

BUILDING REAL WEALTH:
Catherine Austin Fitts & Franklin Sanders
Date: July 22, 2005

CATHERINE Good evening, everyone. This is Catherine Austin Fitts, your host tonight for building real wealth with our special guest Franklin Sanders of *The M neychanger*.

Franklin is a precious metals dealer and a farmer in Tennessee a couple hours down the road from me. He's been our special guest on our precious metals series about investing in silver and gold, and he is a very, very special friend. He publishes *The M neychanger* newsletter, one of the rare newsletter e-mails I always read.

As a follow-up to "Navigating the Falling Dollar," we will be talking about real wealth and using your financial resources as a tool to build both financial wealth and your world, and no one is a better explainer and teacher than Franklin Sanders. Franklin?

FRANKLIN SANDERS Yes, ma'am.

CATHERINE Good evening.

FRANKLIN SANDERS Good evening.

CATHERINE Wealth – this is a topic that you and I truly love. Wealth versus money. Franklin, tell us how wealth differs from money and how we should start to think of wealth versus money.

FRANKLIN SANDERS Before the invention of coinage, people thought of wealth as more goats, more sheep, more cattle, more orchards, more vineyards, all of those productive assets that continue to produce something useful. About the beginning of the seventh century B.C. in Asia Minor, the Lydians invented coinage. Until that time, almost every economic transaction had to be carried out by barter. If you had goats and you wanted wine, you had to agree how many goats were worth a jug of wine and so forth.

When they did use silver and gold, they actually used a little odd weight ingots. For every transaction they had to be weighed out, and their fineness proved. The Lydians suddenly had an idea that had not occurred to anyone else before. Why don't we make gold and silver ingots as little discs and have the state stamp the weight and fineness on them. Let the state certify that this is good weight and fineness. That created a technological and economic revolution.

The Greeks were the technology nuts of their day. Whatever came along new, they readily adopted. Very quickly they understood what coined money could do and how they could use it. Unhappily, they didn't really understand how profoundly it could change their society.

Think about it. Someone concentrating on *wealth* must be a producer, but a person concentrating on money (or money profits) must be a speculator. Maybe he's a middleman, but basically he's a speculator. That's a completely different mentality introduced into the economy. Money's effect on society and on our thinking and values goes right down to society's deepest roots. Within a very short time, about 200 years, the Greeks found out that money could be used as a power tool to enslave people and an economy.

Greek farmers borrowed money. The invention of coinage made this whole business of borrowing and lending much faster and easier. They borrowed at very high interest rates. Not only could they pledge their land as collateral, but also their wives and children and even themselves. If they defaulted on the debt, then they had to hand over their wives and children who were sold into slavery.

Literally, the whole of Athenian society was threatened. All the productive members of society were threatened with slavery – literal slavery, not some metaphor. They became the slaves of those few moneylenders who had amassed most of the money in Athens.

In the midst of this turmoil time came for an election, and a man named Solon ran for the highest office. The bankers thought he was on their side, and the debtors thought he was on theirs. Once he was elected, he recognized what had happened and he instituted a law called “the shaking off of burdens.” He actually said, “No more. You can’t pledge your wife and children for debts, you can’t pledge yourself. You can’t pledge land,” and he just wiped out the debt. It was a jubilee – debts were forgiven.

I’m telling this story not merely to titillate historians, but because the very same thing has happened to us. When a society concentrates on money profits alone and rather than wealth and wealth production, everything is altered. Production and speculation are not the same at all. Just compare the producer’s mentality – and time horizon -- to the speculator’s or gambler’s.

Most Americans miss that. They have been led to think, taught to think, that the important thing is to make money profit, not to build wealth.

CATHERINE It’s hard to tell the difference.

FRANKLIN SANDERS Yes, but the money profit by and large (not altogether) comes from federal government credit. This is something that you talked about quite a bit, the assumption that the federal credit will always be there. That genuinely is a speculation and a gamble because the federal credit is bankrupt. There isn’t any federal credit. It’s a confidence game that holds together simply as long as people have confidence in it.

When we recognize the vulnerability and fragility of that system, we also recognize that system is a parasite: it is the tapeworm. If we don’t want to be part of the tapeworm, if we want to part of a productive society, then we have to thoroughly alter how we use our money.

CATHERINE For those who haven’t heard an audio seminar before, “the tapeworm” is our nickname for a parasitic rather than productive economy. It’s what I call the “negative return on investment economy” – it actually consumes capital. The tapeworm is a parasite that drains its host.

What are the key principles of building wealth? What do I do? How do I do it?

FRANKLIN SANDERS Well, the first one is *service*. That sounds sanctimonious, but it’s not. It’s actually the most practical answer. How do you convince people to give you their money? You serve them in some way. You give them something that they really need. Well, you might counter, the cocaine dealer serves his customers, too. Right, but he’s serving them with something that destroys their lives, so that’s quite a different matter.

The fundamental principle to realize is that if you serve other people, then you will build wealth. One thing that jumps out at me concerning wealth versus money is that most people look for their security in a pile of money. And you and I both know, Catherine, that a pile of money, even though it seems to be the most solid asset, can disappear overnight.

What about all those people who worked for Enron? They had huge retirement accounts chock-a-block with Enron stock. One day it was worth hundreds of thousands of dollars, and the next day it was worth nothing. The money, the stock, simply vanished overnight.

Yet all of those Enron workers who were actually productive people, who knew how to go into each situation and organize the human beings there to serve other people, who knew how to serve other people themselves -- all of those people could go out the next day and find some kind of work and continue to be able to make a living.

What's the point? The capital you have in yourself is the greatest capital that you own. That's the greatest security that you've got, it's the greatest wealth that you have.

When people think of investing, they think, "I must go to some investment counselor and I must send my money off to New York or London or some place because I can do that myself."

Well, that's exactly wrong. You need to invest it yourself first. For instance, with small businesses, and when I say small businesses, that doesn't mean a drycleaner necessarily. It might be a manufacturing plant with \$15-20 million dollar yearly sales. A small business makes a more consistent, higher profit than any other undertaking in the United States, about 20 percent.

So your own business in your own locale is, by far, the most lucrative investment you can make. It's very, very difficult to find something that year in and year out returns 20 percent on your investment.

So there are two principles of wealth building: serve others, and invest in yourself.

CATHERINE One reason I wanted to move to Tennessee was to live in a place where people really know how to do things. I'm always amazed at anybody in Hickory Valley who knows how to cut glass or do the plumbing or the electricity or drive a truck. They are always needed, always useful, and always important to their neighbors. They've invested a lot of time and effort in learning useful skills

FRANKLIN SANDERS Right, but that's wealth. They've been building wealth in themselves. Now, obviously, you can build wealth outside of yourself, too, as you accumulate productive assets, but that that's a different way of looking at the world from solely looking at money profits. That other way says, "How can I snatch money profits out of this? How can I make this one raid into the market, grab some money, then take my profits and run?"

An utterly different view of permanence and continuity goes with that. Let me give you an example of what I mean by wealth versus money profits. I have a dear friend from Central Mississippi. Forty years ago, fifty years ago, that was some of the poorest country in the world because its wealth had all been destroyed in the War Between the States and had never recovered.

Her grandfather had come to that area and started a little bank in the 1880s. His two sons carried on his work, but how? They looked for businesses to invest in. They did loan money to businesses, of course, but when they saw a business that they liked, they invested their own money in that business. They invested in chicken farms and chicken packing plants, and lumberyards and timber operations, and all of those things that would produce something around them and build up the local economy.

Of course they were looking for a profit; they weren't just altruistic souls. They invested in these things in the fifties and the sixties. By the time they died in the late 1980s, they had about a dozen grandchildren and those investments in only one of those enterprises were worth over \$100,000.00 per descendant. What had they done? They had made everyone in their local community prosperous by concentrating on wealth instead of money profits. When they invested in an enterprise, they didn't expect to take any money out of it for five years, ten years, 20 years, maybe not even in their lifetime, but they were constantly building up wealth.

CATHERINE Right. They were doing the equivalent of local venture capital.

FRANKLIN SANDERS Right. It seems that's exactly what you're thinking about with the Solari Circles.

CATHERINE Right. I call it diamonds in your own backyard because it takes seeing what is really “magical” about the people and the opportunities immediately around you. Folks tend to think of investment as something very sophisticated and magical that happens some place else that we can't understand. We think that what is mundane and right next to us, the basis of day-to-day life, doesn't have the same sort of magical investment opportunity. That's not true. If you look at the numbers, as you said, it's just not true.

FRANKLIN SANDERS In an earlier conversation, you quoted John Edward Hurley: “Culture is the integration of the divine in everyday life.” I love that statement because what requires that you look at the world around you with *wonder*. When you go to invest locally, you have to look at the world around you with wonder. You have to see something deeper than the everyday and the mundane. You have to see the opportunities hiding there, and naturally the risks, too.

CATHERINE We've been taught that liquid investments are safe, and illiquid investments are not safe. Often, you'll hear me talk about how a small business profits translates into a 1-5 multiple times equity, where the liquid company translates into a multiple of 10 or 20 or 30 times. A lot of the value is that liquidity, so part of what we're talking about is – Enron was a highly liquid investment. *[Laughter]*. When it crashed to a dollar, you could sell it quickly for a dollar and you could always see the price. But we are talking about looking what a world that is currently illiquid and learning about how to act and think and invest in that world.

FRANKLIN SANDERS You mean in the local world...

CATHERINE Right.

FRANKLIN SANDERS Well, first of all, you have to learn to trust your neighbors. Again, when we talk about the difference between wealth –

CATHERINE Or we need to learn which neighbors are trustworthy. *[Laughter]*.

FRANKLIN SANDERS Exactly. You point out one of the big differences in investing locally: It's not learning who you can trust with your money, but who you can trust with your *life*. A different human relation takes place, a difference of trust and friendship that goes much; much deeper because what you are working together to build wealth.

You have a common interest and you must have a common love for each other. (I mean love as in the Golden Rule.) You have to have community, if not family, and a common commitment to community. You have to decide that you are going to stay here. And because you're going to stay here, you're going to make it a better place to live.

You have a portfolio, a case study portfolio, would you like to go over that?

CATHERINE I'd love to go over that. A group of us started a Solari investor's circle on the phone, and what we decided first to simulate a portfolio. It was to help each one of us understand what I call “portfolio strategy”: what to do with own assets. And because everybody was in a different place, we thought we'd put together sort of a global portfolio.

We took a family of four and we said, “Okay, we have a couple. We'll call them Gail, who's an accountant, and George, who is an engineer. They are in their forties. Arbitrarily we said they could earn \$75,000 of income wherever they are, doing what they do. And they have two kids, who are teenagers, Debra and Dave. We're going to make them homeless so we'll have to pick out a place to live in a home, and we will give them total assets of a million dollars.”

We divided the portfolio into four parts: One was a local liquid portfolio, which was \$220,000 that was in precious metals, buried in the backyard, cash, and deposits in a local bank, both checking accounts and CDs. We put \$343,000 in what we called local non-liquid, which is home and a lot of energy improvements. We wanted to be energy self-sufficient.

But then we said they are going to do a circle locally and so they're going to invest locally, whether it's land and real estate or mortgages and loans. We've been looking for where we're going to buy our home. A lot of deciding where I want to live and whom I want to share my life with comes down to what community and place would I also like to invest in.

So we're looking at a "place" not merely as where we live, but where we are committed to investing and where investing is attractive.

The third portfolio is global liquid, which is \$375,000, which is investment in liquid securities and non-U.S. currencies. We've got securities in non-U.S. currencies because of the risk of the falling dollar. And then a small amount, \$62,000 in global non-liquid, which is really land abroad.

We've been managing the investment in this portfolio and comparing how we can invest globally versus how we can invest locally, and trying to understand the different risks. We are realizing that our best investment opportunities are local over time, but they also take an extraordinary investment of time and effort to learn and sort out the local economy, and to learn who's who and to understand how to handhold. So the local non-liquid has the greatest opportunity in many respects, but it's also the one that takes the most investment of our time.

FRANKLIN SANDERS One of the problems that Americans face when they invest is that they've been taught all the wrong things. They've been taught that you can pass responsibility for your own life over to somebody else. You and I both know you can't ever do that. The responsibility of it always comes back to you. Maybe people are lazy. Maybe they don't want to take the time to learn who's trustworthy, what's the local economy like, what are the opportunities, and so forth. But profit and building wealth can never be separated from effort.

CATHERINE Right. And can never be separated from learning.

FRANKLIN SANDERS Right. If you think that you can just send your money off to XYZ management firm and get more than a minimal return, you're wrong because *[laughter]* the people who do the work are the ones who take the money.

CATHERINE I was in litigation for a long, long time, and so it wasn't until last year that I started to learn from folks what their experience had been in the investment community. Franklin, I was stunned at the extraordinary corruption in the financial system and the draining of their different investment portfolios, or the complete ya-ya that they were investing in. You'll find folks who are putting their money into a socially responsible investment fund, but when you look at what's it owns, it's basically all the corporations that are destroying and wiping out their community.

FRANKLIN SANDERS *[Laughter]*.

CATHERINE It's astonishing. We're going to do an audio seminar later this summer called "Beyond socially responsible investment" when we'll explore those issues. It's just amazing. You see folks who are investing in things that they just don't understand.

FRANKLIN SANDERS It's axiomatic in the investment world that the very worst thing you can possibly do with your money is turn it over to a bank trust department. But all professional investment managers manage according to what they want and what's good for them, not necessarily what's good for you. Again, they are pursuing money profits. They want the bottom line result, and they are not much concerned about building wealth.

We have to keep going back to this. It's not the same thing. Money profit and building wealth is not the same thing. When you build wealth, you build productive capacity

that will keep on throwing off revenue. Think of it as blessing. It's like a fountain that keeps flowing and flowing and throwing off blessing to the people around you.

CATHERINE Your example he other day was sheep. You bought – I can't remember the number you bought, but you bought ten sheep.

FRANKLIN SANDERS Right. *[Laughter]*. We bought about ten. That was two years ago and now we have forty. And right now while we're talking, they're out there busy making more money for us. *[Laughter]*.

But I think your listeners have to ask how do I translate this into my own life? How do I escape these people who have positioned themselves as the intermediaries for my money? How do I take my money back and use it create wealth, how do I invest locally? What things should I say out of? What are the traps that are in front of me?

CATHERINE I was looking at a portfolio where there were three categories of assets. There were bank CDs., then a group of debt securities, Ginnie Maes and U.S. Treasuries, and then a group of corporate securities. And in each case, Franklin, the value of those securities was completely determined by the federal credit.

So the bank CDs had FDIC insurance, and the investor was thinking that they were very secure because they were guaranteed by the Federal Deposit Insurance Corporation, which is a federal government entity. Looking at the Ginnie Mae securities, which have full faith and credit of the U.S. Treasury, they were thinking that those were very secure. When you looked through the different mutual funds and into the corporations, they were all corporations highly dependent on government contracts and government programs for their profits. So this seemingly diversified and very conservative portfolio was this entire portfolio is highly dependent on the U.S. federal credit. If that credit should be recognized as bankrupt, which as an economic matter, it certainly is, this portfolio could be almost worthless.

FRANKLIN SANDERS If you asked most investment advisors, they would say, "Well, do you really think the federal government will ever go bankrupt?" Yet that is exactly what you are saying. That presupposition that the federal credit will *always* be good undergirds all the investment decisions that all investment advisors in the whole country make. I mean it is practically the same thing as the prudent man rule. You know what the prudent man rule is, don't you?

CATHERINE Yes.

FRANKLIN SANDERS Did an investment advisor or someone with a fiduciary relationship do what a prudent man would do? The foundation of that is that the federal credit is good, that the federal government is never gonna go bust. But the fact is, the federal government is by definition bankrupt. The federal credit is by definition bankrupt because there is nothing behind what they do. There's nothing behind all of those guarantees.

Fannie Mae and Freddie Mac are the perfect example. They've pumped up an enormous bubble. They have bought untold mortgages that are just no worthless. They've driven down the traditional down payments in real estate from 20 percent down to zero percent. They've created a world where it's almost an insult to ask anybody if he can actually pay the mortgage he's applying for.

And this is typical of what happens *whenever* the federal credit enters into any business. Look at farming. Most big farmers in the country depend on federal subsidies. I know some in West Tennessee, a father and son, who are great farmers and sharp businessmen, multigenerational farmers. They have all the equipment; they use all the latest

techniques. They use all the chemicals and so forth, and they farm about two thousand acres and have a huge production.

Yet the son admitted to me that without the subsidies they couldn't make it. Now these people are running, probably, a million dollar a year operation, and without the federal credit, they can't make it.

CATHERINE Right. Although if the federal credit pulled out of the system, they probably could.

FRANKLIN SANDERS They would have to completely restructure their operation to do that. Since the 1930s the federal credit has wormed its way into farming and taken over farming, crowding out all other methods of financing and all other ways of thinking. In the end, it has made them actually unproductive and unprofitable. Does that make any sense at all?

CATHERINE Sure, if you're running a centralized system and you want to control it, it makes total sense.

FRANKLIN SANDERS And most people now are dependent on the federal credit.

CATHERINE Right. When you scratch your head and ask, "How does this crazy goo-goo system keep going?" You discover that it keeps going because the U.S. military keeps it going. In other words, when the administration says, "We reserve the right to drop a nuclear bomb on you proactively," I assume they're really saying, "If you don't buy more U.S. treasury securities and use our currency, we reserve the right to drop a bomb on you." In other words, we have completely synthesized military warfare with economic warfare. What's keeping the dollar up and the system going is people's willingness around the world to take more dollars and take more U.S. treasury securities. That stops the minute we stop holding a gun to their head. And so if I'm investing in bank CDs and Ginnie Maes and treasuries and Fannie Maes, and I'm depending on those guns to continue to protect my financial wealth. I'm depending on the very military machinery that I say is destroying my world, environmentally or politically or spiritually. So I'm betting on the dirty money and the military machine to keep playing the same game. I'm betting on the federal credit.

FRANKLIN SANDERS That is the game. As you were speaking, I was thinking about the difference between that and a productive mentality. I'm trying to emphasize the difference between wealth and money to show people that security is actually much greater building productive wealth than trying to get money profits. Did I ever tell you about Jiffy Mix?

CATHERINE No.

FRANKLIN SANDERS Jiffy Mix is like Bisquick, a pastry mix in a box, but the very first one, and my wife likes Jiffy Mix better than anything else. Susan says it's the greatest thing going. One day, I was in the kitchen and I picked the box. There it read, "Founded in 1932."

I thought, 1932? Those people must have been completely lunatic to think that they could open a business in the depth of the Depression, a business that actually was offering a more expensive convenience than just taking flour and lard and milk and mixing them together. And, yet, they went into business in the depth of the Depression, producing something that people could use and people wanted, and seventy years later they're still doing it.

It's obvious that they understood that their security lay in being productive. Their security was in serving the public, they did that, and so they are still here.

CATHERINE When I finally realized the federal credit was bankrupt a few years ago, I asked myself, "Well, who made money during the depression? Who started businesses

during the depression that withstood the test of time?” And it’s a fascinating exercise because you discover that there were a lot of people during the Great Depression who really did opportunistically use that period to really build incredible wealth. It can be done. That’s a perfect example.

FRANKLIN SANDERS But they didn’t do it at anybody’s expense.

CATHERINE Oh, no, no, no, they did it by getting fundamental productivity going in a variety of things. Encyclopedia Britannica said that since everybody is out of the work, now is our chance to build an incredible workforce, and hired up a lot of an incredibly amazing talented people who stayed after the Great Depression was over.

FRANKLIN SANDERS That’s another point that I like to make to people who have contemplated economic crash way too long.

CATHERINE [Laughter].

FRANKLIN SANDERS [Laughter].. For the last 30 years or 60 years, they’ve expected the Great Depression to occur again. Certainly there is every reason not to have faith in the present financial and monetary system because it is a confidence game. But, still, the morning after the crash, somebody is going to wake up wanting breakfast.

CATHERINE [Laughter].

FRANKLIN SANDERS And somebody else is going to make money cooking breakfast for them.

CATHERINE Right. There is no point in waiting for the crash; you might as well start getting good at cooking breakfast now.

FRANKLIN SANDERS That’s exactly right. As long as you do that, there is always going to be a secure place for you in the world.

The Great Depression also pointed out another important aspect of wealth and security family and community. When we say a man is wealthy because he has many friends, that’s not some metaphor, that’s a fact. Because when he gets in trouble and needs help or loses his job, if he’s got a family who will support him until he can get on his feet again, then he has more security than the person who depends on 26 weeks of unemployment payments.

CATHERINE I always tell the story of when the Department of Justice tried to cut off my cash flow, I had lent an incredible amount of – or gifted an incredible amount of money to my family and friends, and that was the once source of money that couldn’t be cut off. And it really kept me alive. I can’t fathom – the best investment I ever made was investing in the people I loved.

FRANKLIN SANDERS Isn’t that a little ironic, don’t you think? The only thing you kept was what you gave away?

CATHERINE No, I think it’s a little obvious now, but I wasn’t brought up to believe that. I was brought up to believe you made your fortune on IBM stock. It never occurred to me, but I’ve always been a people investor. Any great venture capitalist will tell you he doesn’t invest in businesses; he invests in people. Franklin, I can’t explain to you why I invested so much money in the people around me, but thank heavens I did.

FRANKLIN SANDERS That’s how wealth and money profit differ. The profit of doing that may not have been immediately apparent. Sometimes you just do things because it’s right. But we need to put a brake and a warning in when we talk about local investing or investing for wealth and so forth: we’re not talking about senseless investing. We’re not talking about senselessly throwing money at something and saying, “Oh well, this is socially productive or this doesn’t hurt the environment, and so I’ll throw money at this.”

You still have to invest the personal time and effort to see what the enterprise is and whether it can really make money, and what its risks are. And not only the risks of market and potential market and markup and all that, but also what is the human risk involved. Does this person who runs this business have what it takes to succeed and build wealth?

CATHERINE Solari strongly, strongly recommends shifting bank deposits to local banks although local banks are still part of the Federal Reserve System, and so, in essence, are arguably still part of the tapeworm. Yet I've discovered that a lot of the knowledge about risk and managing financial risk in a community is found in your good local banks. You've just got a wealth of people who understand how to approach business and small business with real discernment.

FRANKLIN SANDERS Yet that's threatened by the centralization that the tapeworm enforces on everyone. The story I told earlier about the two bankers – brothers that were bankers and invested in a local community, and, literally, enriched everyone around them because they understood investing for wealth and they understood using the power of their money the right way? They also did something else. They were obviously poor people in the community; it was a poor area. And those poor people would come into the bank, and maybe it was a mama and her children have moved off to Detroit where they could get a job in the automobile industry. Mama would come in for a loan to buy a bus ticket to go up and see them. These two men would fill out the papers as if they were making her a loan, and they'd give her the money. And then they'd take the loan application and throw it in the drawer and forget about it because they didn't expect or want her to pay it back.

CATHERINE Right. And they certainly didn't want the regulators to see that application.

FRANKLIN SANDERS No, that was just the problem. They ran the count – they were really sharp businessmen and they kept an eye on what they did. But it was a little bank just a little storefront place where if you wanted to get into the vault, they couldn't remember where they put the key the last time.

Then along come the regulators and the tightening of the regulators, and they don't like that sort of stuff. They're gonna stop all that sort of stuff because it doesn't fit the one pattern that they've learned. And the fact is, Catherine, other than a few principles of risk assessment and assessing human beings and so forth, serving people, and honesty, there is no one pattern. You have to be honest. You have to be ruthlessly honest with yourself when you assess markets and what your costs are and so forth. Those are general principles. But as far as reaching success, the way people do it is different in every single case.

CATHERINE Right. This happened to me when I was on Wall Street and in other businesses. You try ten things, you put money and time into every one of them, and ultimately, you get it back plus 30 percent or plus 20 percent, but it never comes back in any way the way you thought it would. Some things work and some are a complete bust.

We used to see venture capital portfolio on Wall Street, where you'd do 30 investments and you lose money on 28 and two would be so fantastic that you'd get a 30 percent return on the whole portfolio. But it's a little bit like baseball; you gotta keep getting up at the plate, you gotta keep learning, you gotta keep hitting them or striking out, but you gotta keep swinging.

FRANKLIN SANDERS Right. There isn't any single formula for success. It depends on what the circumstances are. It depends on what the abilities of the people, the leaders in the business are. All of those things vary, but we're pointing out that a person who is going to take back control of his life, a person who is going to get out from under the tapeworm, a

person who is going to pull away from dependence on the federal credit is necessarily going to have put more effort into these decisions than he ever put in them before.

CATHERINE Right. And he's going to have to get to know what I call the *wizard*. Your two bankers are what I call community wizards. People have to get to know and learn from the community wizards in their place.

I just want to touch briefly on what I call the *export/import capital model*. If you look at my local area as a financial ecosystem, we've all been exporting our bank deposits. And we've all been exporting our investments at the same time that we and the businesses in our community and our neighbors have been *importing* capital back in. So we've allowed the capital flows in our community to be intermediated by strangers. We've been allowing global players to get between us and local businesses and our neighbors to intermediate our money so that they drain us.

We don't clearly see the extent to which we're putting our money in all these big global institutions and then, say, for our mortgage money, we're borrowing back from the very people who have collected up our money.

FRANKLIN SANDERS Communities are borrowing back their own money.

CATHERINE Right. I'm putting money in a bank CD at two to five percent, and then my neighbor is borrowing back at ten to thirty percent. That's a huge opportunity for us to invest locally. *[Laughter]*.

FRANKLIN SANDERS Right.

CATHERINE This will really help you understand how the world could change. Once upon a time, a local bank made mortgage loans in my community, and if anything my community started to turn down, if drugs started to come in, they would lose money on the mortgages. If I had my deposits in the bank; I could lose my money if the bank got wiped out. So we all cared that our community was productive and the people in it were productive because if everybody wasn't productive, we'd lose money.

So what's the federal credit? The federal credit came along and started to guarantee all the mortgages. The federal credit came along and started to guarantee the deposits. Now I put money in the bank and I don't *care* whether the bank is well run or not because I've got the federal credit, right? I don't worry about that.

Then the bank makes all sorts of mortgage loans guaranteed by the federal credit. So the bank doesn't worry about making money off the mortgages because, in fact, they pull them up and create securities and they sell those securities to my pension fund.

So when the federal credit fails, if it fails, we're going to discover that the bank is fine. And I'll have my deposits, but I'll discover my pension fund has been wiped out.

My government is bankrupt and I'm now liable for the debt owned by the creditors all around the world, but I will go back to a world where if drugs come into my community and destroy the community's productivity, the federal credit won't relieve me from caring.

FRANKLIN SANDERS Right. But I think that points out a whole fallacy of thinking that you can get away from responsibility for your own life.

CATHERINE *[Laughter]*.

FRANKLIN SANDERS Because if you say, well, I'm not going to worry about the solvency of my local bank because I've got the FDIC behind it. Whoa! The FDIC has a reserve of less than one-quarter of one percent of all deposits, and their form of bailing out banks is bluff. That's what they do. They go in bluff to buy enough time to somehow sort out the mess and sell the bank..

CATHERINE I watched this when I was on the board of Sallie Mae, when Citibank was had negative equity. It was in the early nineties. And all the big conversations of all the vice-chairmen of the big banks on the boards was, are they going to let Citibank go down, is it too big to fail?

What happened is something we see many times since: the Fed made it easy for Citibank to borrow money and then lend it back to us through the U.S. treasury at a significant profit.

FRANKLIN SANDERS They made them intermediaries.

CATHERINE They just pumped backdoor profits into Citibank while the big banks were saying we're not going to loan to small business because it's not as profitable. Well, it's not as profitable as the federal credit rigged game. So they literally just pumped pure profit in the banking system – it's the biggest subsidization in the history of western civilization at the time.

FRANKLIN SANDERS Right. They created a situation where the banks could intermediate and gave them a risk free profit. I don't know if you've ever read the Tennessee Constitution, but it would well repay you because we have a wonderful Bill of Rights there. But there's one very interesting thing that it took me a long time to figure out in that constitution. It lists three things that can be taxed: merchants, peddlers, and privileges.

Merchants, peddlers, and privileges. Nothing else is allowed to be taxed. What really baffled me was merchants. I understand privileges because that's something that the state creates and gives to somebody, so they're entitled to have some return on that. And then peddlers, of course, are people who are from outside the community so they can't be trusted.

CATHERINE [Laughter].

FRANKLIN SANDERS They'll be here one day and gone the next. But merchants, I just couldn't figure out why merchants? And it was only later when I was reading a great old 19th century Presbyterian theologian, Robert Lewis Dabney. He made a long disquisition about merchants, hard for us to grasp because we don't come from an agricultural and agrarian society, but that society looked on merchants as useless parasites, precisely because they did the thing that you're talking about. They were nothing but intermediaries, and basically parasites on the productive.

Now I don't mean that all merchants are parasites, and I don't mean that they thought that, but we're talking about a needless *multiplicati n* of merchants. The people who wrote the Tennessee Constitution considered that intermediation so dangerous to the stability and freedom of society that it had to be controlled by taxation.

CATHERINE That's fascinating.

Believe it or not, I do have a copy of the Tennessee Constitution. One of the reasons that I created the Solari model was we needed a financial model that would allow us to build financial wealth by reducing consumption. When you run your economy on equity and not on debt, in fact, that's the case. In other words, the less consumption you have, the more you build up your wealth, the more you build your environment and the more you build your assets.

And, of course, we have, currently, a financial system where the more you consume, the more financial wealth you create. Which when you think about it, it's upside-down and backwards and a little bit insane.

FRANKLIN SANDERS But that feeds on the system, too, because the system requires its members to keep going into debt, and they have to go into debt to consume as well. That's a really brilliant insight, Catherine, and I never thought about it. As long as you use

debt financing primarily instead of equity financing, then you encourage that consuming society.

CATHERINE Right. And the more we encourage people to have high overheads, although one of the greatest ways to build wealth is to squeeze your overhead way, way, way down. And I have to thank the Department of Justice for teaching me that lesson because I had combined personal and professional overhead of about a million dollars a month, and they taught me how to go from a million down to two thousand [laughter]. And my quality of life improved, so it can be done.

How did you learn the difference between money and wealth? How did you personally learn this? When did you learn it?

FRANKLIN SANDERS Catherine, you shock me with that question.

CATHERINE [Laughter].

FRANKLIN SANDERS I haven't thought about that. Maybe it's just by observing people and noticing how much more worthy of respect people were who had really made their way in the world and were productive people. Growing up in my young manhood; I always greatly admired those people who really knew how to do things and how to produce things, as opposed to people who'd just get by or hire them done.

There's also a great book by Elgin Groseclose called *Money and Man*, which is a fabulous exploration of the wealth versus money problem through history.

CATHERINE One of the reasons I love sitting – I call it your trading floor, where you have everybody sitting around and doing the dealership. And the first time I came to your place, and I was sitting on the Franklin Sanders trading floor, *The Moneychanger* trading floor, somebody – I think it was you or Justin stood up and said, “I think I’ll go feed the hogs now.” [Laughter].

FRANKLIN SANDERS [Laughter].

CATHERINE But one of the reasons I loved being there is because everyone is so comfortable talking about money. And there are not many places now in – in Wall Street, you could feel real comfortable talking about money, but I think a lot of us think of something as money as different and separate from our lives. I find a lot of people are really uncomfortable and there's been so much emotional baggage attached to the notion of money.

We need to come clean in terms of our thinking about money and we need to feel free to just use money as a tool to build our world. And I just love being at *The Moneychanger* because whether it's feeding the hogs or writing puts on gold, it's just all part of one flow.

FRANKLIN SANDERS One of the things that annoy me the most about the modern world is the professionalization and mystification of everything. After all, since memory runneth not to the contrary, women had children with midwives, yet suddenly, everything is mystified and professionalized and none of that is allowed.

Our development and our learning in the growth of our wisdom is truncated because we're told, “Oh you can't do that yourself, you have to turn that over to a professional.” That compartmentalizes your life so that the money stuff is over here, and that has nothing to do with the integrity stuff over here, or the morality stuff over here, or the fun stuff over yonder.

And the professional money manager will make it appear as if, you know, “Oh, you poor child. I know you think you can handle these things, but you're really not capable of doing it.” Well, if I'm the one that got together with a half a million dollars in the first place, don't you think I've got enough sense to know how it ought to be managed now?

CATHERINE [Laughter]. Okay. Are you ready for questions?

FRANKLIN SANDERS Sounds good to me.

CATHERINE Okay. “How much of my assets should I have as liquid assets, and how should I have as illiquid assets? How do I think about that?”

FRANKLIN SANDERS Ask yourself what your needs are. Liquidity exists on a spectrum and some things are very, very illiquid like real estate, and some things are less illiquid, but still not as liquid as cash. Think about what your needs are. You always ought to have at least three months of your cash needs there close by.

Then you move your time horizon out farther and farther and farther if you have a child in college and you’re trying to pay \$10,000.00 or \$20,000.00 worth of tuition a year; well, obviously, you need that much liquidity. If that’s still 30 years away, then you can live with more illiquidity. So look at what your time horizon is to figure out what your liquidity needs are.

CATHERINE Now, another question I’m going to just read as formulated. “How much of your assets would you recommend someone put in local venture versus precious metals?” Where does precious metals fit into this?

FRANKLIN SANDERS Well, I think one of the things that you have to realize about precious metals is that they are basically cash. When you buy those, the return that you expect to make off of them is a capital gain, not interest or dividends. You hold them for price appreciation alone.

Really, that gold and silver is part of your liquidity. And it ought to be – I know that it’s long-term in the sense that we expect that gold and silver will have greater returns over the next decade, but still it’s part of your liquidity as well. Because it is cash, the ultimate cash. So lump silver & gold together with your liquidity.

As far as what percentage you want, my problem in recommending these fixed percentages is I look at the future and I see a very, very poor future for most other investments. I see a very poor future for stocks, a very poor future for bonds, a very poor future for any U.S. dollar denominated assets, and so I tend to move away from the so-called prudent man ideas and go towards those things that I think will really weather an economic storm over the next ten years or so. That means great liquidity like silver and gold. But before that, secure your own personal source of on-going revenue, and that may be a small business. If you work for somebody, then that’s going to be whatever your personal abilities are, your personal capital in yourself. Those are the things that I would invest in most.

CATHERINE The dollar has been holding steady this year, and you’ve been one of the people who predicted that that would happen. So you’ve been very accurate on that. When do you think the dollar is going to start falling again?

FRANKLIN SANDERS I think from here – what do we have another six or probably more likely twelve months of dollar strength. You have to separate the short-term from the long-term. In the long-term, all of those fundamental problems that you and I see with the dollar, e.g., the balance of payments deficit (Buying more aboard than we sell to foreigners), U.S. dollar inflation, the United States government budget deficit, and war in Iraq and everywhere else, which of course increases that budget. All of these problems mean that we look at the dollar and say, “Wow. Fundamentally, the dollar is in really bad shape and ought to drop.” That’s absolutely true, but fundamentals don’t work themselves out in the next six or twelve months. They will at eventually, but value is very much a matter of public perception.

I've looked at their some gold and silver stocks' balance sheets and their operations and their prospects, and thought to myself, "Why in the world would anybody buy this thing?" Never mind, it shoots up. There are not many silver stocks. One that is known as a "silver produce" ten or twelve years ago was not earning 15 percent of its revenue from silver, so it wasn't really a silver company. That's changed in the last 15 years, but because they had a *reputati n* as a silver company, people would invest in them as a way of investing in silver, no matter how false that conclusion.

It's the same way with currencies. In the short-term, people are attracted to the US dollar because the dollar pays more interest than the euro. It's just that simple. And then that perception of value begins to feed on itself.

Back in December, everybody in the world was certain that the dollar was going to go to zero, so they had all *s Id* dollars. Technically that creates a situation where the dollar is very severely oversold: everybody has already sold dollars and nobody is left to sell more. Then as the price starts turning around and rising, at some point those people start losing money, get scared, and panic out of the dollar. Boom, boom, boom, that panic sends it up in giant steps.

That's what we're dealing with now, a short-term situation where the dollar is correcting against its long fall. The fundamentals are going to reassert themselves in the dollar, and it will continue to go down. It will continue to lose value, like the 30 percent value it lost between 2002 and the end of 2004.

CATHERINE It sounds like a dangerous time to have any debt.

FRANKLIN SANDERS Yes, because the dollar is climbing although people still have this idea that dollar is going to drop imminently. Well, it's not. It still got another, as I said, six to twelve months.

CATHERINE Okay. Well, thank you very much Franklin. I think, in summary, it's fair to say we're talking about moving from a political economy where the federal credit makes things tick on a political basis to one – to a fundamental economy where things go back to basics. So another way of saying it is we're moving from a world where financial assets have value to a world where real assets have value.

FRANKLIN SANDERS Right. There's more here. You're talking very much about personal sovereignty and reclaiming sovereignty over one's own life. We will see more and more of that as well.

CATHERINE Right. Absolutely. And, to me, part of that is taking personal action. I have to make another pitch. If you're banking at one of the big banks, move your deposits local because you start to reengineer the money by– decentralizing enough so people can start to take personal sovereignty. So I want to make my pitch for moving your deposits local.

[End f Audi]