you're going to have a weaker Euro, that means a stronger dollar, and a stronger dollar is killing our economy. We're practically in a recession. We might even be in a recession. We'll just find out later. So the dollar has got to get weaker, or our economy is going to fall off a cliff. So that implies a stronger Euro.

Peter Coyne: Chris?

Chris Mayer: So I would be skeptical about predicting where the price of oil is going to be. And I'm skeptical about using the kind of analysis that says, "Well, what's convenient for Saudi Arabia or anybody else?" Because I mean naturally if they were in charge of it would you have seen it at $100.00 and then go to $40.00 and now back to $60.00? I'm not so sure. As far — I'll get to the forecast part. Because I have a forecast of a different nature.

So I've been looking a lot at some of the changes that have been going on in food ingredients, and there's some really interesting things going on. So people are, as you know, much more afraid of things like GMO, and they don't want to have — you know, gluten-free is a hot selling item. So there's the food companies are starting to make some very interesting changes in how they make things even like cereals, or beverages. And there's some new ingredients that I think will be big investment themes over the next year. So something like stevia for example. There's some breakthroughs in stevia that will be used to make sodas.

There's in lentils and beans — those simple ingredients. You have General Mills and other companies are using them in Cheerios, and are using them in baked goods and all kinds of things. So there's some really interesting and cool trends you can play on these new ingredients supplanting a lot of the older stuff. So a lot of my ideas lately have seemed to fluctuate around that. So Reed's Ginger Beer is one that I like. A company called Reed's. Ginger is one of the bestselling ingredient — bestselling spice in America for a long time.

S&W Seed is one that has a stevia business, and they've made some breakthroughs there. They claim they have the best tasting plant on the market. And then there's a company called AGT Food and Ingredients that has been really hot. And that's a company that's been involved in lentils and making lentil flowers for use in a variety of food ingredients. So I expect that will be only a trend that only intensifies six months from now, a year from now.

Peter Coyne: Go ahead, Ryan.

Ryan Cole: All right, even faster. I think that agricultural products are going to go through the roof. California, as you know, is in a huge drought. You probably don't know how much produce it's responsible for. We get over 70 percent of our lettuce, over 70 percent of our tomatoes, over 99 percent of most of our nuts from California. Just an amazing amount of produce comes from there. And the regions where they're grown are the hardest hit. That's not going to change this year. Water levels are just falling. We've used up most of the groundwater at this point. So there's really no relief anywhere else. We're going to see some really big shocks in terms of agricultural prices.

Now, that's also going to be misinterpreted as inflation, because the CPI is going to go flying up. It's not going to exactly be inflation. So just look out for that mis-analysis.

Peter Coyne: All right. Dan?

Dan Amoss: Okay. My most confident prediction for the second half will be that export-oriented industrial companies in the US will — these stocks will finally see a big move down to the average and even the low end of their historical evaluation, because with the lagged effect of the strong dollar, these companies have used every tool in their playbook to keep their earnings high when, in reality, the underlying earnings power of these companies are deteriorating. And, two, I've mentioned in *Currency Wars Alert* are Dover and Colfax.

Peter Coyne: Just so you all know, you have questions specifically for Jim. I'm reserving those for the Q&A session right after this. I'm trying to get as much discussion going as possible. So let me stir the pot. A lot of you have told me that you read a lot of different newsletters, all across Agora. So someone asked a good question. With all of the conflicting advice in different newsletters, how do you really know who to follow, or which newsletters to read or believe? Let's go down the line [laughter]. And obviously it's your own newsletters, right? But, Byron, go ahead.

Byron King: Frankly, I read a lot of trade press, and the deep press. I mean I look at other newsletters to see how people are analyzing it. But I prefer to go straight to the factual basis. I mean when it comes to the technology type things, I mean I'm reading technical trade — I want to see where the research is, what's going on, things like that. That's the primary source for things. And then in the energy side and the mining side, reading Oil and Gas Journal, I'm reading the mining journals. I mean I want to see who is out there doing what, because I figure if I have the basic facts of who is doing what, then I can figure out who is the best investment pick to talk about in the newsletters.

So I go to conferences and trade shows and I read the trade press. I'm not going to say I don't read other people's newsletters. I do. But in terms of like by the time it makes somebody else's newsletter, I'd like to think I've sort of had a feel for what the real companies are doing out in the field.

Jim Rickards: Very fortunate to have Dan as an individual who does the analysis, and does the research. We talk about all the recommendations. So Dan and I coordinate. But he's a very good research resource. But I also tell people I have a $10 million research department that I don't pay for. It's called Twitter. And Twitter seems kind of frivolous to a lot of people.

Maybe you're not familiar with it. But if you talk — I have Bloomberg and Twitter, but if you told me I could only have one, and I have to pick, I would take Twitter. Because it's not about people following me. That's great. I put a lot out there.

It's about the people I follow, and that is something I've cultivated over — curated, is probably the right word — over six years. So starting with the obvious ones, *New York Times, Wall Street Journal, Financial Times, The Economist*, on and on and on, Joe Stiglitz, Paul Krugman — by the way, I avidly follow people I completely disagree with. What is the point of following someone you agree with? You're not going to learn anything. I read Krugman and it makes my head hurt but it forces me to think hard about what he's saying and what I'm saying.

And so when you set it up that way and you go on Twitter, and if I'm 2,000 messages behind, it's not like email where you got to try and get through them all. I don't even make an attempt. But I will look at the most recent ones. It tends to be very fast, very real time. People go, "What can you learn in 140 characters?" Well, that's not the point. You can embed a link. So in your 140 characters you embed a link. You click on the link and that will take you to a 5,000 word blog. Might not have to want to read it. But that's to me that's enormously powerful way to collate all the great things that are out there.

And there are a lot of them but how do you get through them all? Well you can't, no one has enough time. But for me it's a great filter.

Peter Coyne: And, just a plug, Jim's Twitter handle @JamesGRickards. So, follow him, he's got good stuff. Chris?

Chris Mayer: Sure. As far as newsletters, my favorite newsletter would be Jim Grant's. Grant's Interest Rate Observer. I probably have been reading that for close to 20 years. But like everyone else on this panel, I do my own work and my own research. I guess from your perspective as far as what letters you would follow, I think part of it has to come down to track record. You can look at what people have done, how they've done. That would figure importantly. But, second, I think a lot of this is not necessarily that there is a right answer all the time. You have to take an approach that you can believe in and that you can buy into and that matches your own personality.

I mean I know people, friends of mine, who can't hold onto a stock for more than a few months. They'll never be a long-term investor. So they do something different. So you have to find something. Why don't you look for track record? But, number two, you have to find someone you can trust, you can relate to on some level, and a process you can buy into.

Ryan Cole: I would look for the newsletters that surprise you. There's an awful lot of herd mentality in some of the newsletter writers, which Jim has talked about. There's lots of people who are like, "We're all being contrarian, but if everyone's being contrarian in the same way, it's no longer quite that contrarian." Anything, which is able to surprise you, is probably saying something, which you are not getting anywhere else. So I would stick with those, even if you disagree with them entirely, just as Jim said. It's good to challenge yourself sometimes.

Go with the things, which you're not expecting to hear. And which make you think. And then do with it as you may. You're going to have to make your own decisions of course.

But that's the best way to get the broadest amount of information with the least amount of effort.

Dan Amoss: I would just start off saying I would recommend diversifying across a lot of ideas. Don't follow just one editor. It's good to read a lot of them. I would be defensive now. I would look for out of the investment ideas that you don't see, that people aren't herding into, and I'll put a plug in for Chris here. I've known him almost ten years, and I've read — I have an institutional investing background. I read a lot of institutional research. And his is as good as anybody's.

And if you look at his long-term track record, it's very good. So, despite the fact that I laid out a bearish scenario for the S&P 500, that doesn't mean there won't be opportunity here and there, that in a weakness — if the S&P falls 20, 30 percent, on the way down, you don't necessarily want to be buying an S&P index fund. You probably want to be buying Chris's stocks may sell off a little bit but that's when you would be looking to add to them. So it pays to read a lot and to just have a lot on your watch list and diversify.

Peter Coyne: Great. I want to get a little more targeted. So, Chris, we could get the answer short to this. Someone asks, "Honestly, how many hundred baggers can you possibly actually get in your life?"

Chris Mayer: How many possible?

Peter Coyne: Yeah.

Chris Mayer: Well, it's how much capital you have [laughter].

Peter Coyne: In your study, how many did you find?

Chris Mayer: I found 365 since 1962.

Peter Coyne: 365?

Chris Mayer: Yeah. And I've known some people who have had them, so I've gotten a lot of feedback from readers who have actually had a couple, one or two, and Chuck Oprey I mentioned had a couple. So you can — you only need to have one or two.

Peter Coyne: So turning one dollar into $100.00 sounds very good. So now I want to get the other guys on the defensive. Ryan, if I could turn every one dollar into $100.00 with Chris, why would I buy investment grade wine or stamps or anything else?

Ryan Cole: Well, if you're able to identify those companies ahead of time 100 percent of the time, then you shouldn't, you absolutely should turn one dollar into $100.00. But really that's something that you need at the top of your pyramid. When you've got the pyramid going, at the top is where you have your riskiest, hardest plays, which also have the biggest payoffs. That's where that sort of strategy should be. You need to have some other, more secure things underneath. So wine is a great place where you can have a good bulk of your wealth. For instance, not just wine, but alternative assets is a good place to have a good bit which is safe, and you don't have to worry about whether you're going to hit a lottery ticket or not. Not saying that it's purely luck, because clearly Chris knows exactly what he's doing, but

it's still very difficult to identify those with great regularity.

Peter Coyne: 30 second rebuttal. Is it possible?

Chris Mayer: It's possible. I'd say I think some of this is like you go to a restaurant you don't necessarily want to eat the same thing every day, so you do want to vary it a little bit, because you know you might not get a hundred bagger. Maybe you'll get a fifty bagger. So.

Peter Coyne: Okay. Jim bent my ear. So, Jim, you have something to say.

Jim Rickards: Yeah, Chris illustrated the hundred bagger theory by saying if you had a penny and you doubled it every day for 30 days, you'd end up with more than $10 million, and that is the math. My question is, what good does it do you to get the $10 million if the government inflates it and it's only worth a penny again? So that's *[laughter]*.

Peter Coyne: Chris?

Chris Mayer: I thought somebody might bring that up *[laughter]*. There's no answer to that, really. If that happens, well.

Ryan Cole: Get out of pennies.

Chris Mayer: Yeah, that's right.

Peter Coyne: That's it?

Chris Mayer: That's it, yeah.

Peter Coyne: I was expecting more of a fight *[laughter]*. Okay. Well, I'm going to try again. Chris said that, at least for his investment approach, paying attention to the direction or level of interest rates don't matter. Why do we focus so much on them in our franchise?

Jim Rickards: I heard that this morning, I was reminded of a famous quote by Leon Trotsky, one of the founders of communism and founders of the Russian revolution, and he said, "You may not be interested in war, but war is interested in you." And the point when it comes to the Fed — Chris and others may not be interested in Janet Yellen, but she's interested in you, or at least she's interested in the economy. And I agree with Chris in the sense that I wish we didn't have to think about Janet Yellen. I really do. I wish that we could just wake up every day, get the spreadsheets, get the financials, grind through, and come up with the kind of value ideas that Chris has.

And I think that is extremely valuable, and that's definitely a skill. And I wish the Fed were irrelevant. I wish they would come out of the woodwork every 20 years to do a little emergency lending to stave off a liquidity crisis — would otherwise stick to price stability and be completely unknown and there's probably a time not long ago when people thought the Federal Reserve was a kind of brand of whiskey. But they've taken it upon themselves to be central planners for the world. That's not a good thing. It's really too bad that the smartest people have to spend night and day trying to read Janet Yellen's mind.

I think that's an awful state of affairs. But that's where we are. Because if they want inflation — as it's a sad day when the Central Bank wants inflation, and can't get it, but

they're going to keep trying. It's not on the horizon right now. I totally agree with that. But they're going to keep trying until they get it. When they get it, it'll spin out of control very quickly. So I wish we didn't have to care about Janet Yellen, but, unfortunately, we do.

Chris Mayer: I would say one thing about that is something can be important but not predictable. So I said they were important but unknowable. I mean obviously what the Federal Reserve can do would have an impact, but you have to adjust to those things as they happen. It's not that you can predict what's going to happen ahead of time. That's really the — that's really what's important. It's how you spend your time as an investor, someone who is trying to figure out ways to preserve and grow your capital. How are you going to spend your limited time? Are you going to spend it trying to figure out what the Federal Reserve is going to do?

What the interest rates are going to be? What the market's going to be? Or are you going to spend that time looking through companies and trying to figure out those things. So, again, the great investors, they — and I have a number of conversations with them. They don't always think — they're not thinking about these big picture ideas so much. They spend a lot of their time trying to find those great ideas and those great companies, so.

Peter Coyne: Ryan, you had something to say?

Ryan Cole: Oh, yeah, I wanted to play the little devil's advocate. I can say that I think in many instances interest rates can be relevant, but they also are relative. Now, there are some sectors which are going to be directly affected, but for the vast majority, it's going to act upon them the same way. So you're on a boat, and everyone is going up or down according to the interest rates. Your job is just to find the best boat, not worry about the sea.

Peter Coyne: Byron, I want to get you in here. And if you don't have something to say on this, I was going to ask you your forecast for gold and silver prices. So maybe take them in order.

Byron King: What I was going to say is that it's not as if you take all the money that you have, or all the wealth, or the net worth that you have, and you put it all in one idea. You have 20 ideas, or 25 ideas. 25 ideas, if you spread it around, that's four percent each. You can make some nice money or you can afford to take a hit on a four percent chunk. But you want to watch what's going on. You own real estate, all of you in the room, I'm sure. You own other assets. Maybe you own artwork. Maybe you own stamps.

I hope you have some life insurance. You've got the term life. Maybe you have the whole life. I mean I've always thought that whole life or told that whole life isn't bought, it's sold. At the same time, somebody sold it to me a long time ago, a long time ago, when I was much — and I'm really glad I bought the whole life a long time ago because my whole life is looking pretty good today.

The gold, the silver, it's in the safe deposit box. I mean this isn't Raytheon, this isn't General Dynamics, we're not talking oil companies and service companies. I mean once a year, maybe once every two years, I go someplace to — and I open the door, and I pull out the box with the gold, and I lift it, because — and I lift it, and I put it on the table, and it's such a good feeling when I do that. And I open it up, and, yep, it's still there. And lift it up, put it all back in. I close the door, hit the key, and walk out of the vault. The vault has

armored plate doors that are like two and a half feet thick, you know? I love that.

But I don't put everything on one idea. So you can — whatever your age, whatever your stage, you can take some risk for certain things, and then other things you have no risk whatsoever. It's solid gold sitting in a vault.

Jim Rickards: And that's a powerful point. I mean diversification does work, and it makes sense. The problem is there's what I call faux diversification. You meet people all the time. They go, "I'm highly diversified. I've got 100 different stocks in 10 different sectors. I'm very diversified." And I say, "You're not diversified. You have one asset class. It's called stocks. And stocks are more and more commoditized, and they trade up and down together based on some of these macro fundamentals."

So a really diversified portfolio, you'd have some of Byron's strategic socks, some of Chris's value stocks. You'd have some of Ryan's hard assets. You'd have gold and land and some of the things I talked about and some exchange trades. You'd have some cash, which actually reduces volatility. That's diversification. Maybe some fine art, because that — these things don't correlate to each other. That's real diversification. That's the best portfolio you can have.

Chris Mayer: I'll just add real quick to that that a problem with a lot of these sort of concepts, too, is people make sort of assumptions. For example, when we had the Fed say they were going to unroll their quantitative easing, almost everyone thought that meant stocks would go down. Well, they didn't. Interest rates — people assume that when rates rise, stocks are going to go down. But if you look at history, sometimes stocks go up when rates go up, sometimes they go down, sometimes rates go down, sometimes stocks go down. It depends a lot on many other factors involved.

Even with the economy, you can look. We have a growing economy and stocks can go nowhere, from '66 to '82 the Dow was flat, even though the economy grew I think it was like 20 fold. Or you can have a slow growing economy and the stock market can do well. Greece had the best performing stock market in the world a couple years ago. The economy, was it great? No. So you got to be careful about what kind of assumptions you make about these macro ideas and how they will necessarily affect stocks.

The other thing, on diversifying from other asset classes, I will just ask Jim, like on art, if you look at history of a lot of these arts and collectibles markets, they do correlate with the stock market very well, and, in fact, by it's like a beta, by a factor of two or three or four, you could look at — there's this book, it's actually three volumes, it's called *The Economics of Taste*. And it goes back and looks at the art market for several centuries. So what happens when markets get in trouble? All the rich people, they need their money, they raise money, so what do they do? All these collectibles and things come out and are for sale. That's when people bought Matisses and Picassos for dirt-cheap prices.

They bought them at crisis times. So I wouldn't buy that necessarily thinking that you're going to protect yourself, because you're in collectibles, and you don't have a stock quote that's blinking in front of you every day telling you what it's worth. It can go down just the same.

Jim Rickards: Well, some rich people sell art, and rich people buy it, too, for the long run. I was intrigued by the fact that Chris was inspired called One Hundred to One in Stocks that did a very deep dive from a research perspective on the period 1932-1972. In other words, bought at the bottom of the greatest stock market crash in history, and sold very close to the top, at one of the second longest bull markets in history. In other words, yeah, if you buy at the bottom and sell at the top, you get that right, as I say, a monkey can make money on stocks.

But if you had bought just a few years earlier, in 1929, and had sold just a couple years later, in 1974, you would have made one or two times your money, but any bond would have outperformed stocks over that period. So it's like me saying, "Hey, if you bought gold in 1999, when it was $200.00, and you sold it in 2011, when it was $1,900.00, you made ten times your money." That's convenient. But if you bought it in 2011 when it was $1,900.00, and you sold it about a year ago when it was $1,100.00, you lost 30 percent of your money. So the entry and exit points matter a lot. And I think cherry picking them is not — I'm not particularly persuaded by that.

But I do think fundamental analysis has a place. My personal best performing investment in my personal portfolio the last five years was not gold. I own gold. I recommend gold. And I'm buying more gold. But that has not been my best performing investment for the last five years. My best performing investment was fine art.

Chris Mayer: I'll just say that I can easily dismiss that because you can look back and see there have been hundred baggers in every decade for the whole 20th century, and I've updated the study from taking it from '62 to 2014, and in every decade, you can find multiple hundred baggers, and a lot of times you had chances to buy them, you had years, you could have paid the 52 week high for five years running. If you still held it, you would have multiplied your money a hundred fold. I think some of the fallacy is thinking about stocks as if they were all one thing. And it's not the case.

I mean a lot of these hundred baggers and stocks that multiplied more than a hundred fold did not follow the path of the S&P 500, obviously. So entry points do matter. I totally agree with his point there. Obviously it was rich pickings in 1932. Or 1974. Or 1982. We all know the great bottoms. But there were also a lot of great stocks you could have bought in the year 2000. And doubled your money a hundred times your money in 2000. And I'm sure there are stocks today that are going to do very well, even though the market overall is richly priced.

Jim Rickards: So no one can accuse the Agora team of groupthink.

[Laughter]

Lightning Round Q&A

Jim Rickards; Moderator: Peter Coyne

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Peter Coyne: Do you want to conduct a lightning round like we normally do?

Jim Rickards: Yeah.

Peter Coyne: For the rest of the questions.

Jim Rickards: Should I stand up here?

Peter Coyne: Yeah, if that's okay with you.

Jim Rickards: Let's do it.

Peter Coyne: So, I'd like to actually start by holding our feet to the fire. If you look at *Currency Wars Alert* at the portfolio that's the publication we use the impact system for. You'll see a lot of — our recommendations are in the red. Can you explain why you're still confident this strategy works, and why readers should continue using it?

Jim Rickards: Well, first of all, these are — Currency Wars Alerts, which used the impact method, and I talked about the science behind that earlier. These are options strategies and your buying options, so we can make money-selling options. I personally would never recommend that.

I think when you're selling options, you're selling volatility. You're saying, the world's going to be a calm place, and nothing bad's going to happen. When you buy options it's the opposite. You're buying volatility. You're writing a check, and you own the volatility.

So, if things get panicky, if things get out of sync, if geopolitical surprises come up, if markets crash that's where those options pay off. Now, options are priced using the Black-Scholes model. Those are real people. Fisher Black passed away, Myron Scholes, and the third contributor was Robert Merton got the Nobel Prize for coming up with that model.

I was partners with two of the three, Myron Scholes and Bob Merton when I was at Long Term Capital Management, and people picture hedge funds as sort of frantic, yelling and screaming. That's not the way it was. Most days were actually fairly quiet. People were thinking, but there wasn't necessarily a lot of hoopla.

And on quiet days Myron would come by my office, and I would ask him a dumb question 'cause I was just a lawyer at the time, this was before I got as immersed in risk management as I am today, and he would stand there, I'd sit at my desk, and he'd stand at the whiteboard, and he'd give me a two-hour private tutorial on options theory.

And so I kind of, as a result of that, I sort of see options everywhere. But, there are — Myron's a good guy — there are serious flaws in the Black-Scholes model, and the main flaw is that it assumes that risk is normally distributed. So, remember that bell curve I showed earlier? It assumes that that's the graphical representation or that's the degree of distribution of events in capital markets.

I also showed you that that's not reality. Reality's the power curve, which is a very different result, but for better or worse they're still working on the assumption that the sun revolves around the earth, so if you know that, if you know the flaw, if all the options on the major exchanges are priced using Black-Scholes, which they more or less are, and if you know the flaws in Black-Scholes, one of which is extreme events happen more frequently than the model would predict, then the way you benefit from that is getting long-dated options.

And when I say, "long-dated," you can buy one-month option, a three-month option, a six-month option. By and large we have been recommending options that go out at least six months, sometimes a year, sometimes 15 months. That's what I mean by long-dated.

Now, you have to pay a little more for those. If you're getting a longer period of time for the bet to pay off, you have to pay a little bit more to own them, that's normal. But, my point is the amount that you pay, which is based on Black-Scholes, underprices the real risk in the option. There's more risk in the option than the price implies.

That's why it's bad to be a seller, 'cause you own the risk, and it's good to be — sorry, it's bad to be a seller because you're insuring the risk, it's good to be a buyer because you then own that flaw. So, we use long-dated options because that increases the probability that the flaws will come to light and you'll make money, and we buy options, don't sell them, because we like to won the volatility. We like to own the bet that says crazy things are going to happen because in my experience they happen a lot.

Now, they don't all pay off, they don't go in the money on Day 1, but if we see one — look, we'll get some wrong. Just be candid, we will get some wrong, and if we see we got some wrong — we had a thesis, now the part about being wrong, that goes back to Bayes' rule that goes back to inverse probability.

When I set up the "a priority assumption" and then I track the data, which is what we call indications and warnings, if it's confirming my assumption then we're on the right track, but if it's not then we'll say, "You know what? We got that one wrong." And you'll hear from Dan or from me that we probably need to terminate that. That's probably not going to go in the money.

But just because we're underwater today, if we're saying, "Hold it." That doesn't mean we think we did anything wrong. That means that it's going to take time to play out because time is on our side. That's why we have the longer dated options, that's why we buy them. If they go to zero, that's it. You lose — as you know — you lose the premium you pay. That's your maximum loss. Your gain is unlimited.

And we're not going to get every one right, but we're going to get more right than wrong. That's our objective, and some of the ones we get right are going to pay off many, many multiples of the premium you put down. Those collective gains will perform well. Now, the other thing we say, I want to be very clear on this, this is for a slice of your portfolio.

We talked earlier about diversification, and I wasn't kidding, and actually Ryan said something similar, and Byron said something similar, which is, "Hey, the best portfolio is if you probably did a little bit of what every one of us said." You know, there's certainly

some value in the stocks that were being discussed. There's certainly some value in collectibles. There's certainly some value in hard assets. There's value in options.

So, a little bit of all of them, so if you have 100,000 port — you might have $100,000.00 portfolio, you might have a $10 million portfolio. You don't take that whole portfolio and go out and buy one of these options. I wouldn't do that. I wouldn't recommend that to any investor. It's for a slice. So, have your hard assets, have your gold, have your land, have your value stocks.

Actually, some of my best performing investments, I mentioned in the art fund, some of my best performing investments have been in private equity or angels. I don't — I think the stock market is a bubble, I'm not necessarily advocating publicly traded stocks, but I think there are good opportunities in private companies and venture companies, so-called angel investing, we'll be talking more about that in strategic intelligence that's the platform where we talked about those types of investments.

The Currency Wars Alert and the *Intelligence Triggers*, they tend to be the more aggressive riskier trades, but they're the ones that can also make the most money. So, we're exploiting a flaw in Black-Scholes, which tends to underprice risk that's why we like to be a buyer. If risk is on sale I want to buy some because I'll be the winner if bad things happen.

That's why we use long-dated options not short-dated 'cause we want to give that flaw time to play out in our favor, so this is fairly new. If we recommended a 15-month option two months ago, and it's underwater today that's no fun. We like to make money, but the way I think about it is we've got 13 months to win, so stay with it.

Peter Coyne: I want to address something else because a lot of our readers read other newsletters, and a lot of those newsletters follow the same protocols. One of those protocols on the introductory level newsletters would be using stop losses or having a very strict allocation. We also don't do that, and I don't think we've commented clearly on it, and it's not because we're not paying attention or we don't care. Can you explain why?

Jim Rickards: Well, the reason is, I mean, we're not day traders. You can't run a hedge fund with a newsletter. First of all, we're giving financial advice. We're not your broker, we're not wealth managers, we don't have discretion over your account. We're writing our views and trying to help people, who read it, but you can't — you know, I've worked in hedge funds, I worked in trading floors, I worked in investment banks.

You're sitting there minute by minute changing things up, you might be long one day and you might be short by 5:00 in the afternoon because something happened. You can't do that in a newsletter, you just can't, and we're not financial advisors anyway. We are trying to help people; we're trying to offer the best thinking and the best advice.

We do give updates on the model portfolio, and you get those from Dan, and they're available on the website, but I think that we rely on the readers and the subscribers who, in my experience, tend to be kind of a lot brighter than the average bear. They tend to be very engaged people.

I do say that there's no correlation between having money and understanding money. The

reason you have money is because you worked hard. You were entrepreneurial, you had a business, you stayed with it, you were thrifty, you saved, it could be a pizza parlor, maybe there's some hedge fund mavens in the audience.

I haven't meant all of you, but more often than not it's the dry cleaner or pizza parlor operator, a car dealer or somebody who started a business or a doctor or a lawyer. These are the kind of people who kind of benefit from this, but making the money doesn't mean that you understand economics. Why should you?

And so, we try to fill in that gap a little bit, and you say, "Well, you turn to experts for advice." Well, if you have a legal problem, you don't think you have to go to law school, you call your lawyer. If you have a medical problem, you don't think that you have to go to medical school, you call your doctor.

That's because your doctor and your lawyer are on your side. Your doctor doesn't want you to get ill, your lawyer doesn't want to see you behind bars. They're helping you. But, if you have a financial problem, can you call your broker? Are they looking out for you the way your doctor and your lawyer are, or are they trying to get commissions and churn your account.

Not all of them, there's some fine wealth managers. I work with some of them, so I'm not disparaging the industry. I'm just saying, having money is not the same as knowing how to handle money, and when you go get experts the way you talk to a lawyer or doctor, you have to be extremely careful, and you might end up in the hands of people who don't have your best interest at heart.

So, we try to fill in some of that gap, not as wealth managers, but as writers and editors, but you have to, unfortunately, be your own doctor, be your own lawyer when it comes to your finances because who's going to do it for you?

Peter Coyne: Another readers asks, because we often talk about how gold — you may not be able to get gold when the crisis hits, if you do hold gold, the reader asks, who would you sell it to, or what would be the point of holding it if you can sell it?

Jim Rickards: Well, first of all, I've never seen a situation where you couldn't sell gold. The point I was making is, if you have some, I expect — look, in the world where gold gets the kind of values I just showed you, there are going to be plenty of buyers. There'll be plenty of buyers. You'll have no problem selling the gold. The question is, if you're a buyer, will you be able to get it?

What happens in that world where you go down to your dealer, and the dealer says, "Sorry, the Mint won't return my calls, I'm backordered six months." And then you go down to the bank and they're like, "Well, we're taking care of the big customers, the sovereign wealth funds and the Arabs. They can buy $500 million worth of gold, but we're not filling small orders."

I mean, HSBC, one of the largest vaults in the world, not the largest, but HSBC has a gold vault at 39th Street and 5th Avenue. It's right next to the New York Public Library. If you walk down 5th Avenue next time you visit New York, you can walk right past it, and you can see the loading bays where the armored cars pull in and drop off the gold or pick it up.

A few years ago they kicked out most of their customers. They said, if you — 'cause maybe you'd have 1000 coins, 1000 one-ounce coins. Well, you know, 1000 one-ounce coins that's $1.2 million. That's not chump change, but HSBC said, "Come get your thousand coins. We don't want your account."

They only wanted people with kind of in the tons, not 1000 ounces or 100 pounds or whatever. So, that's kind of the attitude. The 400-ounce bar — I put on Twitter, you've probably seen a picture of me holding one of them. I was smiling, but they're actually pretty heavy. It's about 30 pounds; it's like a free weight.

The 400-ounce bar was invented in the early part of the 20th century so people couldn't have gold coins. They wanted to take the gold coins out of circulation. They wanted the gold in the vaults, but at the time it was still legal to own. So, they said, all right, we're going to make these 400-ounce bars.

Well, you had to be really rich to afford a 400-ounce bar in 1912, 1913. So, little by little gold coins disappeared, people accepted paper money, and these bars, which you can't carry around, it's like an 80-pound backpack to have a couple of those. You can't carry them around, you can't circulate them.

So, what did that do? What did that accomplish, going from gold coins to 400-ounce bars? What did that do? It got all the gold in a couple places, so the government could watch it, and so what are they doing today with the war on cash? You can't get your money. You think you can. Everyone in this room probably thinks they can go get a lot of cash. I've got news for you, you can't.

Not without some report being sent the IRS and maybe a knock on your door from a revenue agent. It could be Lois Lerner, who knows? Just hope you didn't vote the right way — or the wrong way in the last election. I mean, that's the world we're living in. Try taking $1000.00 out of an ATM, you probably can't do it, probably say $500.00, come back tomorrow for another $500.00.

That's today that's not the dystopia of the future. So, you actually can't get your money. Think about it. Your paycheck probably comes in by wire transfer from your employer, your vendors probably pay you online, you pay your vendors and suppliers, you pay your bills online, you have a credit card, debit card. I do too, by the way. I'm not saying I'm any different.

We're completely digital, so that digitization is the same as going to the 400-ounce bars, you think you have your money, but what happens when they want to shut down the ATMs, it's easy, right, 'cause you're all digital. So, we've been herded into a very vulnerable position, and so these are the kinds of things that you need to be concerned about.

Fortunately, you can own gold today, you can buy one-ounce coins, you can buy them directly from the Mint, you can buy them from a reliable dealer, and just put them in safe non-bank storage. I just learned, by the way, that I was involved in Texas a couple of years ago; I met with Governor Perry and some of his aids on some legislation to create the Texas Bullion Depository.

I think it was the Fort Knox of Texas, and Texas was going to create this depository, and the first thing they were going to do, their gold is at HSBC, I mentioned that earlier, but they have a lot of gold, and that's when our friend Kyle Bass was on the board of trustees of UTIMCO, which is the University of Texas Investment Management Company, and on behalf of the University of Texas endowment, they went out and bought $500 million worth of gold, and it was at HSBC.

Kyle tells funny stories about it, he said he went to come down to see his gold, and they said, "You're really being a pain." And he goes, "No, I insist. I'm on the board of trustees." And he went in there, and they said — he told me the story himself over dinner down outside of Austin, and he went in and he goes, "All right, where's my gold? I mean, where's the Texas gold?"

He goes, "Well, there's some over there, and there's some over there." He goes, "No, that's not good enough. I want it all in one place. I want the serial numbers on the bars. I want a manifest. I'm coming back. I want to see it." He goes, "You're really a pain." It took him a couple months, he came back, and they had it the way he wanted it.

But, that's what he had to go through to verify that. Now what Texas is saying is HSBC, "We want our gold in Texas." But, they're going to open this up to kind of everyday citizens who also want to put their gold there. Now, here's the important part about the Texas Bullion Depository, it's not a bank.

If you put your gold in a safe deposit box, it's physically safe. I don't think we have too many bank robbers these days, but there's what my friend Myron Scholes would call a conditional correlation between the time you really want your gold and the time the banks are closed because you don't want your gold on a normal day, you don't really need it. It's when the banks are closed, the system's imploding. That's when you want your gold, and you're going to go down to the bank, and the bank's going to be closed.

So, exactly when you want it the most is when you're going to have the least access to it. So, Texas has come up with a non-bank depository, so the federal reserve and the office of the controller of the currency and the treasury department can close every bank in America, which they did not that long ago. But, Texas is still good to go. You'll be able to go there and get your gold, no questions asked and there'll actually be a certificate representing it, and that will kind of circulate as Texas money.

What Governor Perry told me, he said, "Texas doesn't want to secede from the union, but when the rest of you go down, the lights are still going to be on in Texas, and we'll have some Texas money." So, he's looking out for his citizens, but this is actually open to people. But, that law, two years ago when I was directly involved, it was sort of tabled. They didn't pass the law, but they passed the study.

I love the Texas legislature. They only meet every other year. Wouldn't it be great if our congress instead of meeting all the time only met, like, every five years? So, Texas you've got to get a lot of — and it's short sessions, like three months. So, you've got to get all the legislative business done, and then they go away, they don't come back for two years.

So, the story I'm telling you is from 2013, but I learned, just today, two years later, they're

in session, they passed that bill, so now they've got to implement it, but — and then I actually stepped out for a minute, 'cause I had a call from a Bloomberg reporter, and she said, "Do you think this Texas thing will catch on with the other states?"

I said, "Are you kidding me? Utah and Nevada are going to be right behind, and Arizona — well, maybe they'll all put their gold in Texas." But, the point is, you don't have to be victims, there are things you can do. Don't go all in on anything. I don't go all in on gold. I own gold, but I recommend about ten percent of your investable assets, I recommend a big slug of cash.

People go, "Wait a second, Jim, you're the guy talking about the collapse of the dollar, why would you have cash?" And the answer is, I might not have it forever, but I like it for now because it's a good deflation hedge. The value of cash goes up in deflation. It also reduces the volatility in your overall portfolio.

So, if you've got stocks and gold that are flipping around like this, and you've got cash, I call it the barbell, you've got cash in the middle, your overall volatility is reduced, so you can sleep a little better at night, and if bad things happen, you're the person who can go out and pick up the bargains, 'cause you'll have the cash, others will be kind of locked into one asset class or another.

Bye the way, the guys who's doing this is our old friend Warren Buffett, Warren Buffett Berkshire Hathaway have $55 billion in cash. That's the most cash they've ever had. Warren Buffett's just waiting for the same collapse I'm talking about. He won't say it publicly, but you can see what they're doing from their balance sheet. He's waiting for the same collapse then he'll go get some bargains.

Peter Coyne: All right. We have about three minutes left, you want to take a couple questions?

Jim Rickards: Sure.

Peter Coyne: Ten-second answer.

Jim Rickards: Yep.

Peter Coyne: How safe are insurance annuities now?

Jim Rickards: Insurance annuities are as safe as the insurance company that sold them to you, and I think there's some fine companies. So, if you're with MetLife or Prudential, I think they're safe from a credit point of view. They're not safe from inflation. MetLife will pay your money, but is your money going to be worth anything? That's the problem.

Now, again, go back to the diversification point, annuities, money will be worth more in deflation. See, if I told you we were definitely going to have inflation, you wouldn't necessarily want the annuities, and you could put that portfolio together easily, gold, a few other things.

If I told you we were definitely going to have deflation, same thing. You would like the annuities and they're — but you'd have some bonds and some other things, so those are easy choices. What if I told you we're on the knife-edge? The whole economy is in the

dynamically stable position on the knife-edge of inflation or deflation.

You could have either one or both sequentially. Now, what would you do? That's harder, but that's where I like this barbell that's got some gold and hard assets and land. That's your inflation protection. You've got some bonds, and I dare say annuities. That's your deflation protection, and you've got some cash in the middle, which is your optionality, so you can kind of pivot one way or the other.

So, annuities are good in deflation, not so good in inflation. I would not make them 80 percent of my portfolio, but I might make them 10 or 15 percent of my portfolio 'cause I like that little deflation hedge over on the side.

Peter Coyne: Addison, do you want to make some closing remarks?

Addison: Yeah. I'd just like to thank everyone. I thought today was a good event. The venue is nice, and I just wanted to thank everyone for taking the time to come out. We were concerned because of the unrest in Baltimore that we wouldn't have a good showing, but you guys have been great today, and I just want to thank you. We want to thank Jim and the panelists, Chris and Byron and Ryan and Dan and Pete for handling the lightning round. So, thank you. Jim will be outside, and thank you all for coming.

[Applause]