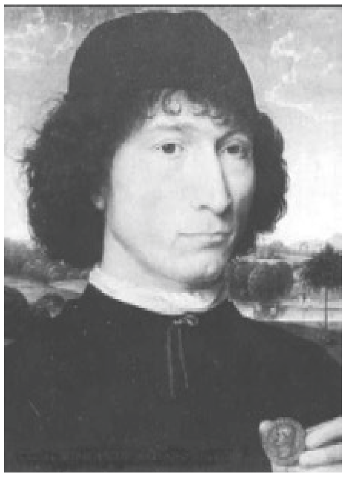

THE MONEYCHANGER

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— A Moneychanger Interview —

DANIEL OLIVER OF MYRMIKAN RESEARCH

"... Trump's victory was historically inevitable. The American Constitution was modeled on the Roman Republic, and we all know (or should know) what happened to Rome. As the republic turned to empire, credit levels exploded, widening the gap between rich and poor. A citizenry composed of small landowners was transformed into a plantation system, more efficient but less flexible, able to sustain the populace through government hand-outs, but destructive of civic virtue: latifundis perdidere Italiam." — **Daniel Oliver** in *Myrmikan* (November 2016)

Daniel Oliver Jr. is President of the Committee for Monetary Research & Education, a non-profit educational organization founded in 1970 to promote greater public understanding of the nature of monetary institutions and of the central role that a healthy monetary system plays in the well-being, indeed, in the very survival of a free society.

In 2009, he founded Myrmikan Capital, an investment firm specializing in micro-capitalized gold mining companies. Previously, he worked for Bearing Capital, LLC, a private equity firm in Buenos Aires focused on Latin American commodities investments.

Mr. Oliver graduated from Columbia Law School with honors in 2001, where he was President of the Federalist Society. After practicing corporate law at Simpson Thacher & Bartlett and co-founding two venture companies, he attended INSEAD and obtained an MBA in 2005.

His first job was at the International Herald Tribune in Paris, which filled him with a love of writing. He currently publishes commentary on monetary principles in various media outlets, on financial television and radio programs, and speaks at monetary and investment conferences. He is finishing a book on the nature and history of credit bubbles, which stretch back to ancient Greece and beyond.

Visit http://myrmikan.com/port/ *to sign up for his free monthly commentary, elegantly written and filled with historical understanding and original insights.*

Dan is a National Review Institute Fellow and is an alumnus of the Swiss American Foundation's Young Leadership Conference. He lives in New York City with his wife and two daughters, and kindly made time for this interview on 4 January 2017.

It would help your understanding of this interview to read the July 2016 Moneychanger article, "Nor a Lender Be." That article discusses the historically perennial credit cycle: credit boom, overcapacity, overproduction, bust, and default. If you don't understand that cycle, you can't understand what's driving finance, business, markets, & government today. — F. Sanders

MONEYCHANGER I deeply appreciate your work because it's concise and brings a historical perspective to bear, rather than focusing on the next or last ten minutes.

OLIVER Thank you. The Keynesian economic mindset is that economics began with Keynes and nothing before that mattered. My outlook is that human nature doesn't change, so you can find the answers to economic problems in the past, which is what I've researched.

MONEYCHANGER Your work also shows what the Roman poet Horace called *elegant simplicity*, which is the heart of good style.

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ALSO INSIDE

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You touched on something in November that really struck a chord with me. You wrote "The American constitution was modeled on the Roman Republic, *etc.*"

Rome evolved from republic to empire: credit levels exploded, widening the gap between the rich and the poor, and then the plantation system began. How does that parallel make Trump's election inevitable?

Oliver I'm writing a book on the history of credit bubbles, and it's taken me back in time. Originally I focused on just the last couple hundred years in the United States, then I discovered you can trace credit events over to Europe, and France, especially back several hundred years. I was somewhat amazed to discover you can go back to ancient Rome and ancient Greece and even beyond that to Mesopotamia and still find credit bubbles. The further back you go, the sketchier the evidence gets, but it's still right there in front of you.

The fundamental cause of credit bubbles I usury. Until modern times, maybe 300 years ago, usury was a sin. The Bible clearly bans usury, as do Hinduism and Islam and most religions (Confucianism is a notable exception). One reason is that, as Aristotle put it, money increasing of itself is contrary to nature. If you have a cow and I have a bull and I lend you my bull, then you can pay me back my bull and some calves as well. The same is true of all organic things that multiply of themselves. Aristotle wrote that money can be the *symbol* of that increase, but money itself doesn't increase.

Imagine a hypothetical economy in ancient Athens where 100 drachma circulate, and the nobles lend drachma to the peasants at 10 percent interest. A year later, the peasants owe the nobles 110 drachmas. Question is, where do those extra ten drachmas come from? Answer is, they don't exist.

The Roman historian Plutarch talks about sixth century B.C. Athens when the gap between rich and poor widened so far that it created a "truly dangerous situation"—those were the words he used—and then they suffered a credit collapse. Solon was elected as a populist ruler and abrogated all of the mortgages. The penalty for mortgage default in ancient Greece was *slavery*. Half of the people ended up enslaved to the other half, and obviously that's not stable. The populist ruler Solon was elected, freed the debt slaves, and abrogated all the mortgages. He essentially got rid of all the mortgages and devalued the currency to let people out of their debt.

> Once a society is trapped in usury and owes more money than exists, there's no way out but slavery.

The same thing happened in Rome. When he was looking for support, Caesar banned interest payments. You see echoes of that in Williams Jennings Bryan in the late 19th century U.S. and other times.

Once a society is trapped in usury and owes more money than exists, there's no way out save through social strife. The pressure builds and builds until there's some sort of debt relief, usually through a populist ruler. Often it is very negative and destructive, as in 18th century France, which led to the guillotine. Preferably, it doesn't go that far. *[Laughter]*

Om the 1780s, when Americans were first discussing banks and what powers government should have, they looked back and observed, "They had no banks in Rome during the Republic." When usury was kept under wraps there was more civic virtue. Later, in the empire period, all the wealth concentrated in the nobles, as it had in Athens.

The main asset of that time was *land* that produced an income. As wealth concentrated in the nobles, they became vaster and vaster landowners, while the proletarians, the little people, ended up becoming *employees* of the very rich where once they were small capitalists. As Pliny wrote: *latifundis perdidere Italiam, the plantation destroyed Rome*.

Moneychanger It's the same transition from entrepreneur to employee we've seen in America over the last 150 years.

Oliver Once that happened, then the idea of civic society, where all citizens are involved in the state and care about it and participate, goes out the window. Then comes a state run by the elites – the emperor and the senators and the very rich. That became very unstable, usually with lots of wars.

The parallel in modern times is huge amounts of debt and huge concentrations of wealth in Wall Street. It's done a bit differently now, but it is still the same monetary phenomenon that focuses money at the top.

Moneychanger It's evil because they create their *credit* out of thin air. A state granted franchise empowers them to do that. The government licenses them to steal.

Oliver That's right.

Moneychanger So whoever has enough political power to get a bank charter gets a license to steal and, in effect, to enslave the rest of the populace. That's what happened in Rome: huge numbers of people sank into debt slavery until there was a small upper class supported by slaves.

Today the *tenor* of the slavery is different, but it's slavery nonetheless: someone owns the slave's future labor. Today it's a *lien* on all future labor. That's why in 2005, congress removed the ability to bankrupt student loans.

What does that mean? Those slaves are on the hook for life. *[Laughter]*

Oliver And it's worse. I live in New York City, and every time I open my door there's some New York college student with a petition he wants me to sign for some "progressive" cause. You think to yourself, "My

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goodness. Here you are with all this debt you borrowed and what are you doing with it? Nothing productive; you're standing here on the corner with some petition, so how are you ever going to pay your debts back?" Maybe the answer is you go into government and they forgive your debts.

You learn to be a community organizer like Obama, you get a job in some government agency, and they wipe your debts off. It's wonderful, but completely unproductive, of course.

Moneychanger You touched on the inevitability of a debt default. The *form* of the default might change, but is there any way to avoid the default altogether?

Oliver No. There's no way to avoid a debt default.

A credit boom distorts an economy's entire structure, diverting all the effort into long-term projects *for which there is no consumer demand, i.e.,* huge, empty office buildings keep going up but nobody's raising food on farms anymore. At some point tremendous overcapacity results, which means that prices have to fall in real terms, and then the debtors default and the banks blow up. [See sidebar at right, "Interest Rates, Bond Prices & the Credit Cycle." – FS]

So how do you avoid the economy-wide default, or at least, delay it? The central bank must keep printing money to keep these structures alive. In 1913 a book published about German banking showed that the entire economy and banks were concentrated so that three hundred people in Germany owned everything through mergers, various trusts and conglomerates—everything we are familiar with.

Because these giant structures were so big, the German state couldn't imagine that they might default and disappear. So the Reichsbank kept printing money to keep these things alive, which was one of the main causes for the 1920-1923 hyperinflation. Yes, the war reparations played their part, too, but it was also the structure of the economy with enormous too-big-to-fail institutions.

The same thing happened in 2008 in our system. Big structures like Goldman Sachs should have failed, but Hank Paulson and the rest of the gang in government just couldn't imagine a world without Goldman Sachs.

Moneychanger *[Laughs]*

Oliver So they saved it. Since all these

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Interest Rates, Bond Prices & The Credit Cycle

The inverse relation between bond or asset prices and the discount or interest rate isn't self-evident to the uninitiated. Why do bond prices move opposite to interest rates?

WHAT'S THE DISCOUNT?

Think of it this way. What is a bond worth *today* that has a 5% interest rate and pays $100 in one year? (Interest rate is also called "discount rate," *i.e.*, the rate by which today's price is 'discounted' from the future price.) It's worth $100 today, *less the future interest payment.* So the value today ("net present value") of that bond is $100 - $5 = $95.

What happens when you *raise* the discount rate? What about a bond with a 10% discount rate that pays $100 in one year? Today it is worth $100 - $10 = $90.

So it's a see-saw. The higher the interest rate, the lower the bond price. When interest rates rise, bond prices fall. When interest rates fall, bond prices rise. It's simply a mathematical relationship.

CAPITAL ASSETS

A "capital asset" is any asset that can produce a future stream of revenue. For instance, a plant building washing machines is a "capital asset." Its value is determined by *discounting* that future stream of revenue to the net present value. Think of bonds, too, as "capital assets," because they produce a future stream of revenue; or stocks, paying future dividends.

Suppose the profit from a washing machine factory were $100 a year, and suppose the interest rate is 10%. The net present value of the factory is $90.

What happens if the interest rate falls to 5%? The net present value of the capital asset rises to $95. It doesn't matter whether the interest rate is forced down by the abundance of bank credit, or because consumers are saving more so they can consume more in the future: the *signal* to factory builders is the same, namely, "Build more factories!"

CREDIT BOOM - OVERCAPACITY — OVERPRODUCTION - BUST

But if interest fell *only* because banks issued more credit, then consumers don't really *want* to consume more in the future and factory builders received a *false* signal that consumers want more machines. When the future arrives, unsold washing machines back up on display floors, and capital asset owners discover that *overcapacity* in washing machine factories has caused *overproduction*. They lower their prices, a little at first, and then fear sends them tumbling and cascading. Even lowering prices won't clear all the excess washing machines off the market, so producers go bankrupt. *Enough producers must go bankrupt to eliminate all the overcapacity.*

STOCKS & BONDS

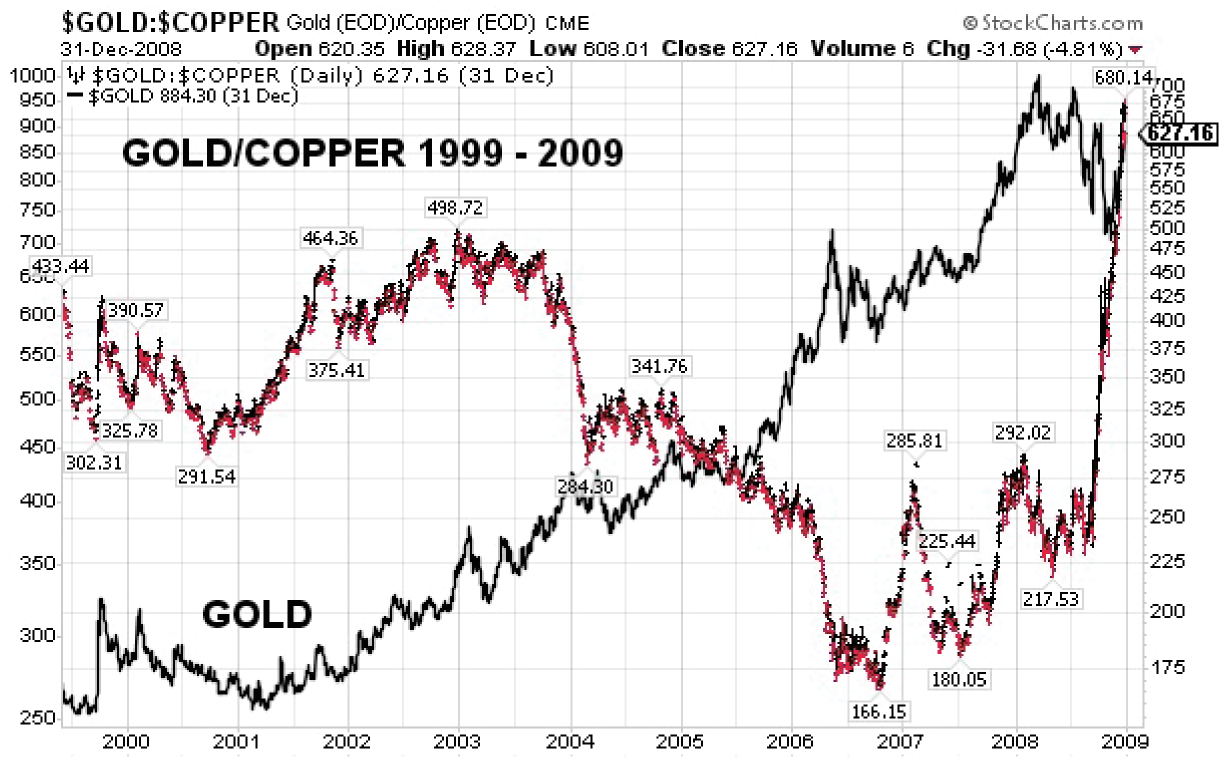
Now think of all stocks and bonds as "capital assets." Everything is priced according to its *net present value*, discounted by the economy's base interest rate (plus a premium for risk, riskier assets paying a higher interest rate.) If interest rates fall, markets will *re-price* all capital assets *higher* because mathematically their net present value rises. Increasing bank credit lowers interest rates, which in turn raises asset prices. This is one reason the stock market rises when interest rates are lowered. The opposite is also true, that rising interest rates will lower asset prices.

Why? Because interest rates and prices are, mathematically, a see-saw. When rates rise, prices fall, and when rates fall, prices rise.

But of course, merely increasing bank credit can never increase asset prices *permanently*. Otherwise every Tom, Dick, and Harriet would be rich and sipping fine champagne on the Riviera. Rather, a credit boom makes stocks more and more overpriced until finally some realizer says, "Sell! I want my money."

Thus are unleashed the dogs of panic.

— F. Sanders



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big corporations fund themselves with the overnight markets, when they ran out of money, the overnight markets froze up. The government said, "We simply can't allow these huge structures to go down," and they printed the money. That will happen again and again and again either until hyperinflation hits, Weimar style, or until the bad debts finally get so enormous that the government must start cutting them loose.

With Trump we have a man who ran as a populist and is now our president. When the next big crisis comes— and it will come on his watch—what will he do? Will he let the banks and the big structures fail? Into his cabinet he's putting all billionaires and oligarchs who represent banks. I guess it's *possible* that they turn on their own, but the likelihood is low.

Moneychanger You keep saying default is inevitable.

Oliver Yes.

Moneychanger And that's the way it looks to me. However, Trump gets elected. The stock market goes up; gold goes down. Apparently, people believe that it *really is different* this time, that it's a "new era," and government spending and central bank credit inflation will somehow pull us out, even though we're at the peak of that credit cycle already. I don't understand where their optimism is coming from. The stock market might rise for a week or a month, or six months, but hasn't its day of judgment already come?

Oliver All of the major things that Trump has announced are massively pro-credit. Tax cuts without spending cuts are a deficit-financed tax cut, one of the Keynesian ideas. Deficits are very inflationary. Then he wants to unleash the banks, ditch Dodd-Frank and let them speculate with your deposits again. Add to that a trillion dollar infrastructure "investment" plus military buildup— all those things are incredibly pro-credit.

Gold does not like the upswing of a credit cycle. Why? As I said before, in a credit bubble discount rates fall artificially, *over*valuing long-term cash flow. Gold has no cash flow and it's not demanded by industry, so falling interest rates don't affect gold the same way they affect other things. Hence gold always falls at the upswing of a credit bubble.

That held true even from 1999-2008, when gold went from $250 to $1,000. But if you look at gold in terms of oil or iron ore or other industrial metals, it actually went down. The boom enhances those commodities' value more than gold, and gold doesn't have cash flow. However, that's also why in a bust gold always outperforms. Interest rates spike, devaluing all these long-term malinvestments. Gold is unaffected by that shift because it has no cash flows, and that's precisely why gold behaves *opposite to* the credit cycle; *that's what makes it so valuable*.

My take is that Trump comes in and he controls Congress. The Democrats always want to spend money, but Republicans only want to spend money when they're in charge, which they are now, so there's a good chance much of the pro-credit program will be enacted.

But as you pointed out, we are at the *top* of an epic credit cycle, the largest history has ever seen, and that's going to collapse. Question is, how long can Trump push off the collapse? I find it difficult to get a handle on that. This is not the 1950s anymore, when the US was the only game in town. The world is a big place, and China is rolling over, Latin America is rolling over, Europe is certainly rolling over. I have my doubts as to how long Trump's program can keep this bubble alive.

Moneychanger It's not a new era after all. *[Laughter]*

I hear Janet Yellen talking about all the "tools" that she has—that word annoys me—as if she only has to do is dig in her tool bag when the next crisis hits, and she'll find the sure-fix tool there.

Oliver They have only two real tools they can use.

One is *open market operations*: the Fed buys government bonds to reduce interest rates. They did that three times in the 1920s. World War I created huge overcapacity to fight the war, and when the war ended there was a big slump in 1921. Irving Fisher and Keynes convinced the Fed that their mission was to stabilize prices. So the Fed bought federal bonds in three rounds of quantitative easing to boost commodity prices back to where they had been at the top of the World War I bubble.

This did stabilize prices by reviving demand for the industrial sector's overcapacity, but the money also rushed into the stock market, which took off. Then in late 1928-early 1929, the rise in the market spooked the Fed and they said: "We've got to rein in the speculation!" They raised rates to keep the market stable and keep it from rising too much, and that tanked the whole economy. That is a pretty much an exact parallel to all of our recent economic history.

The second tool they have is a derivative of the first: *guarantees*. People forget that when the crisis first hit in late 2008, QE didn't come until later. The first thing the Fed did was *guarantee about $7.7 trillion of assets*. About a quadrillion dollars of derivatives daisy-chained all the banks. They owed each other trillions and trillions of dollars. The Fed said, "Look, we will back up the system so you don't need to execute your margins against the banks." And it worked. The banks suspended market-to-market accounting because the Fed said, "We're going to guarantee all this stuff."

There's a historical precedent for this. The first modern credit bubble was John Law's Mississippi Bubble in France in 1719. He had set up a bank whose function was to lend money to buy shares in his Mississippi Company. As the company's shares rose, the bank became more collateralized (the shares were more valuable) so they'd lend you *more* money, which you'd use to buy more shares, which went up further in a constant feedback loop. The share price went from 200 to 10,000 over about three years, with most of that increase at the end.

At the first big hiccup in the share price, John Law said, "Don't worry, everyone. I will guarantee the prices. I will buy any and all shares tendered to me at 4,500."

It worked. Everyone said, "As long as I know I can sell these things back to the bank, I'm not going to sell them. I'll keep them." So the share price doubled again over the next three or four months.

Then came a second hiccup and Law tried it again. "Okay, the share price went from 10,000 to 9,000. Anybody who wants to sell me shares at 9,000, I'll buy as many as are tendered."

Guess what? A billion shares were tendered by people saying, "We want the money." So he stabilized the company's share price in terms of his currency, but then his currency collapsed because he had to create another billion currency units.

History always repeats itself, sometimes in broad strokes, sometimes very specific strokes. The guarantees worked so well for the Fed last time that my guess is next time, Janet Yellen will say, "Where's my tool box? Let's see, here are guarantees! Last time guarantees worked. Let's guarantee everything." But what if the next time all of the banks say, "Here are all these worthless certificates. Give us the dollars." That *will* happen at some point if they keep using guarantees. Then, all of a sudden, the currency simply collapses overnight, as in France. I think that's coming.

Looking back at historical crises, you don't usually see what we had in the 1970s, which was a nice parabolic ten-year movement of gold's price with inflation. Usually gold goes along at a very steady level, then one day or over a weekend, it opens 50% or 100% higher.

A Federal Reserve Note "dollar" is a unit of liability of the Federal Reserve, and it's not possible that a liability on a balance sheet can be worth more than the assets backing it.

I think today we're in more of a 19th century debt problem, not a 1970s Keynesian Phillips Curve problem. The 1970s were driven by this absurd idea that the more inflation, the lower unemployment. So, they just printed money to squelch unemployment. It didn't work, but it did deliver a slow burn, accelerating inflation over ten years. Still, in a debt crisis like today, gold's price tends to change in big *steps*.

Look at modern hyperinflations. Russians will tell you that one day a cup of coffee cost 5 rubles and the next day it cost 50. Prices changed very, very chaotically and radically.

When gold is not going anywhere, gold investors get nervous, but I don't. You can't expect it to go up $10 a day over 20 years. However, you can expect it to go nowhere or even down sometimes, and then one day you wake up and it's doubled.

Moneychanger I've been buying & selling physical gold and silver since 1980. There have been long periods when it was *not* a good business because gold was on the opposite side of the cycle. Even since 1999 - when gold bottomed—it's taken a lot of patience. Investors have to realize they're waiting for the few days of discontinuous rises.

Oliver That's right.

Moneychanger If you concentrate on gold's day-to-day, you'll likely wind up depressed. But every now and then, it doesn't work that way, like gold stocks in 2016.

Let me just go back to something you just said - And the same thing would have applied to Germany.

Oliver Look at the gold price in Weimar Germany—in the middle of the hyperinflation. You say, "How easy." Gold goes up all the time, but as the inflation accelerates, the volatility grew, too. People would say, "Why, this is easy. I'll borrow a bunch of money, buy a hard asset like gold, and then inflation will wipe away my debt."

That's a great plan unless the volatility is enormous and you get a margin call that

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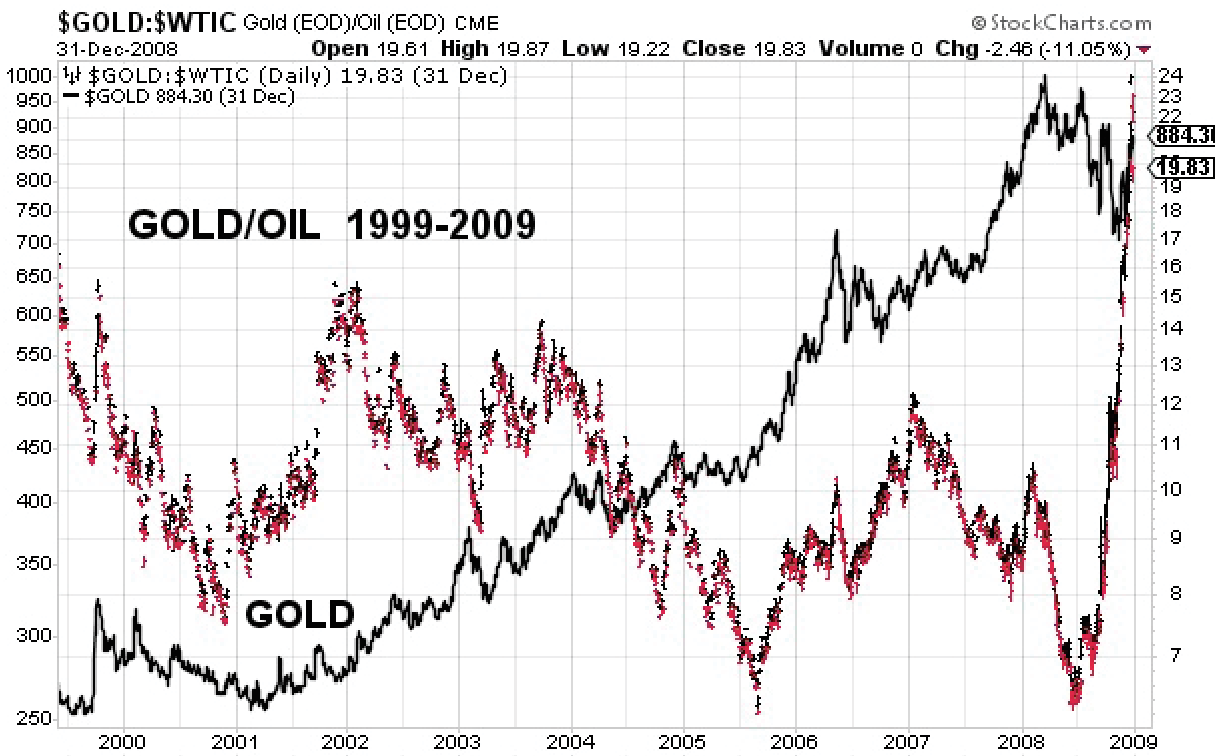

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wipes you out—*then* gold takes off. Even in a hyperinflation it wasn't obvious how to trade this stuff. To trade gold in and out you need to be at a bullion bank where you can watch the capital flows. If you're trying to do it from your living room, it's tough.

Moneychanger Is it really possible that the US dollar would be hyperinflated? Think of Germany in 1910, the greatest economic power in Europe with the soundest currency—probably sounder than the British pound. How could it ever hyperinflate? Is it really possible that the US dollar could hyperinflate out of existence? You understand what a *gigantic* social and economic dislocation that involves?

Oliver It's theoretically possible. Before that happens, though, they'll shut the banks down and pull out another "tool" of credit collapse that you always see—Resolution Trust Companies.

Banks are trapped by "maturity transformation." They always borrow short-term and lend long-term. A depositor puts overnight funds into the bank and the bank says, "You can get them any time you want." Then they lend ten times the amount through the fractional reserve process *for 30 years* to build ships and buildings nobody wants.

The bank congratulates itself, "As long as depositors don't show up to get their money, it's fine." Well, that's not quite true, because the borrower built an asset for which there is little consumer demand, so prices fall, and then the malinvestments can't make their debt payments, and it's actually not fine. When the overnight depositor shows up to withdraw his deposit—it ain't there.

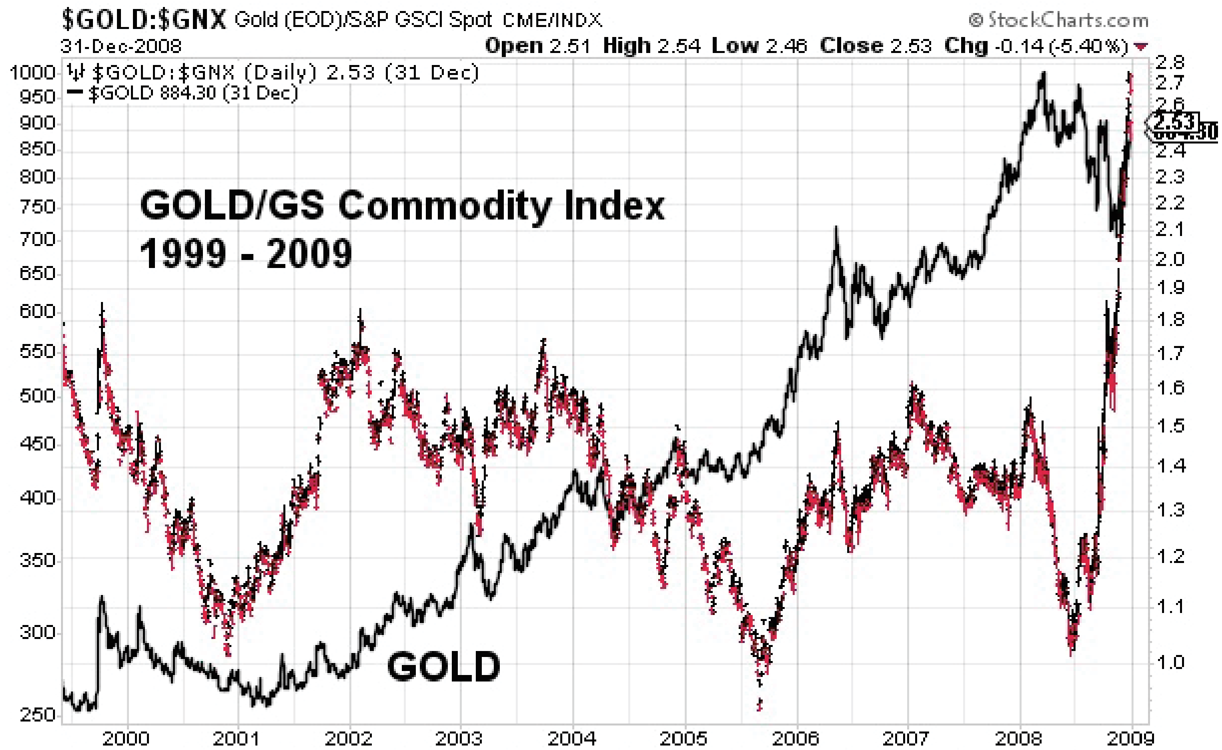
The banking system, including the Fed, has two choices: print the money so they can pay depositors, or admit default: "Hey, you've lost all your money." Instead of admitting default, they create these "Resolution Trust Companies,"

Moneychanger What I call the "garbage can" to get all those rotten loans off the banks' books.

Oliver Like the no-good assets the bank financed, which the bank will foreclose on, sell off over four or five years, and then give you the proceeds. And if you had a $100 deposit in the bank, you end up getting $30 or $20. Maybe, though, after all the fees and the lawyers get paid, you take home only $15—four years later.

This prevents a hyperinflation because the Fed doesn't print money and give it to depositors, but it does mean depositors get wiped out. It's the Cyprus solution, but not just Cyprus. John Law did it in 1720 when his system collapsed and so did FDR.

I think this is more likely than a hyperinflation—just closing the banks. Of course, all the insiders will get out first before the doors close. Then they'll do some populist thing and Trump is just the guy to do it. He'll say, "Look, everyone with a deposit less than $10,000 is fine, but people who have over $100,000, 'the so-called rich, won't be paid."



But, if they do something crazy like the 2008 guarantee for the banks, and they may well do it, it would be disastrous. Then, you really could see hyperinflation because there are just so many deposits out there. Or maybe they issue the guarantees and then just not pay. Either way the dollar will suffer a huge decline.

What is a dollar? A Federal Reserve Note "dollar" is a unit of liability of the Federal Reserve, and it's not possible that a liability on a balance sheet can be worth more than the assets backing it for long.

What assets are backing the Fed's liability? A little bit of gold— seven percent at current prices—and then mostly very long-term government bonds. The average bond maturity is now 12 years, which means those assets are very sensitive to interest rates and also default risk. The rest of the Fed's assets are those extremely toxic mortgage-backed securities.

One of the fun things about mortgage-backed securities is that when rates are falling everyone refinances, so the duration of the bonds is very short. But when rates are rising nobody refinances. So they not only lose value because rates rise (bond values go down), but your duration risk increases at the same time.

Right now the dollar is caught in a short squeeze the same way that the Athenian peasants were caught in a short squeeze when they owed the nobles 110 drachmas and only 100 existed. There exists $4 trillion worth of base money and $90 trillion of debt, which requires interest payments all day long. That demand keeps the dollar's value quite high, because if you don't have dollars, you can't make interest payments and you lose your assets to the bank.

Once that squeeze breaks, the dollar can fall to a level that is supported by the Federal Reserve's assets' value. Historically, looking back at the Fed and the Bank of England to 1704, gold has backed the liabilities of the dominant country's bank by about a third. Using that measure, the equilibrium value for gold ranges from $5,000 to $8,000 an ounce. However, that's in the context where the other assets—government bonds and commercial paper—were very solid instruments, which is not the case today. So the real equilibrium price is a bit higher, probably $12,000 to

$15,000 an ounce.

Moneychanger I have to complement you on that analysis. You put it in one or two sentences in one of your recent reports, and I was stunned. I know that the Federal Reserve note is the Fed's liability and must be backed by assets. Of course, we talk about gold backing, but I never had pondered the effect of interest rates on the other asset values and when they fall, that drives down the dollar.

Oliver That's right. When you think about the Great Depression, the Federal Reserve's balance sheet in 1929 was 50% gold. The other assets were 30 to 90 day commercial paper with almost no duration risk at all, and their government bonds were very short-term, maybe a year.

When the 1970s began the percentage of gold backing the Fed's liabilities was 10-13%. The government bonds on its balance sheet – there were no more commercial bills– were relatively short term, around four years. Interest rates rose the whole decade crushing the bonds and sending gold to a price that made the hoard at the Fed back its assets by 100%.

Today the average maturity is more like *twelve* years. What's the point? The bonds on the Fed's balance sheet are vastly more sensitive to interest rates now than they ever have been. That's why I think when things really get going and the dollar breaks, it's going to be fun for gold, more fun even than the 1970s

Moneychanger How long can this last? After 2008 I was frankly astounded at the ability of the Fed and the government to put off a collapse. They were very successful. They're very clever people. They've got all the money in the world to hire clever people to work for them to try and make things work out, at least till the end of the day. So how much longer can this go on?

Oliver That is *the* question.

Throughout the 1970s Hayek was warning that it was all going to blow up and collapse. In the late 1970s he wrote that he had misjudged the timing because under the gold standard a credit bubble can only go so far. When it became obvious that there was too much credit the thing collapsed. This kept credit and lending in the right proportion. But in 1971 they essentially abolished the gold standard and Hayek didn't anticipate how much longer a credit bubble could survive without gold anchoring the system, though he knew it had to collapse at some point. Here we are again, in the next round, but only paper backs the paper.

In 1980, when gold hit $550 an ounce the Fed's balance sheet liabilities were 100% backed by gold. That was not a good time to be buying gold because the dollar was effectively a representation of gold itself. The Fed pushed interest rates over 20% to squeeze all the credit they could out of the system. That ended the 1970s credit bubble and began our current credit bubble.

The current bubble has gone on much, much longer than any bubble in history because we're on a *fiat* currency standard. You're right: very clever people run the Fed with huge resources behind them and they manage it very well. Unhappily, they are—and will be—victims of their own success. The longer and the better they're able to keep the rotten investments and the overcapacity alive and encourage even more overcapacity, the more pressure builds for a crack up.

I am amazed it's lasted long as it has, but ask yourself, "How many more ghost cities can the Chinese build? How many more fourth ring loops around secondary cities can they build before they starve to death because no one's growing food anymore?" We're long overdue.

Now interest rates are effectively zero, but if they raise interest rates, these bad investments simply can't afford to pay a higher rate and you have $600 trillion of derivative interest rate swaps which become unbalanced as rates go up. That's problem number one.

Problem number two: if they lower rates to negative as in Europe, then everyone flees the bank system for cash. This does unwind the pressure mechanism, because all the depositors start thinking, "Give me my cash back."

In Switzerland last year I went to an old Swiss army bunker that a private company has rented out. They were filling it up with safety deposit boxes, mostly for Germans bringing cash. They drive cash into the country because the banks are now charging them to hold cash.

We're at a point where it's not obvious to me how to keep this thing going for very much longer. But, as you pointed out, markets are a humbling thing.

You can never be too certain of anything. My view was that the big Chinese stock market hiccup in 2015 marked the cycle peak and now we're shooting down the other side. It is taking longer than I anticipated, but nothing—not even Trump's victory on a global scale—has happened to dissuade me from the view that credit is still shrinking. Industrial production, global trade and many other metrics are all contracting. How do banks expect people to keep up interest payments if trade is literally shrinking?

We are in the contractionary period, which will accelerate, assuming the Fed doesn't ease things. However, there's no political cover at the moment for the Fed to do a big QE. We have to experience a really big crash first before Trump will say, "Hey, I was just kidding! Let's do a QE."

In 1970 Nixon put Arthur Burns in charge of the Fed, and Burns did exactly what Nixon wanted, which was to lower interest rates. Hoover did the same thing. Lincoln did the same thing. And Henry Clay, if you go all the way back to 1819, was instrumental in getting the Second Bank of the United States—our previous central bank—off the ground to fund internal improvements in the US.

Trump's strategy is nothing new. It has been tried over and over again to try to reinflate contracting credit bubbles, and it always ends in disaster. It will this time, too.

Moneychanger But people are like geese in a new world. They know nothing about history, they don't see the repetition. Trump is offering the same tired nostrums that have *never* worked.

Oliver I was at a meeting in September where academics gather and talk about economics. You know what was odd? Not a one of those scholars writes economic history. Econ departments are all math and mathematical models. History departments teach economics through the prism of racism or colonialism or whatever the latest ism happens to be.

There's no demand for economic history, so no one writes it. I'm writing a book on the economic history of credit bubbles because I'm driven by the topic, but if I was trying to win a professorship somewhere, I wouldn't write this book. There's no concept of history in colleges.

I'll share one of my favorite anecdotes. One of the Roman historians talks about the Panic of A.D. 33 in Rome. Have you ever heard of the Panic of A.D. 33?

Moneychanger No.

Oliver No one ever has. According to Tacitus: "But now ...[because of] a stringency in the money market ...creditors demanded payment in full, and those upon whom the demand was made could not, without losing

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— Current Market Projections —

THE WORM TURNS

Donald Trump's election spawned visions of sugarplum profits dancing in Wall Street investors' heads. Yea, he would cut taxes and spend money and run big deficits, and better yet, remove regulations from the Big Banks so they could go back to speculating with customer's money. All this would raise interest rates and strengthen the dollar.

But dawns the day, the sugarplums vanish with the fairies. Now that Trump has been inaugurated, he must deal with realities. The overarching reality is the credit cycle Daniel Oliver discusses in this issue. America and the world stand atop the biggest credit bubble in history, with all the economic disaster that promises, and Trumps answer is? Do more of the same. 'Tain't clear to me how this will cure anything, except for those directly benefitting from Trump's plan, namely, Wall Street. To the list of economic woes we may add hugely overvalued stocks markets and rising interest rates after 35 years of suppressing them.

More, before he can bring in any new horses, Trump must clean the Augean Stable Obama left behind, starting with Obamacare. Tax cuts? Takes a year at least before those can work through congress' hands, and likewise new spending.

Sure, sugarplums might keep investors dancing until they drive stocks to even higher levels, but the hammer of financial crisis is raised, and will smash them flat. Our job is to keep our eyes on the long term, and not get seduced by a passing bubble, no matter how the mob loves it.

DOW IN GOLD

Chief foreteller of how metals and stocks will perform is the trend of the reliable Dow in Gold (DiG), the Dow divided by gold. The Trump stock rally simultaneously slammed gold, boosting the DiG straight up. It reached higher than the December 2015 peak (16.85 oz) and ran to 17.62 oz. Will the breakout continue higher, or is it a false signal marking a double top and a dim future for stocks against gold?

Place this question against a DiG *peak* in 1999, which launched a bear market for the DiG that will *not stop* until it reaches previous historic lows at one to two ounces (*cf. 1896 one oz., 1904, two oz., 1932 two oz., 1980 one oz.*).

Since that December 2016 top, which fell almost exactly one year from the December 2015 top, the DiG has tumbled through its 20 day moving average, support from the December 2015 high, and now is trying to fall through the 50 DMA. Whether it falls through the 50 DMA immediately will tell us about the longer term direction, but after a 5-1/2 year downward correction, it appears the Dow in Gold has once again turned down. With a double top to prove it. If that's so, 2017 will be a hard year for stocks but a bright year for gold.

STOCKS

After a skyscraper rise, stocks are decaying internally. They have been rolling over in megaphone top, also called the Jaws of Death. Momentum indicators point down. Market proverb says, "As goes January, so goes the year." On 19 January the Dow industrial & the Russell 2000 had fallen far enough to wipe out all their 2017 gains. Watch January for monthly closes lower than December.

For 2016, thanks to the Trump rally, the Dow rose 13.4% and the S&P500 13.4%. Sounds great until you learn that the four major gold stock indices rose from 45% to 74%, *even after* their losses since July. Silver rose 15.7% for the year and gold 8.5%.

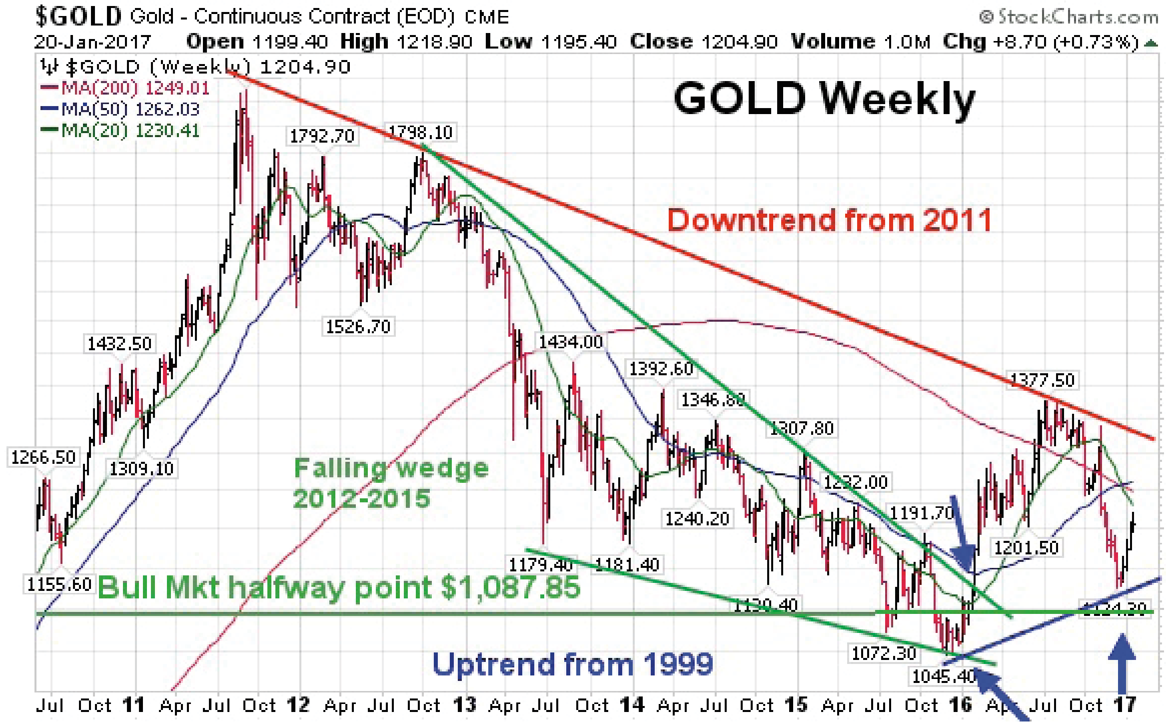
I understand that the most difficult job in the world is to push against the crowd, and the crowd now all believes that the Dow will hit 23,000. Maybe so, since empty enthusiasm can drive market higher than we expect. But a devastating stock rout will hit this year, probably before the first quarter ends. *You ought to take this opportunity to convert stock profits into gold or silver.*

GOLD

Where in the world is gold? Look at a bigger roadmap, this gold *weekly* chart. It is a market turning up.

Behold: In July gold bumped against the downtrend from 2011, for the first time since 2012. Beginning late in 2012, gold formed a falling wedge (outline din green), which usually resolves to the *up*side. Before that wedge resolved early in 2015, it punctured the uptrend from 1999, a bad sign.

Yet gold redeemed itself after a $1,045.40 low in December 2015 (blue arrow). It rallied strongly in 2016, punching through the top falling wedge boundary (blue arrow). Then it rallied up past its 200 day moving average (first time since 2013) to $1,377.50. No surprise that it took a breather there for a correction,



which bottomed in December 2016.

That second, higher bottom—the bottom of the first correction after a rally off the low—is the *lowest risk buying spot at any stage of a market*. It corrected back to $1,124.50, and has since rallied off that low through $1,200. Gold is shouting, yes, December 2015 did mark the low, and now having corrected and found its feet *and rallied*, gold is beginning its next great leg up. Remember that gold rose 7-1/2 times in the first leg from 1999 to 2011. This next leg will *exceed* that performance.

Multiply the $1,045.40 low times 7.5 and the *minimum* target is $7,840.

Wait, this is not pie in the sky. After a 3 – 5 year mid life crisis, bull markets' second leg up tends to *out*perform their first leg up. The Dow from 1982-1987 grew 3.76 times. From the mid-life crisis intraday low in 1987 stocks grew 7.24 times by 2000. Silver from 1960 to 1974 increased 4.85 times, suffered a midlife crisis nearly five years, then came from that

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Our job is to keep our eyes on the long term and not get seduced by a passing bubble.

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low to multiply 13 times. From 1960 to 1974 gold grew 5.6-fold, but languished until 1978. From that crisis low it grew 7.6 times by 1980 ($112.30 to $850).

Presently to continue rallying gold must stay above $1,200 and march through $1,233 and then conquer the 200 DMA about $1,270. At $1,325 gold crosses the downtrend for 2011 and will reach escape velocity. Mighty enough to push it through $1,377.50.

Mark also that the bull market halfway level of the 1999 – 2011 rally is $1,087.85. Think of it as the fulcrum of a see-saw. Momentum is up when gold is above that level

In physical gold the Austrian 100 coronas and Mexican 50 pesos offer a nearly $40 price advantage over American Eagles. If we can find them, the US $ and $10 commemoratives are ridiculously cheap. Ask for them.

In plain English: *buy gold.*

SILVER

Silver's 6-1/2 year chart presents a picture much like gold's. Both traced falling wedges, both punched up out of those wedges in January 2016, but silver's breakout was stronger because it cleared the downtrend from 2011. After the breakout it rallied until July and barely penetrated the 200 day moving average and the uptrend line from 2001, below which its long correction had dragged it.

From that July high silver retreated into a December 2016 low at $15.68. Now it has rallied off that low and begun another leg up. Silver bottomed in December 2015, rallied, corrected to a bottom, and now has begun to rise again. *This is the lowest risk buying point any market offers.*

In the short term silver must clear resistance at $17.25 and keep advancing. Minimum target here is *above* July's $21.23 high, maybe even a close above the $26.32 bull market halfway point.

In December wholesalers were cutting their prices even on 100 ounce bars, whish suggests they bought a flood of silver. Great news for us, because that offers a contrarian signal of a low. When selling maxes, a bottom occurs.

Lowest cost silver right now is 100 oz bars, but they are only a dime an ounce cheaper than US 90% silver coin, which I much prefer for its divisibility. Silver rounds are a nickel or dime an ounce higher than US 90% coin. *Buy silver.*

US DOLLAR INDEX

Big question is, will the dollar keep on rallying to 106, or did Trump's election spawn a fake-out breakout?

Since mid-December the Dollar Index has formed a Megaphone Top, and the last six days has been tripping over support at 100.70 and the bottom megaphone boundary. It remains below its 50 day moving averages, which argues that it will drop at least to 99, maybe lower, soon. Then we will see.

— F. Sanders

Dear Readers,

I've been thinking about fertility. How come if you plant tobacco or cotton or coin, a cash crop, year after year you soon exhaust the soil, but Johnson grass or perilla mint can thrive perpetually on the same spot, and even spread?

Three years ago Susan babied and nurtured some tepin pepper seeds to germinate. (Also called Chiletepin, *capsicum annuum var. glabrisculum*.) She shepherded and guarded that tender plant, and kept transplanting it. Remember, peppers are perennials. After three years it landed in a three gallon pot, and we kept it on the deck at our office. It was loaded with little peppers about twice the size of a BB, and *hot*, according to your source 50 – 100,000 Scovile Units or hotter. Susan loved them right off the bush, with food, of course.

We were enjoying the peppers every day, but then they started getting scarce. This was a mystery, because the tepin is exceedingly productive and always covered with blooms.

One day looking out my office window I noticed that a mockingbird kept flying into the tepin bush. Eating the peppers. He had eaten nearly every one.

Must like hot stuff, that mockingbird.

Now I'll turn y'all over to my son Justin for the report from the Top of the World Farm.

BRAVING THE COLD

We have a barn that's in terrible shape. It's literally been slowly melting and dropping pieces for years, and I haven't been able to justify dumping thousands of dollars into it only to store hay three or four months of the year. So, I've allowed it to "age gracefully." But this decision limits my ability to store hay in the barn, at all. It still has its dry spots inside, but they get smaller every season.

Enter Danny C. His farm is literally in sight of ours, he raises high energy grasses (C4s to the layman), and cuts them for baleage. We call the result of his work 'field worms' because his white plastic wrapped round bales look like giant, white worms stretched out across a field once he's done wrapping them. And he had plenty of hay for sale this year! (Think of baleage as "hay sauerkraut.")

When I found out, I couldn't have been happier. By buying his hay I wouldn't have to pour any money into our dilapidated shack of a barn and I would have wonderful hay

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BULLION PRICE UPDATE

AftMkt	Friday		20-Jan-17		DiG$
Gold:	1,204.30	DJIA	19,827.95	94.85	$340.35
Silver:	16.997	S&P	2,271.31	7.62	
Ratio:	70.85		DJIA/GOLD:	16.46	oz.
Plat	972.20	FINE	WHOLE-	WHOLE-	PREMIUM
Palldm	787.70	METAL	SALE	SALE	OVER
DJIA/Ag:	1,167	CONTENT	BUY	SELL	CONTENT
AUSTRIA 100 cor.		0.9802	1,174.50	1,183.50	0.3%
20 corona		0.1958	234.60	237.60	0.8%
4 ducat		0.4438	531.80	538.30	0.7%
1 ducat		0.1106	132.55	135.40	1.7%
BRITAIN sov'rn		0.2354	285.60	298.60	5.3%
CANADA Mpl Leaf		1	1,214.25	1,228.25	2.0%
1/10 ML		0.1	127.65	131.25	9.0%
FRANCE 20 francs		0.1867	224.85	230.85	2.7%
SWITZ 20 francs		0.1867	224.85	230.85	2.7%
MEXICO 50 peso		1.2057	1,444.50	1,455.50	0.2%
20 peso		0.4823	574.45	583.85	0.5%
10 peso		0.2411	287.15	293.35	1.0%
5 peso		0.1206	143.65	149.45	2.9%
2.5 peso		0.0603	72.35	74.80	3.0%
2 peso		0.0482	58.70	60.45	4.1%
S.AFRICA K'rand		1	1,216.35	1,226.25	1.8%
1/2 Krugerrand		0.5	614.20	620.20	3.0%
1/4 Krugerrand		0.25	301.10	310.10	3.0%
1/10 Krugerrand		0.1	120.45	126.45	5.0%
Two Rand		0.2354	280.65	287.50	1.4%
USA $20 gold pieces, pre-1935:					
St. Gaudens MS62		0.9675	1,205.00	1,265.00	8.6%
Liberty MS62		0.9675	1,210.00	1,270.00	9.0%
St. Gaudens MS61		0.9675	1,200.00	1,260.00	8.1%
Liberty MS61		0.9675	1,195.00	1,255.00	7.7%
rawSt. G. MS60		0.9675	1,190.00	1,250.00	7.3%
rawLib. MS60		0.9675	1,185.00	1,245.00	6.9%
St.G XF		0.9675	1,175.00	1,230.00	5.6%
Liberty XF		0.9675	1,170.00	1,225.00	5.1%
USA Buffalo		1	1,214	1,264	5.0%
USA American Eagle, post-1985:					
Amer. Eagle		1	1,242.30	1,264.25	5.0%
1/2 Amer. Eagle		0.5	619.70	634.05	5.3%
1/4 Amer. Eagle		0.25	315.85	323.65	7.5%
1/10 Amer. Eagle		0.1	126.35	131.85	9.5%
GOLD BULLION		1	1,204.25	1,216.25	1.0%

	FINE METAL CONTENT	WHOLESALE BUY	WHOLESALE SELL	PREMIUM OVER CONTENT
PLATINUM Englhard	1	972	982	1.0%
Noble	1	987	1,017	4.6%
Koala	1	982	1,012	4.1%
Maple Leaf	1	987	1,007	3.6%
Amer. Eagle	1	1,032	1,092	12.3%
***				
SILVER, US COIN:				
90% coin,$1000bag	715	12,189	12,475	2.6%
40% 1/2s,$1000bag	295	4,822	4,972	-0.8%
Dollars,$1000 bag	765	26,500	28,500	119.2%
Silver Am.Eg.	1	18.50	20.00	17.7%
SILVER BARS & COINS, .999 FINE:				
Engelhard/plastic	100	1,690	1,715	0.9%
Miscellaneous	100	1,700	1,710	0.6%
Eng. or JM	10	171.47	176.47	3.8%
Misc. rounds	1	17.25	17.55	3.2%
Can. Maple Leaf	1	18.00	19.50	14.7%
***				

PLEASE READ THIS FIRST!

1. **All prices are wholesale. Add 3.5%-2.5% commission plus shipping when applicable.**
2. **Not all the gold coins listed are always available, e.g., Austrians, fractional Krugerrands, Mexicans.**
3. **Fractional gold Maple Leaves are available & priced as American Eagle fractionals.**
4. **Small quantities subject to surcharge.**
5. **US$20s MS-61or better are PCGSorNGC (our choice) certified ("slabbed"); MS-60 & below are not slabbed.**

from **OLIVER** *page 7*

credit, fail to meet their obligations. So they ran hither and thither with entreaties, then the praetor's tribunal resounded; and the purchase and sale of property, resorted to as a remedy, worked just to the contrary ... the more heavily burdened any one was with debt, the harder he found it to dispose of his property . . . and many were ruined in their fortunes." Classic margin selling. Then, as Tacitus tells us: "Tiberius Caesar came to the rescue, and deposited 100,000,000 sesterces in banks, the debtors having the privilege of borrowing for three years, without interest, on giving landed security to the state for twice the amount of the loan."

This is precisely what TARP was, no interest loans against mostly real estate collateral to stabilize the money market – nearly 2000 years ago! I've never heard anybody talk about this. It's extraordinary that Tiberius Caesar designed TARP and these modern central bankers and governments arrived at the same conclusions. It has all happened before, and in the same ways, but nobody reads history.

MONEYCHANGER There's a predictive value to that, too: the trajectory of the crisis is fixed. Details change, not the trajectory.

OLIVER That's true. And interestingly enough, the Roman currency, the denarius, was 98% silver and had been for two centuries. A.D. 33 marked the moment when debasement began and eventually the Roman Empire collapsed in a.d. 476 mainly because of hyperinflation. It took several hundred years because the capital turns over only once a year in an agrarian society as opposed to several times a year in an industrial society.

Why did they debase the currency? Because it seemed so easy to simply put more money out in the market and solve all your problems.

MONEYCHANGER I cherish the foolish hope that the 150 year era of central banking is coming to an end. The crises are increasing in amplitude and frequency. Will it all end by the restoration of some gold-backed money?

OLIVER That's an odd question, because in a certain way, the central banks are more powerful than they've ever been, but it's a good question because the next crisis can tread two paths, freedom or tighter control. Does it get so huge that they just let the system collapse and move on with free markets?

When the Allies occupied Germany in 1945 they kept all the Nazi economic controls in place, even though the war had been fought *against* National Socialism. Worse yet, they increased draconian controls until the economy completely collapsed. Within the German government there was a big fight over whether they should control even more or let the controls go? They let them go.

Jacques Rueff and other observers wrote that the recovery was almost immediate, that even people who favored markets were amazed at how quickly the economy recovered once the controls were removed.

Another option is to tightening control by adding *more* price controls. The Emperor Diocletian (a.d. 244 – 312) published hundreds of pages of price controls on thousands of items, including lions bound for the Coliseum. If you sold something above that price, the penalty was death. Of course it didn't work but it did destroy the economy and the middle class.

Banks are trapped by "maturity transformation." They always borrow short-term and lend long-term.

What happens now with the state so powerful? All of us depend on electronic things and they're all traceable. They're probably recording this conversation because they record everything. If from here the state becomes more totalitarian it will wield extraordinary power.

Do we go down that route where some sort of Hitler figure keeps the trains running on time? Hitler had a great line: "We will build a solid State, proof against crises, without an ounce of gold behind it. Anyone who sells above the set prices, let him be marched off to a concentration camp." That's the fascist model, because power is what money is all about.

Is that the path we go down, with a manager having all this power at his disposal to manage the economy Soviet-style or Nazi-style? Or do we let the whole thing collapse and enjoy free markets again?

That's a cultural question. How solid is America today? And I get nervous—you go out and you see every single person covered in tattoos and you think, "Well, that's not a hopeful sign that people are liberty loving, God-fearing, bourgeois people."

It's very simple. The bourgeois mindset is based on the idea that you maximize consumption by saving. With the money that I save now I can consume more in the future. So I minimize my consumption, save money, and discipline myself because I want the future I have already invested in to arrive unmolested.

Under a hyperinflation there is no future financially. If you save your money it all disappears. You are crushed.

So most capitalists refuse to pay into the future. People say, "Why would I not consume everything right now?" It's not by accident that the drug epidemic among inner city blacks arrived in the 1960s. They were essentially prevented from working because with an effective marginal tax rate above 100%, the more they worked, the more they were penalized because those *not* working got all this free stuff. For those working, the free stuff disappeared—no reason for them to work.

Now the drug epidemic is hitting the white working class because of the same phenomenon. As you said, they're virtual slaves, and the have no way to save their wages. Interest rates at the banks are zero, and sharply negative in real terms, the stock market is a casino where they most likely will lose. When people are prevented from savings, they naturally turn to immediate consumption. All this is perfectly predictable as a result of what the Fed is doing.

MONEYCHANGER You've come back around to the point that intrigued me so much: the social transition that credit money power concentration has engendered in the last 150 years. The population has been transformed from bourgeois to employee, or what I would call from entrepreneur/employer to employee.

OLIVER That's right.

MONEYCHANGER That necessarily transforms the mindset of a free man to the mindset of a slave or dependent. Part of the proof of that is that 40% of U.S. GDP comes from state, local, and federal government spending. If you throw in the loans and loan guarantees and all the other stuff, it's actually way more than that. So there isn't any economy, because more than 40% of the people don't produce anything. They depend completely on government for their living.

What scares me about that—even more than tattoos—is those people do not want freedom, because they do not want risks and responsibilities.

Oliver That's exactly right.

Moneychanger To return to free markets, then, requires an enormous and fundamental social revolution.

Oliver You're absolutely right. I live in New York and they have great little neighborhood markets. I used to go to nice little market. Some black guy swept the floor, and I didn't pay much attention to him because people sweeping the floor usually don't have a lot to say. I complained about the prices at one point, and he started explaining about the harvest and where they get the produce from and the prices and I was shocked. This was a little store but the man who swept the floor knew about the business as a business and was learning all the things he would need to start his own business one day. He wasn't just sweeping the floor, he was an apprentice.

Well, a bank-financed Fairway showed up across the street, and then a Wall Street-financed WholeFoods showed up, and my little market was driven out of business. The guys doing menial jobs at Whole Foods, they don't know what the margins are or how the business operates. Their job is to sweep the floor and that's it. And that's why they usually can't improve their status because that's all they do. It's not their fault—they are given no opportunity for apprenticeship.

The small capitalization society engenders responsibility, capitalism, and entrepreneurship. All that disappears when wealth concentrates.

Debt creates very efficient systems. There's no question about that. But it comes at the cost of flexibility, and economists don't see that Amazon is wonderfully efficient, but it's completely inflexible. As your cost of throughput goes down, you can't change things.

Moneychanger A highly centralized economy loses flexibility, so becomes more vulnerable to systemic shocks that take can the whole thing down. A decentralized economy has redundant systems.

Oliver That's exactly right.

Moneychanger I deeply appreciate your time.

Bad Philosophy: The Sad Dogma of Ayn Rand

In 1967, the year I got married—in fact, the very month, December—I was working in St. Joseph Hospital in Memphis. At suppertime I would wander down to the drugstore and browse the bookrack. There I was snagged by a title, *Capitalism, the Unknown Ideal.* It was a collection of essays by Ayn Rand and her disciples. (Alan Greenspan was one. That's how I got hooked on gold.) I bought the book, read it, and began a long, long fourteen-year journey into a barren wilderness away from God.

RAND'S PHILOSOPHICAL FAILURE

Only many years later, after God had made me a Christian, did I grasp Rand's philosophical mistake. Her promotion of individualism—one of her books was *The Virtue of Selfishness*—was actually the prisoner and mirror image of the collectivism she professed to hate, and no solution at all.

The ancient problem that baffled the Greeks was the problem of the one and the many. Which is ultimate, the one, or the many? Unfortunately for Ayn Rand and Karl Marx both, there exists no philosophical solution to the One and the Many, only a theological one. If you fall off the horse on Rand's side of individualism, you create a society of warring individuals motivated only by their own self-interest. Fall off on Marx's side and individuals are also motivated (in the end) by their own mutually hostile self-interest, but under the hypocritical mask of loving the collective.

THE TRINITY

Only within the Trinity can the One and the Many be resolved, because within the Trinity neither the One nor the Many are ultimate. Love perfectly harmonizes the One with the Many, so there really is unity in diversity and diversity in unity. Likewise, in human society only love can harmonize individual and society. Conflict ceases and peace reigns when we "keep his commandments." This—*obedience*—simultaneously defines and spreads love.

THE LAW OF WHIM

Rand's attempt to found ethics on radical self-interest could only fool someone as ignorant as I was back then. Her "ethics" was not only radically individualistic but also radically *arbitrary*. This is always the case with unbelievers trying to create an ethical or moral system: they have no basis for their morality except whim.

Why can we call any act "good"? On what basis? If the individual is the ultimate judge of his own actions, if only the individual "knows good and evil," then morality boils down to personal choice. Clearly, what is "good" for you might be "evil" for me, because no *objective* standard of good and evil exists, only *subjective* individual choices. And if choice is the moral criterion, then Josef Stalin's "choice" to murder 60 million Russians is every bit as "good" and valid as Mother Teresa's choice to feed starving Indians. No outside, objective standard exists to judge those choices.

But Christian ethics is rooted *beyond time and space*, transcendentally in the character of God himself. Goodness does not exist apart from God, but God *is* goodness, so whatever *he* calls good *is* good, and whatever he denounces as "evil" is evil—solidly, unshakably, eternally. Since Christian ethics is grounded in God's character, it offers an outward, *objective* judgement of good and evil, an utterly reliable guide to action.

THE BITTER FRUIT

It makes atheists very angry when you point out to them that no morality is possible for atheists and unbelievers, but the proof is in Ayn Rand's pudding. Her literary works are filled—quite literally obese—with prolix, windy diatribes about "integrity," "morality," "self-esteem," "honesty," "objectivity," and "reality." In fact, personally she behaved despicably. Although she was married, her husband Frank O'Connor routinely left their apartment to give her time and space to commit adultery with her various disciples, a practice shared by her disciples. (That he consented to this

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from **DEAR READERS** *page 13*

for our cattle close by and unaffected by the weather. The catch?

We have to go get it. When we run out of bales (about once a week), we hook up truck and trailer, zip over to Danny's and he loads us up.

Saturday was one such day I'd planned to pick up more bales. We had hay enough for the morning, but would be out for Sunday. Not to fear, I'd made arrangements to pick up Saturday morning and Friday night I'd noticed that an invisible teenager had parked faithful Off-Whitey in my driveway. Since it has a flat bed, it's what we normally use to go pick up hay from Danny. So even though I was a bit perplexed about its arrival at our home, I was happy it was nearby.

When I hopped into Off-Whitey's 12 degree cab Saturday morning, I knew it would start right up because it's not a diesel (engines notorious for poor cold starting). He didn't let me down. All eight cylinders loudly roared to life and I quietly chuckled a bit at those folks that say cold weather makes things difficult. Then I shifted into reverse, pressed the gas and let off the clutch. Wow! With the sudden engine-killing jerk of a first-time stick driver, the truck died.

"That's odd, I thought, I must've not given it enough gas."

So, I restarted the truck, shifted into reverse again, and really hit the gas. This time the engine roared, but the truck backed up maybe—maybe—three inches. I knew there was a back tire spinning on one side or the other because I could feel the vibration and little bumps as it peeled out, but I wasn't moving. So I let off the gas, shifted into neutral and headed to the rear of this monster. Sure enough, there on the driver-side rear wheels, the ground was bare and rutted from the dual tires spinning. The passenger side? Nothing except a tiny, short drag line where the truck had moved but the wheel had only slid.

Rrrrrrrrr.

I hopped back in the truck and tried again. This time I really mashed the gas pedal. Instead of three inches, I travelled all of three feet. Hmm. I then repeated my previous examination and found more of the same.

At this point, I deemed those back dual wheels on the passenger side frozen. Between our two farms lies a large creek, which we must cross often and I suspected that the pre-adults who'd left Off-Whitey in the driveway had crossed the creek just before parking

him. The dripping axle then froze.

There was still hope, though. Across the farm sat our diesel truck, Ramses. Though I was loath to try and wake him, he was my only hope at this point.

Some other individual under five feet tall had left a four wheeler in the driveway—probably after a day of dragging his siblings over the snow at high speeds. But that wasn't important now. I needed a ride across the farm and it was still 12 degrees.

As the picture above bears witness, 12 degrees rapidly drops to negative 6 or 7 when a four wheeler begins to roll down the road. I made it to the other side of the farm, pried my fingers off the hand grips, popped off the seat and peeled the balaclava from my face. I then jumped into Ramses, but as expected, the big diesel wouldn't start. Not only that, it wouldn't even click. Thankfully my truck was parked nearby, at the barn. It roared to life and I pulled over to jump Ramses. Once the cables were hooked to *one* of the big truck's batteries, I sat. There. In the cold.

By this time I was late so I called Danny and rescheduled to pick up later that afternoon—surely the balmy high of 28 that day would allow me to eventually get going somehow.

After 30 minutes, though, I was beginning to lose hope. It's in moments like these that I begin calling my lifelines. On Saturday morning, I now know, all of my lifelines are still asleep and have their phones on silent.

I was too frozen to be irritated at this point. Besides, things were looking up. I'd gotten someone on the phone and he'd arrive in only an hour. Even though I was close to the road, I just curled up in a ball, there, on the snow and whimpered out little, frozen tears until help arrived.

Not really.

Ever the masochist, I hopped back on the fourwheeler, raced to the house again, and tried to free Off Whitey's rear wheels by engaging the four wheel drive. No such luck.

Then I drove the fourwheeler back to Ramses and actually commenced the fetal-position icicle-tear crying there, on the frozen earth. When my savior appeared, I preserved my dignity by acting like I was looking for a lost contact on the ground.

He pulled in we discovered that there was just enough room on the other side of Ramses for my savior to pull in close. When we hooked up cables to the second battery, Ramses suddenly puffed to life. Aha! What a relief! I could finally prove those people who complain about the cold wrong!

I TRIED...

I firmly resolved to avoid the topic, but I simply can't. I promised an article entitled "Scraping our Boots" but that'll have to wait for another time.

Above is pictured our beautiful mother—huge 1980s glasses included—explaining to us the wonders of a cicada shedding his shell on that holly bush in the foreground. No doubt she was elaborating on the wisdom and love of God expressed in this tiny creature of His. I believe this picture was taken July 4, 1985.

Why is it here?

I don't know that Mom has ever been pictured here, and that's probably because she was always the person behind the camera. She was literally the heart of our farm and suddenly passed away the morning of October 11, 2016, three months ago.

If something happened here, she helped plan it.

If something was bought, she argued against spending the money.

If animals were processed, she bought the supplies.

If we were discouraged, she prayed with us.

At her wake our church pianist said to me, “I don’t know what I’m going to do without her. She was my best friend. But I also know there are a lot of people here who considered her their best friend.”

The truth is that people like her simply don’t exist. I’m not saying this because she was my mother—and, yes, I’m aware of original sin—but the defining characteristic of her, the word that keeps ringing in my head, is innocence—selfless innocence. Shortly, she was Jesus walking, talking, laughing, shouting, giving, and hugging to everyone she met.

Now’s she’s with Jesus.

And we are here. I’m sure you know grief in one way or another, and if you’ve been

reading our letters for awhile, you know that you’re getting all of us when you come to our farm, as a customer or friend. Pray now, for all of us, please. Above we are pictured—all seven of us with our Dad—this first Christmas that Mom celebrated in heaven.

P.S. Try to ignore the photo bomber in the background. He has subsequently been sedated and incarcerated.

Y’all stay warm. Winter’s not over yet.

God bless you and yours in 2017 and always!

— Franklin

LISTEN TO THE FAT LADY SING

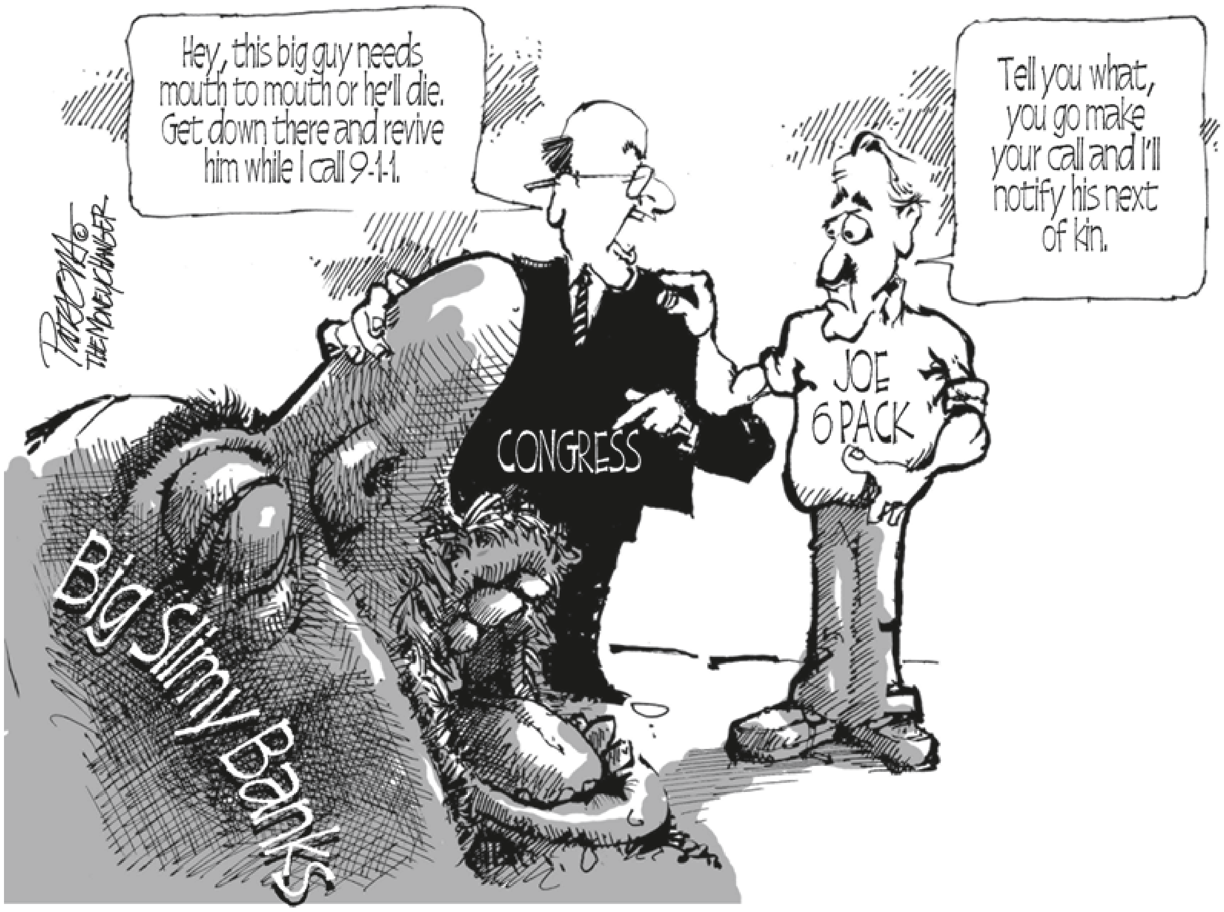
	4-Jan-00	20-Jan-17	% chg frm 1/00	*All-Time High*	All-time High Date	% change From High	*LAST LOW DATE*	LAST LOW close	LAST HIGH close	LAST HI DATE
DJIA	10,997.93	**19,827.95**	80.29%	*19,911.25*	13-Dec-16	-0.42%	*24-Aug-15*	*15,666.44*	**19,974.62**	**20-Dec-16**
DUA	278.51	**658.37**	136.39%	*723.51*	6-Jul-16	-9.00%	*11-Dec-15*	*551.13*	723.51	6-Jul-16
DTA	2,862.17	**9,224.75**	222.30%	9,421.08	8-Dec-16	-2.08%	*20-Jan-16*	*6,625.53*	9,421.08	8-Dec-16
S&P500	1,471.21	**2,271.31**	54.38%	*2,271.72*	13-Dec-16	-0.02%	*20-Jan-16*	*1,859.37*	**2,276.98**	**6-Jan-17**
NasdaqComp	5,457.44	**5,555.33**	1.79%	*5,453.83*	13-Dec-16	1.86%	*25-Aug-16*	*4506.49*	**5,574.12**	**13-Jan-17**
Nasdaq100	3,755.74	**5,063.20**	34.81%	*4,935.88*	13-Dec-16	2.58%	*25-Aug-16*	*4016.32*	**5,063.20**	**20-Jan-17**
US$ Index	100.41	**100.83**	0.42%	*121.02*	2-Jul-01	-16.68%	*24-Aug-16*	*93.36*	**103.29**	**20-Dec-16**
DiSoz	2,061.47	**1,166.56**	-43.41%	*2,566.04*	7-Jun-01	-54.54%	*14-Oct-15*	*884.68*	1,278.47	17-Dec-15
Dow/GoldOz	38.903	**16.464**	-57.68%	*925.42*	25-Aug-99	-98.22%	*25-Aug-16*	*13.74*	16.85	2-Dec-16
Gold	282.70	**1,204.30**	326.00%	*1,888.70*	22-Aug-11	-36.24%	*2-Dec-15*	*1,054.20*	1,888.70	22-Aug-11
Silver	5.340	**16.997**	218.30%	*48.584*	29-Apr-11	-65.02%	*14-Dec-15*	*13.666*	48.584	29-Apr-11
Gold/Silver	52.94	**70.854**	33.84%	*84.330*	17-Oct-08	-15.98%	*10-Aug-15*	*65.017*	83.506	1-Mar-16
Platinum	413.70	**972.70**	135.12%	*2,167.80*	21-Feb-08	-55.13%	*21-Jan-16*	*818.10*	2,167.80	21-Feb-08
Palladium	441.90	**787.80**	78.28%	*1,082.80*	5-Feb-01	-27.24%	*12-Jan-16*	470.35	913.00	2-Sep-14

Bold face *items in "Latest Low" and "Latest High" are new from last month.*

Last major low in Gold/Silver ratio occurred 30 April 2011 at 32.000.

"Latest" high or low means "last significant," not the very last in time.

"Dow/GoldOz" is the DJIA exprest in gold ounces. DiSoz is the DJIA valued in silver oz.



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from **PHILOSOPHY** *page 13*

aggravates, it does not excuse the fault.) She engaged in long, venomous cat fights with former associates, excommunicating them publicly. In short, Ayn Rand was what any goof in the street would call "immoral" and what we would call a "thoroughly unpleasant person." (If you don't want to read all the books and memoirs to prove this, you can find an abbreviated timeline of it at www.noblesoul.com/orc/bio/brandens.html. It reads like the script for the soap opera *Days of Our Lives*.) But isn't that what you would expect from someone who claims to believe she is the sole judge of good and evil, by her choice alone? Seems individualists can no more be trusted than communists.

CURING IGNORANCE

My complete ignorance led to my long sentence in the wilderness. That is, I swallowed Rand hook, line, and sinker without ever testing her philosophy against any other. My pride didn't even know what questions to ask. Only later did I learn that atheism is logically impossible and that the *only* rational and logical philosophy, the only workable approach to life and ethics, is Christianity. It hurt, but better late than never.

The best teacher of how to think died in 1995, the Christian philosopher Greg Bahnsen. In the early 1990s Bahnsen was scheduled to debate atheist Michael Martin at Rhodes College in Memphis. I had graduated from Rhodes, and at the time was living in Memphis. We went to the debate; Martin didn't show up, so Bahnsen literally argued both sides of the debate about the truth of Christian theism. He is devastatingly logical and demolishes the case for unbelief. You can order his books or recordings of his many presentations (MP3 or CD) from Covenant Media Foundation, www.cmfnow.com.

— F. Sanders