the Solari Report

BY CATHERINE AUSTIN FITTS / 3RD QUARTER WRAP UP VOLUME 2016 / NUMBER FOUR

INVESTMENT SCREENING:

Can We Filter for Productive Companies?

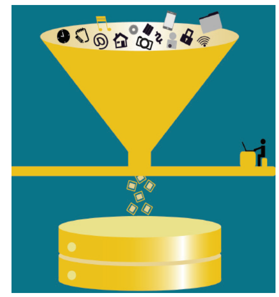
The Solari Report 3nd Quarter 2016 Wrap Up

Investment Screening: Can we filter for Productive Companies?

by Catherine Austin Fitts

Published September 2016 by: Solari, Inc., P. O. Box 157, Hickory Valley, TN 38042 USA.
Designed by Ben Lizardi, Lizardi Communications, Inc.
Visit our website: www.solari.com
ISBN-10: 0-9854251-8-0 / ISBN-13: 978-0-9854251-8-0

Table of Contents

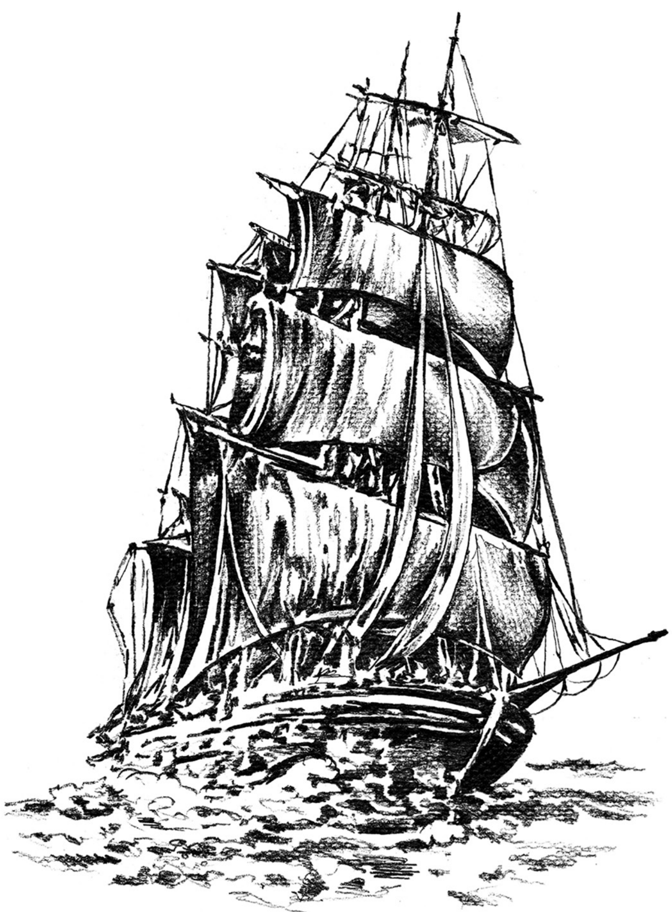


Disclaimer: Nothing on the Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.

NOTE: For additional material available in the online version of this Wrap Up, visit the www.Solari.com website and use the search function to locate the items.

Introduction

"Cut and run or cut-and-run is an idiomatic verb phrase meaning to "make off promptly" or to "hurry off." The phrase originated in the 1700s as describing an act allowing a ship to make sail quickly in an urgent situation... The phrase is used as a pejorative in political language, implying a panicked and cowardly retreat..."
— *Wikipedia*



These six words or phrases at hand capture the essence of the news during the last three months:

1 **Cut and Run.** The signs are significant that insiders are moving monies out of the system. The biggest story of the 3rd Quarter was the announcement from the US Department of Defense Inspector General that DOD had undocumented adjustments for the fiscal year 2015 of $9.3 trillion, or $30,000 for every man, woman, and child in America.

2 **Monica Lewinsky II.** Just as the Monica Lewinsky scandal and the related impeachment proceedings distracted Americans from noticing that trillions were flowing out of the federal government in fiscal 1998, the first year of the financial coup d'état, sensationalism and disinformation related to the US presidential campaign have distracted us from the DOD Inspector General announcement and the related symptoms of "cut and run," including the sale of Monsanto, the divestment by Lockheed Martin of its IT business, phony accounts at Wells Fargo, and the US-German politics related to Deutsche Bank.

3 **Crazy Man vs. Criminal:** In a recent editorial, Peggy Noonan wrote that America's choice is coming down to Crazy Man vs. Criminal. The campaign becomes crazier and more criminal the closer we get to Election Day. One of the biggest losers of the 2016 campaign is the corporate media, of which all credibility is sinking now to a new low.

4 **Constitution:** Can we protect the US Constitution from assaults from all sides? If we want to protect it, we must enforce it. First and foremost, we must insist that monies and assets that have gone missing be identified and returned.

5 **War:** The birthing pains of a multipolar model are upon us. The tensions between the United States and Russia are rising, with negotiations in Syria suspended right after the end of the 3rd Quarter. A global economic slowdown contributes to these tensions. Jack Ma, founder of Alibaba, said it best in the 3rd Quarter: "Wars start when trade stops."

6 **Uncertainty:** The number of future scenarios grows daily. Some days anything looks possible. Each of us must make personal decisions and move forward regardless of uncertainty.

Our 3rd Quarter Wrap Up will be presented throughout October in four parts:

- **News Trends & Stories, Parts I and II.** We begin a fascinating discussion with Dr. Joseph P. Farrell, of the top news trends and stories. In the first week in part I, we will look at Economy and Financial Markets and Geopolitics, including a serious discussion of "cut and run" and the growing signs that insiders are pulling significant money and assets out of the US government and spinning out and cashing out of major investments and liabilities. The following week in part II, Dr. Farrell and I will cover Science and Technology and The Big Questions. Make sure to check the full listing and links on the News Trends & Stories section.

- **Financial Market Roundup:** In the third week, we will combine a written Blockbuster Chartology from master technician Rambus with my Equity Overview. Make sure to see the charts in our Financial Market Roundup section.

- **Investment Screening: Can We Filter for Productive Companies?** Finally, in the fourth week, we present our central and biggest topic. I look at the investment screening industry and ask whether it is possible to filter for fundamentally productive companies. In August, investors in private prison companies found their stock price down by almost 50% as a result of changes in government policies. Wells Fargo stock is down by 18% this year, in part because of a scandal related to falsification of accounts. As the debt-financed growth model comes to an end, investors in companies that are not primarily productive face a new set of risks. As discussed in our 2nd Quarter Wrap Up, productivity growth is essential to a more peaceful, prosperous global economy.

"One of the biggest losers of the 2016 campaign is the corporate media, of which all credibility is sinking now to a new low."

We anticipate an adventurous 4th Quarter at Solari. In October, I will be on the road in Pasadena, Tucson, Austin, a Sunday *Brunch with Catherine in Dallas,* and a week in Boulder with a quick stop in Denver on my return to Tennessee. Best of all, I will be in Tulsa on October 15th for the Launch Party for the Joseph P. Farrell Pipe Organ Crowdfund. You will be hearing more about that when we launch in November. I am back to Europe in late October for several weeks, and then I head to Montana.

Everywhere I go, I have the opportunity to meet Solari Report subscribers. You are a constant reminder of how many wonderful people are in our world.

On behalf of the entire team at the Solari Report, I wish you a free and inspired 2016!

—*Catherine Austin Fitts*

I. Investment Screening: Can We Filter For Productive Companies?

"The ducks are squawking! I must feed them!"
— Luis S. Mendez, Head of Capital Markets, Dillon Read & Co

1. Introduction

After many years of inquiries, I have committed to create an investment screen based on the Solari Model. I have worked on it intermittently during 2016, with plans to offer it in 2017.

The creation of a Solari screen responds to subscriber, client, and colleague requests. Too often, an investor opens a statement, finds a stock he cannot live with, and calls to ask that it be sold. Or the investor worries that he or she owns stock in companies that will not successfully navigate the current environment. Hopefully, these risks can be reduced or avoided if investment advisors choose from a list of pre-screened companies.

The investment community offers countless screening options – the field is crowded. Why create and maintain one more? In part the request for a Solari Screen is in response to risks I cover in the Solari Report. This includes the risks created by:

- Covert cash flows, the black budget, and machinations of the deeper state, including the enormous shift of G-7 capital through the "financial coup d'état" since 1997;
- Changes underway as a result of new technology and globalization, or what I and my colleagues on the Solari Report refer to as the shift from Global 2.0 to Global 3.0; and,
- The end of the debt-financed growth model.

A Solari Screen allows me to integrate these factors into an analysis and underwriting of individual companies, ideally in a manner that makes life easier for an investment advisor focused on picking stocks and timing buys and sells in a manner essential to investment performance – something that a screen in and of itself does not do.

Before I finalize my efforts, I want to look at the universe of screening. I also want to give Solari Report subscribers an overview of this aspect of the investment universe and share some thoughts about screening to help you navigate it.

The Golden Rule, "do unto others as you would have them do unto you," sounds great. However, it breaks down quickly in highly centralized systems that sorely lack financial transparency, particularly for government and covert resources. We are all busily financing genocide and cruel treatment of each other with so much going on that is invisible. As the emperor Vespasian quipped regarding the Roman urine tax, "Pecunia non olet" or "Money has no smell."

Since John Wesley sermonized on the "Use of Money" to the Methodists in 1744, and the Quaker Philadelphia Yearly Meeting (my ancestors, I would note) banned the financing of slavery in 1758, we have been grappling with a necessary financial appendix to the Golden Rule: "Finance unto others as you would have them finance unto you."

As invasive technology leads us into a culture that feels progressively more inhuman, it is worth thinking about how to extend the Golden Rule to the question of "from whom and what we profit."

How do we effectively respond to a world in which "crime that pays is crime that stays?"

What is Screening?

Almost all investments are screened. Common screens include investment characteristics, industry sectors, and location.

A mutual fund, ETF or individual portfolio is typically screened for one or more investment characteristics, such as these:

- Type of Asset: Real estate, commodities or securities
- Liquidity: Liquid (such as securities) or illiquid (such as private equity or venture capital)
- Type of Securities: Stocks or bonds
- Income Profile: Dividends vs. Growth
- Taxation Status: Tax-Exempt
- Size of Company Market Value: Large, medium or small cap

Design for the new Solari One Oz. Silver Coin coming in 2017.

"How do we effectively respond to a world in which "crime that pays is crime that stays?""

Industry sector of the underlying business or organization is also a common screen. A portfolio may focus on one or a few sectors, or may seek balance across all sectors. Morningstar describes 11 primary sectors for its "Morningstar Global Equity Classification Structure:"

Cyclical:

1. Basic Materials
2. Consumer Cyclical
3. Financial Services
4. Real Estate

Defensive:

5. Consumer Defensive
6. Healthcare
7. Utilities

Sensitive:

8. Communications
9. Energy
10. Industrials
11. Technology

As securities markets grow globally, increasing numbers of screens organize around places. This increase includes continents (e.g. North America, Asia, Latin America), regions (e.g. Middle East & Africa), countries (e.g. US Domestic) or areas of economic development (e.g. Emerging Markets). As global liquid markets develop, this permits investors to "trade places" and align portfolios with regional growth rates and geographic contribution to global GNP.

Screens involving the wider impact of a company on society and the environment, as opposed to return to shareholders as the sole financial criteria for performance, are often referred to as ESG screens. ESG stands for "environmental, social, and corporate governance."

Wikipedia: Environmental, Social and Corporate Governance
https://en.wikipedia.org/wiki/Environmental,_social_and_corporate_governance

The "social" encompasses the more traditional socially responsible investment.

Wikipedia: Socially Responsible Investment
https://en.wikipedia.org/wiki/Socially_responsible_investing

Wikipedia: Social Finance
https://en.wikipedia.org/wiki/Social_finance

Depending on classifications, this may or many not include morally responsible investment supported by religious groups, including Christian and Islamic finance.

Wikipedia: Christian Finance
https://en.wikipedia.org/wiki/Christian_finance

Wikipedia: Islamic Finance
https://en.wikipedia.org/wiki/Islamic_banking_and_finance

A deep dive into ESG criteria lands one in a world of complex opinions regarding what is and is not moral or responsible and what an individual company can do about it. Many of these opinions are sincere. Some are motivated by "Soft Revolution" politics being used for a variety of political and strategic purposes.

The application of these opinions works in a variety of ways, including:

- **Positive Screens:** Screens that seek companies, which achieve positive results according to the specified criteria, such as clean energy or women friendliness.
- **Negative Screens:** Negative screens filter out "bad dogs," which tolerate anything so long as it does not include the designated stinkers, which traditionally have included companies that make and market weapons, alcohol, or tobacco.
- **Shareholder Activism:** This screen involves an investor using shareholder status through the proxy annual voting process or other influence with the company and shareholders who lobby for policies such as best practices in governance or employee compensation. Shareholder activism is sometimes combined with positive or negative screens for maximum effect.

Wikipedia: Activist Shareholder
https://en.wikipedia.org/wiki/Activist_shareholder

- Targeted Investing: Targeted investing includes economically targeted investments (ETIs), community investing, impact investing and mission investing

  Wikipedia: Impact Investing
  https://en.wikipedia.org/wiki/Impact_investing

  Mission Investing
  https://www.missioninvestors.org/mission-investing

  In my experience most targeted investing are forms of private equity, venture capital, or other forms of illiquid or restricted investments. Although screens are a positive or negative response to an existing universe of companies or investment opportunities, targeted investing is generally more proactive in creating startups or supporting small or early stage companies and investments.

The word "sustainable" is sometimes applied to some or the entire ESG universe or used as a synonym for ESG responsible investment. I am not quite sure how to explain a working definition of "sustainable." I think the intention is to signify that the impact on the whole is positive – otherwise the system cannot last.

Strategic sustainable investing
https://en.wikipedia.org/wiki/Strategic_sustainable_investing

Perhaps if we achieve fundamental transparency regarding the basic outlines of our real governance systems, governmental and tax-exempt resources, and the nature of the invisible technology and weaponry operating in and around our planet, I might be able to understand what is and is not sustainable. Until then, I will leave it to others to wrestle with a working definition.

ESG Screening: The Size of the Universe

Two recent studies have made a serious attempt to define the size of the ESG universe:

2014 Global Sustainable Investment Review by the Global Sustainable Investment Alliance
http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf

Report on US Sustainable, Responsible and Impact Investing Trends 2014 by The Forum for Sustainable and Responsible Investment and the US SIF Foundation
http://www.ussif.org/trends

The 2014 Global Sustainable Investment Alliance included representatives from Europe, Asia, Australasia, Canada and the Forum for Sustainable and Responsible Investment for the United States.

For purposes of classification for their Review, they emerged a classification of "sustainable investments" to include the following:

1. **Negative/exclusionary screening:** the exclusion from a fund or portfolio of certain sectors, companies, or practices based on specific ESG criteria;
2. **Positive/best-in-class screening:** investment in sectors, companies or projects selected for positive ESG performance relative to industry peers;
3. **Norms-based screening:** screening of investments against minimum standards of business practice based on international norms;
4. **Integration of ESG factors:** the systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis;
5. **Sustainability-themed investing:** investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture);
6. **Impact/community investing:** targeted investments, typically made in private markets, aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose; and

"I am not quite sure how to explain a working definition of "sustainable." I think the intention is to signify that the impact on the whole is positive — otherwise the system cannot last."

7. **Corporate engagement and shareholder action:** the use of shareholder power to influence corporate behavior, including influence through direct corporate engagement (i.e., communicating with senior management or boards of companies or both), filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines.

   – From: 2014 Global Sustainable Investment Review, Page 6

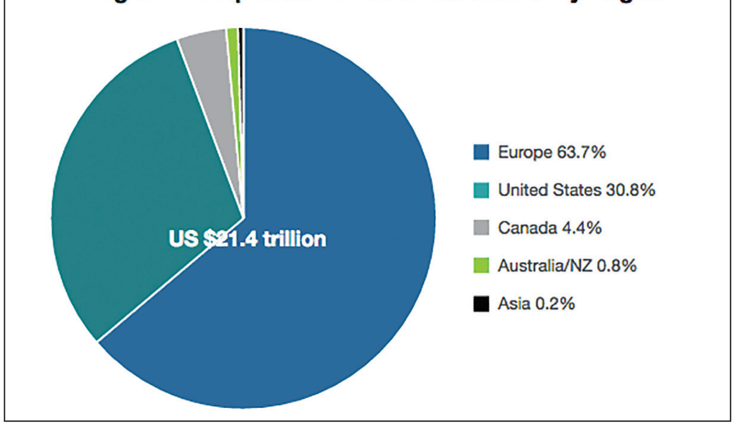
They describe global sustainable assets as rising from "$13.3 trillion in 2012 to $21.4 trillion at the start of 2014." By their classification system, the proportion of such investments has grown to 30.2% of all professionally managed assets in the regions covered:

Table 1: Proportion of SRI relative to total managed assets

	2012	2014
Europe	49.0%	58.8%[4]
Canada	20.2%	31.3%
United States	11.2%	17.9%
Australia	12.5%	16.6%
Asia	0.6%	0.8%
Global	21.5%	30.2%

Source: 2014 Global Sustainable Investment Review

Figure 1: Proportion of Global SRI Assets by Region



Source: 2014 Global Sustainable Investment Review

Table 2: Growth of SRI Assets by Region 2012–2014

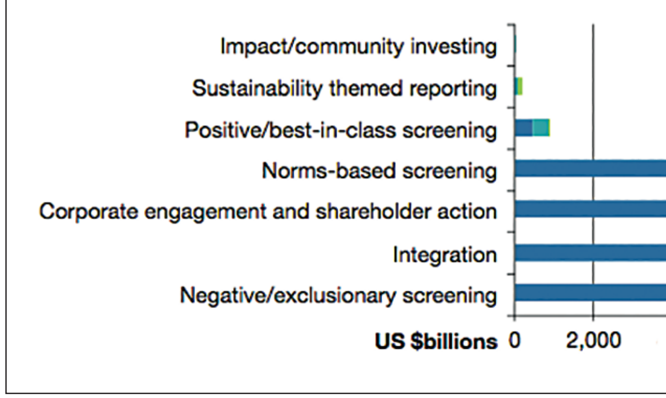
	2012	2014	Growth
Europe	$8,758	$13,608	55%
United States	$3,740	$6,572	76%
Canada	$589	$945	60%
Australia/NZ	$134	$180	34%
Asia	$40	$53	32%
Total	**$13,261**	**$21,358**	**61%**

Note: Asset values are expressed in billions.

Source: 2014 Global Sustainable Investment Review

European investors are the leaders in incorporating ESG criteria. Negative screening and integration of some ESG criteria into traditional analysis represent the predominant ESG global strategies.

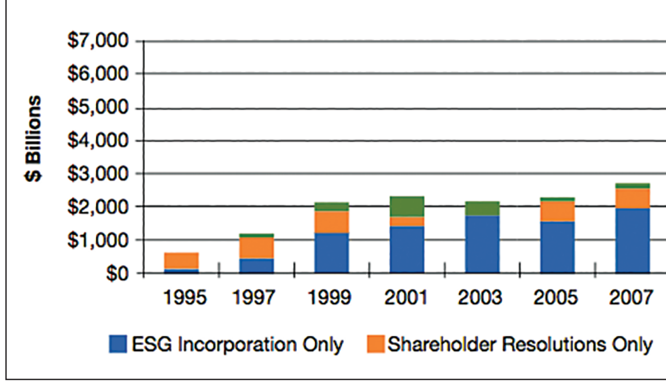
Figure 2: SRI Assets by



Source: 2014 Global Sustainable Investment Review

In 2014, the Forum for Sustainable and Responsible Investment and the US SIF Foundation also published its report for the United States, "Report on US Sustainable, Responsible and Impact Investing Trends 2014" Their report includes a wealth of documentation regarding socially responsible investment in the U.S. They document SRI-managed asset growth in the U.S. as follows:

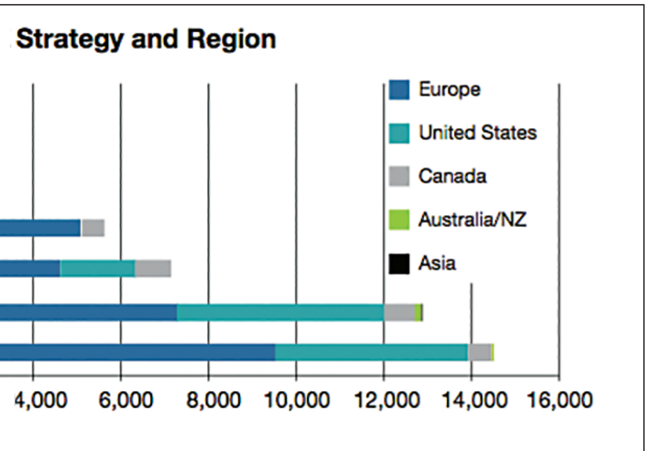
Fig. A: Sustainable and Responsible Investing in the



Source: US SIF Foundation

A birds-eye view of the screening universe indicates that attention to ESG criteria was growing as of 2014. The Forum for Sustainable and Responsible Investment plans to publish their "Report on US Sustainable, Responsible and Impact

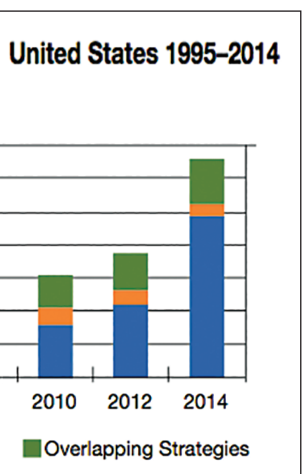
Investing Trends 2016" in mid-November 2016. You can access it on their website at **http://ussif.org.** It will be interesting to see if and how the growth has continued.



The Deeper Issues

One of the challenges faced by investors interested in applying ESG criteria is that you run the risk of "fighting the model."

In our current economic model, "the central banking – warfare model," economics are driven by central bank and government policies that reflect a significant investment in 'control by force and superior intelligence' based on invasion of privacy and individual rights. Central banks and governments are bureaucracies that represent private investors – whether represented by secret societies and/or the leadership of significant intergenerational pools of capital – that are not transparent and enjoy high-margin returns on warfare, financial fraud, and other forms of organized crime. In short, the privilege that accrues to the few who dominate by force and secrecy and enjoy legal immunity represents a significant tax on the general population.



Another way to say this is that the size of the total pie is 'sub optimized' by design. The system goal is to ensure the control and command of resources by an invisible elite. Despite what we learned in economics class or business school, the global economy is not run on a basis designed to optimize the whole. We should beware designing ESG criteria on the assumption that "everyone wants things to work."

We are in a period where new powerful technology and weaponry are being applied with criminal means to serve centralization. They are making the rich richer, but shrinking the total pie, and a growing population is debasing the environment. The reality is, however, that the powers that be can continue to centralize far longer so we can remain solvent, trying to reverse the flow with socially responsible investment.

This reminds me of Reg Howe's excellent opening in his essay "The Golden Sextant," as he described the harm done to the economy and society by fiat currency and unsound central banking practices:

A recent book entitled Good Money touts "SRI" – *socially responsible investing – , or how to do good (socially) while doing well (financially). But whatever the legal currency – dollars, marks, yen, francs, or pounds – in which practitioners of SRI make their investments, they cannot make bad money good. SRI cannot repeal Gresham's law. Properly understood, good money is good, not because of the motives of its owners, but because of its own intrinsic character. Truly good money will produce far more social benefits than any amount of bad money spent with good intentions.*

– Reg Howe, The Golden Sextant

http://www.goldensextant.com/goldensextant.html

Another one of my favorite quotes along this line is from GATA Treasurer Chris Powell: *"fiat currency has done far more environmental damage, than all the mining companies have ever dreamt of doing."*

In both instances, Messrs. Howe and Powell are looking to address the root problem and are concerned that SRI investing runs the risk of addressing only the symptoms. The solution is to bring sufficient transparency to root causes in order to support SRI efforts.

"Fiat currency has done far more environmental damage, than all the mining companies have ever dreamt of doing."
– GATA Treasurer Chris Powell

"One of the reasons I welcome the opportunity to develop a Solari Screen, is that I can use the Solari Report to bring transparency to the deeper issues. Consequently, the two efforts reinforce each other."

In this environment, real change requires addressing (i) fundamental governance structures, (ii) central bank policies, (iii) government credit, spending, regulation and enforcement as well as (iv) actual policies related to transparency of tax payer resources, respect for individual privacy and fairness in the application of the law.

One of the reasons I welcome the opportunity to develop a Solari Screen, is that I can use the Solari Report to bring transparency to the deeper issues. Consequently, the two efforts reinforce each other.

Real transparency is essential to the successful application of ESG criteria. As Robert Axelrod has described in *The Evolution of Cooperation*, individuals and markets will shun criminal players if they can see them clearly. In other words, when we create the conditions of real transparency, then investors will be more likely to shun individuals and companies that behave immorally, unethically, or illegally.

Hamilton Securities & US Pension Funds

When I started Hamilton Securities Group in 1991, I was persuaded that new technology would have a dramatic impact on the circulation of equity capital. We could then finance places and neighborhoods with private equity rather than government investment. Part of the challenge was to determine how digital and information technology could benefit the daily economics of a family, a business, or a municipality. To do so, we started to build databases of government credit and investment as well as software tools, to help us analyze public and private investment at a county and community level and to simulate opportunities to improve performance on both taxpayer and private investment returns.

During this period, we entered into a joint venture with the U.S. Department of Labor to build a database of pension investments that integrated ESG criteria, including economically targeted investments (ETIs). The joint venture included an advisory board of top state, corporate, and union pension leaders. One of our goals was to help the pension leadership make recommendations to the US Department of Labor regarding policies related to ETIs. As we listened to more of their strategic concerns, another goal was to understand what could ensure that the US pension funds achieved the returns necessary to provide for baby boomer retirements, particularly in light of the globalization underway.

One of our conclusions was that government policies needed to change if communities were to be successful – indeed there was an extraordinary opportunity if they did, including for the pension funds. Without such changes, ETIs would simply make matters worse. If government policies were designed to ensure that communities failed, asking the pension funds to lose money in those places was only going to make matters worse. If we intend to destroy a local economy, there is no point destroying additional retirement savings along with it.

I later described this in an article published in 2002:

> *One response to negative government investment returns is to pressure private investors and lenders to step into the breach in communities with economically targeted investments.*
>
> *We need to be careful about asking private investors to dispense with performance standards to subsidize low or negative returns on government investment where that avoids dealing with the real problem and even compounds the real problem.*
>
> *Often the real problem is not that some investors are optimizing too much. Rather, it is either that government is optimizing too little, or some private investors are manipulating government investment and central banking policy to lower total economic returns in order to help themselves inflate their private investor returns in questionable or criminal ways, frequently at the expense of other private investors.*
>
> *Total economic returns are low or negative. The solution may not be to invest more capital at the situation or to take reduced returns. The solu-*

tion may require illuminating total economic returns and dealing with the drain on fundamental economic productivity of "net energy minus" investments and players.

How do we get rid of the people and enterprises that intentionally drive total economic returns into the negative? Better yet, how do we make money doing it? More bluntly, how do we start to price and delete evil from the system? Is this deletion not a better approach then codependent cleaning up in a way that supports and facilitates the continuing existence of evil?

In some situations, more capital investment can break up a monopoly position or shift the state of play in economic warfare. In other situations, however, more capital investment simply subsidizes an already harmful situation. Providing easy access to expensive housing and consumer credit to low-income communities, as a temporary replacement for savings and income, has certainly helped no one save the people profiting on depopulation, gentrification, and fraud at the expense of both communities and global investors.

Fifty years of belief that more capital is always good has produced an economy highly dependent on organized crime, government subsidy, and credit with negative total economic returns. Indeed, the rise in organized crime and the proliferation of ETIs are connected. A review of the website for the Federal Reserve Bank of New York will show a series of community investments. Any reasonable estimate of the organized crime and corrupt government credit and subsidy flows that "run" (or disappear) through these neighborhoods would bolster the public relations logic of "doing good" with a tiny trickle of the potential profits.

ETIs essentially function as bribes or payoffs that cause more damage in a place by moving it even further from fundamental economics and real productivity. This truth may hurt. However, it is impossible to sustain a positive total economic return without it.

In addition, ETIs are also used to promote the brand and social respectability of dirty players, thus moving us away from the conditions necessary for "tit for tat" players to emerge as those who attract capital. Crime pays. It is socially respectable.

Finally, ETIs are also used as a way of shutting off capital to local players. In 1999, I had lunch with the general counsel to the chairman of an important Congressional committee overseeing community development. He told me in no uncertain terms that my ideas for providing small business access to equity capital would not be permitted. In fact, the only capital that would be allowed to flow into minority neighborhoods would go through national not-for-profit tax shelter pools. [CAF Note: these investments were often marketed to SRI funds] This preference meant that small business people would be shut off from access to credit while do-gooders "helping" the neighborhood would be granted a monopoly position.

ETIs, in short, were being used as part of a toolkit to control and manipulate the cost of capital within a place at the cost of honest small business people and ethical entrepreneurs."

I described our last report to the pension fund advisory board in 1997 in my online book *Dillon Read & Co Inc. and the Aristocracy of Stock Profits,* as follows:

The Hamilton Securities Group had a subsidiary charged with taking our data as it developed on individual transactions and portfolio strategy assignments and using it to develop a new approach to investment. We sought to help investors understand the impact of their investments on people and places and on a wider society as a strategy to identify opportunities to lower risks and enhance investment returns.[83]This included understanding how to reduce the dependencies of municipalities and small business and farming on debt and increase their ability to finance with equity. Indeed, easy, subsidized access to equity financing is one of the reasons that large companies have grown so powerful and taken over so much market share from small businesses. Access to equity investment for

"... the only capital that would be allowed to flow into minority neighborhoods would go through national not-for-profit tax shelter pools... This preference meant that small business people would be shut off from access to credit while do-gooders "helping" the neighborhood would be granted a monopoly position."

small business and farms would result in a much healthier economy and much more broad-based support for democratic institutions.

We were blessed with an advisory board of very capable and committed pension fund leaders. In April 1997, we had an advisory board meeting at Safeguard Scientifics where the board chair led a venture capital effort. I gave a presentation on the extraordinary waste in the federal budget. As an example, we demonstrated why we estimated that the prior year federal investment in the Philadelphia, Pennsylvania, area had a negative return on investment. It was, however, possible to finance places with private equity and then reengineer the government investment to a positive return and, as a result, generate significant capital gains. Hence, it was possible to use U.S. pension funds to increase retirees' retirement security significantly by investing in American communities, small businesses, and farms — all in a manner that would reduce debt and improve skills and job creation. This access was important inasmuch as one of the chief financial concerns in America at that time was ensuring that our retirement plans performed financially to a standard that would meet the needs of beneficiaries and retirees. It was also critical to reduce debt and create new jobs as we continued to move manufacturing and other employment abroad. If not, we would be using our workforce's retirement savings to finance moving their jobs and their children's jobs abroad.

The response from the pension fund investors was quite positive until the President of the CalPERs pension fund — the largest in the country — said, "You don't understand. It's too late. They have given up on the country. They are moving all the money out in the fall (of 1997). They are moving it to Asia." He did not say who "they" were, but he did indicate that it was urgent that I see Nick Brady — as if our data that indicated that there was hope for the country might make a difference. I thought at the time that he meant the pension funds and other institutional investors would be shifting a much higher portion of their investment portfolios to emerging markets. I was naive. He was referring to something much more significant.

The federal fiscal year starts on October 1st of each year. Typically the appropriation committees in the House and Senate vote out their recommendations during the summer. When they return from vacation after Labor Day, the various committees reconcile and a final bill is passed in September. Reconciling all the various issues is a bit like pushing a pig through a snake. Finalizing the budget each fall can make for tenseness. When the new bill goes into effect, new policies start to emerge as the money to back them starts to flow. October 1st is always a time of new shifts and beginnings. In October 1997, the federal fiscal year started. It was the beginning of at least $4 trillion going missing from federal government agency accounts between October 1997 and September 2001. The lion's share of the missing money disappeared from the Department of Defense accounts. HUD also had significant amounts missing. According to HUD OIG reports, HUD had "undocumentable adjustments" of $17 billion in fiscal year 1998, and $59 billion in 1999. The HUD OIG refused to finalize audited financial statements in fiscal year 1999, refused to find out the basis of the undocumentable adjustments or to get the money back and refused to disclose the amount of undocumentable adjustments in subsequent fiscal years.[84] The HUD OIG continued to invest significant resources in persecuting Hamilton during this time.

– From "Financial Coup d'Etat," *Dillon Read & Co Inc. and the Aristocracy of Stock Profits*

This discrepancy, of course, raises the questions why a pension fund such as CalPERS – one of the largest in the world – continued to buy significant amounts of US mortgage securities if its president knew a "financial coup d'etat" and housing bubble were underway. If central control mechanisms are overriding fiduciary law on this scale, how can socially responsible investment make a difference?

As described in *Dillon Read & Co Inc. and the Aristocracy of Stock Profits*, Hamilton was closed as a result of a lengthy period of litigation with the federal government. During this period, I was approached by one of the leaders of the SRI industry and invited to speak at a conference on SRI investing.

When I arrived, I discovered that the sponsors of the conference were large financial institutions that I associated with engineering the housing bubble and related mortgage fraud as well as laundering narcotics-trafficking revenues. The various SRI industry representatives made it clear that they were not comfortable discussing this. I left with the clear impression that the goal of SRI investing was to affirm the overt leadership of the people and institutions running the covert economy on a highly profitable basis. The criminals had the socially committed marketing their stocks while avoiding any interference with the "power lines."

Then I discovered that one of the leaders of the LBO industry described in *Dillon Read & Co Inc. and the Aristocracy of Stock Profits* was financing an effort to promote B Corporations – the idea being that honest people should take on more liability and complexity. My notion is that we must take the advantages away from criminal players. The worst thing we could do is to add additional requirements and liabilities onto the lawful players!

By 2005, I decided to share some of my thoughts on SRI investing in a Solari Audio Seminar:

Beyond Socially Responsible Investing: Is SRI Hazardous to Our Wealth?

http://solari.com/outreach/telesem/BSRI1495.htm

Reviewing SRI Mutual Funds and ETFs

My next encounter with SRI investing was reviewing mutual funds and ETFs owned by investment advisory clients, as well as reading about various approaches by pension funds and sovereign wealth funds when their experience arose in the process of market reviews for the Solari Report.

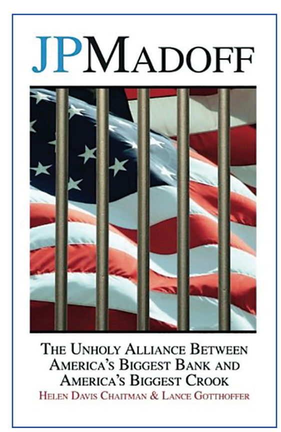
I found a wide variety–from funds doing extraordinary things (check out the history of the very fascinating Norwegian sovereign wealth funds here – **https://en.wikipedia.org/wiki/Government_Pension_Fund_of_Norway)** to funds that clearly were designed to create pure packaging to make the irresponsible look responsible. To a certain extent, some of the irresponsibility was part of the "Soft Revolution" tactics that we have discussed and followed on the Solari Report.

For example, during the 2008-9 financial crisis, I was reviewing a mutual fund in a SRI company prospectus that covered all their funds. The fund next to the one I was reviewing was designed to invest in companies that were good to women. I could not believe my eyes! When I looked at the top 10 holdings, most would have been my candidates for the companies most harmful to all humans – including women. If you had asked me to compile a list of the top 10 companies most harmful to women, many would have been on my list.

By assessing the companies using their official description of their business and judging their policies toward women, based on expensive packages of personnel policies that I would describe as inconsequential in comparison to the impact of their real actions in the marketplace, the SRI community had come up with a way to affirm and flow SRI capital to the leaders of the housing bubble and financial crisis.

Pardon my French, but if your financial entrapment scheme results in thousands, even hundreds of thousands of foreclosures, what do I care if you hire and promote 50 women and minorities from Harvard Business School, or you start a minor lending program for women-owned businesses with a very small percentage of the profits of your predatory loan scams?

Case in point – JP Morgan Chase was one of the largest holdings of that SRI fund. I challenge you to read Helen Chaitman's *JP Madoff* or look at the long history of fines against JP Morgan for



> "Grossly oversimplified, make money by adding value. Don't adopt a business model that makes money shrinking the pie... Don't engage in organized crime and activities that broadly diminish human productivity."

criminal activities on her website (or listen to her interview on the Solari Report) and explain to me how an SRI analysis could conclude that JP Morgan was a socially responsible investment because of its policies toward women.

It was clear, however, that interest in ESG criteria and governance was growing. As corporations became more and more important to managing global assets and operations, the investment community had a growing need to pay attention to ESG responsibilities.

If a decision had been made for corporations to rule an important percentage of the world's assets and operations, they needed to do it wisely. It was part of trying to get this new model of corporate leadership accepted.

Clearly we have a long way to go.

The Solari Model

After reviewing our results at Hamilton, I came to the conclusion that the ideal approach for investors was relatively simple.

A company has an impact on its economic ecosystem. I call it the "Total Economic Return." That impact can be positive or negative. It can translate the resulting flow of revenues and profits into a Return to Shareholders. That Return to Shareholders can be positive or negative. The difference between the Total Economic Return and the Return to Shareholders I refer to as the "Return to the Network."

Clearly this framework is conceptual. Although we can measure Return to Shareholders, we have no hard analytics to measure Total Economic Return and Return to the Network.

The goal of a company governance and management system should be to achieve excellence at their strategic goals (make cars, sail ships, operate trains etc.) in a manner that optimizes long-term shareholder value. That is, I agree with the traditional investment view. However, I believed that both companies and investors should maintain an investment in tracking and estimating their Total Economic Return for the purpose of both identifying opportunities and improving risk management. We added one constraint – never intentionally engage in activities expected to have a Negative Return to the Network.

Grossly oversimplified, make money by adding value. Don't adopt a business model that makes money shrinking the pie. As one of my colleagues says, "Are we going to bake pies, or steal each others pies?" Don't engage in organized crime and activities that broadly diminish human productivity.

This notion of looking at Total Economic Return was something that made sense for large pension investors who were increasingly making investments in one part of their portfolios that conflicted with the assumptions embedded in investments in other portfolio parts. American money was increasingly taking on the "multiple personality disorder" implicit in our centralization of wealth.

For example, note my letter to the *New York Times* in 1999, regarding private prison companies.

March 7, 1999
Letters to the Editor
New York Times
letters@nytimes.com

Ladies and Gentlemen:

Thank you for Tim Egan's article on prisons. It was an excellent summary of the growth in the US prison population over the last two decades. A welcome follow-up might be an exploration on how the money works on prisons.

The federal government has promoted mandatory sentences and taken other steps that will increase the overall prison population to approximately 3 million Americans as recently legislated policies finish working their way through the sentencing system. This means that approximately 10-15 million Americans will be under the jurisdiction of the criminal justice system from arrest, to indictment, to trial, to prison, to probation and parole.

The enactment of legislation ensuring the growth of prisons and prison populations has been a bipartisan effort. Republicans and Democrats alike appear to have found one area where we can build consen-

sus for substantial growth in government budgets, staffing levels and media attention. Indeed, during this period, the number of federal agencies with police powers has grown to over 50, approximately 10% of the American enforcement bureaucracy. This is further encouraged by federal laws permitting confiscation of assets such as homes, cars, bank accounts, cash, businesses and personal property that can be used to fund federal, state, and local enforcement budgets.

One way to look at the financial issues involved is to view them from the vantage point of the portfolio strategists of the large mutual funds. We have approximately 250-280 million people in America. The question from a portfolio strategist standpoint is what productive value will each one be creating in companies and communities and how does that translate into flow of funds that then translate into equity values and bond risk.

The prison companies are marketing one vision of America with their prison and prisoner growth rates, while the consumer companies are marketing another. The two are not compatible. CCA's assumptions regarding the growth in arrests and incarceration cannot be true if Fannie Mae's, Freddie Mac's and Sallie Mae's assumptions about homeownership and college education rates are true. We, the people, cannot refinance our mortgages or buy homes or raise our children and send them to college if we are in jail.

Meantime, the municipal debt market is also facing conflicting positions. If prison bonds are a good investment, then some general obligation bonds may be in trouble. We, the taxpayers, cannot support the debt: we are no longer taxpayers. We have become prisoners. Whatever we are generating in prison labor, it is certainly not enough to pay for the $154,000 per prisoner per year costs indicated for the full system by the General Accounting Office.

It would be very illuminating to get the rating agencies and the 10 largest mutual funds together in one room for an investor roundtable to discuss pricing levels on the investment of our savings that is internal to their portfolios and ratings. We would compare equity valuations and growth rates of:

- *Companies who make money from the American people losing productivity*
- *Companies who make money from helping the American people grow more knowledgeable and productive.*

We are investing in two different visions that cannot both come true.

We could then calculate which was going to succeed, and what the integrated pricing level would be. Better yet, what could happen that would make the most money for the investment community. The question is which vision is best for us, the equity investors of America? And why are investors assuming both can or will win as they price their stocks and bonds?

It is critical to look at prison policy from the standpoint of maximizing return on equity investment. It would be a terrible thing, while I can no longer pay taxes or buy a house or send my son to college because I am in prison, if my vested pension benefits were wiped out by the time I re-entered society. It is bad enough that my life savings are being invested in companies that make money from promoting that my family and me should be arrested and incarcerated. It would be worse if my family and I were broke because companies that make money from loss of productivity turned out to also be a bad investment.

Such a roundtable might make for a great New York Times *article. If you are willing to take it on, Solari would be happy to assist your staff by contributing background analytics on how the money works in prisons.*

Sincerely Yours,
Catherine Austin Fitts
President
Solari, Inc.

Although my comments were prescient, the *NY Times* did not take up my offer. It was part of learning to publish my opinions on my own website – leading to the creation of the Solari Report.

Seventeen years later, in August 2016, after the Department of Justice announced that it was not

"It is critical to look at prison policy from the standpoint of maximizing return on equity investment. It would be a terrible thing, while I can no longer pay taxes or buy a house or send my son to college because I am in prison, if my vested pension benefits were wiped out by the time I re-entered society."

going to renew Bureau of Prisons contract with private prison companies, the stocks of the two largest prison companies dropped almost 50% in the first hour of trading.

The private prison industry is one example of many private companies that depend on government funding of a function at an expense level significantly higher than the most economic ways to deliver that function. As described in my on line book, *Dillon Read & Co Inc. and the Aristocracy of Stock Profits* ***http://dunwalke.com,*** there are two prison systems involved – one for the incarcerated and one for the taxpayers funding the first.

Now that the debt-financed growth model cannot continue, we must look at the fundamental productivity of companies. Can they endure the changes ahead, including cutbacks in government spending?

“Can we filter for productive companies? The answer is most certainly, “Yes”. However, doing so is truly an art, and not a science.”

Investment Screening: Can We Filter for Productive Companies?

Can we filter for productive companies? The answer is most certainly, “Yes.” However, doing so is truly an art, and not a science.

First, we do not have transparency on how our global governance and financial system work. Nor do we have reasonable disclosure of covert cash flows and assets. We know that trillions have gone missing in a global financial coup d’état but we don’t know where the money went or how it is being reinvested. Consequently, we lack information to understand how the economics of an individual company or industry really works. I can estimate, sometimes with some degree of confidence, however, there will be surprises.

Second, we can be confident that company products and services are productive, make money for the shareholders, and add value in the general economy. However, such a company can still be targeted by economic warfare by government (e.g. the coal companies) or by covert operations (e.g. Chipolte) in a manner that significantly harms productivity. Productivity is not necessarily protection against growing political risks, particularly from the unproductive.

Third, for the Solari Screen, I will be looking for companies that have a significant fundamental business. They make money in the marketplace. I am not concerned with their ESG policies or compliance. I am concerned about:

- **Excellence in governance and management:** I am looking for companies of which the investors, board of directors, and management reflect the experience, knowledge, and networks required by the business, customers, and constituencies they serve. They have leadership that can produce excellence in their core mission.
- **Lawfulness:** I am looking for companies with a fundamentally lawful business model. That model does not make them perfect, nor mean that they do not make mistakes or that a duly authorized officer of the corporation does not break the law. It does mean that the company has not adopted a model that depends on intentional, institutionalized criminality.
- **Risk:** I am looking to avoid what I call “real stinkers.” They may play by the letter of the law, however, they have a reputation for playing dirty or working overtime to make highly questionable or highly unethical practices technically legal. These folks are likely to get caught eventually or experience serious consumer and investor blowback. At some point, they have too many enemies and too many liabilities not to get in trouble. Monsanto is a recent case in point.
- **Private:** I prefer companies that make money in the private markets as opposed to dependence on a high degree of government purchases or contracts that come with a heavy degree of political risk. The exception is state-owned companies in international markets where this risk is a common, seasoned practice, and a hybrid public-private partnership can reduce political risk.

By definition this may leave out a significant number of ESG criteria. Consider this a positive screen. I am looking for companies with high productivity that contributes to the productivity of the general population in a manner that supports enduring performance for shareholders.

Define "Real Stinkers"

A company that is a "real stinker" likely fits Justice Potter Stewart's characterization of pornography: "I know it when I see it." However, since there is wide variation on ESG criteria, I anticipate varied opinions on what does and does not generate a Negative Return to the Network

Several months ago, Jason Worth helped me compile a list of companies with business models intentionally designed to profit from a Negative Return to the Network.

As I prepare the Solari Screen, we welcome your input to this work in progress. Here it is:

Negative Total Economic Return: Examples By Industry Sector

■ BASIC MATERIALS

- Manufacturers of genetically modified products and other food substances, which are marketed without adequate disclosure and cause cancer, obesity, infertility, and other maladies from their consumption.
- Manufacturers of seeds that do not germinate or reproduce beyond one planting cycle.
- Metals and mining firms that use covert operations to obtain or exploit mining properties or excessively damage the environment, or do both.
- Manufacturers of chemicals, pesticides, and nanoparticles that cause harm to plants, animals, and the environment or are used in global spraying operations

■ CONSUMER (Staples and Discretionary)

- Corporate media and publishing companies promote propaganda or engage in material omission of news information vital to a free and transparent society, or do both.
- Entertainment, media, social media, and telecommunications companies that engage in surveillance capitalism that compromises individual privacy, rights, and sovereignty.
- Entertainment, media, social media, and telecommunications companies that engage global hacking networks to compromise competitors systems, performance, and profitability.
- Entertainment, media, social media, and telecommunications companies that engage in systemic mind control or utilize entrainment technologies to distract or confuse the population, generate overconsumption, predatory lending, and create addictions, or do all of these.
- Manufacturers of products, such as slot machines and other gaming devices that utilize entrainment technologies to exploit users and create addictions without their tacit awareness or consent.
- Companies that abuse animals for profit.
- Agricultural and other firms, which rig markets, bribe officials, and violate anti-trust laws.

■ FINANCIAL SERVICES

- Financial institutions that launder drug money and engage in financial fraud.
- Financial institutions that routinely manipulate markets for financial gain.
- Financial Institutions that engage in predatory lending activities or seek to keep consumers in a cycle of never-ending debt, including those which target students and young people, or do all of these.
- Financial services firms that collude with intelligence agencies to aid in the centralization of control and the extraction of "illegal taxes" by criminal means.
- Investment and asset management firms that launder ill-gotten gains into acquisitions and control of strategic resources.
- Debt collection firms whose business practice include failing to properly notify defaulted lenders in order to get uncontested court

"A company that is a "real stinker" likely fits Justice Potter Stewart's characterization of pornography: "I know it when I see it." However, since there is wide variation on ESG criteria, I anticipate varied opinions on what does and does not generate a Negative Return to the Network."

judgments, utilizing falsified documents, and failing to obey consumer protection laws.

- Financial institutions that engage in reckless behavior, which have required trillion-dollars bailouts from the public sector.

REAL ESTATE

- Private prison firms that lobby for and profit from the over-incarceration of Americans and illegal immigrants.
- Real estate companies that use covert operations and violence to create or evict tenants.

HEALTHCARE

- Pharmaceutical and medical companies that:
  - Focus attention on "treatments" with their ongoing revenue streams rather than "cures" that limit profits;
  - Have been known to distribute toxic vaccines;
  - Falsify testing data to obtain FDA approval;
  - Promote junk science;
  - Lobby governments to minimize or destroy health freedom or mandate private expenditures.
- Testing companies that compromise privacy.
- Biotechnology companies that create technology to facilitate transhumanism or promote slavery through implantable devices.

UTILITIES

- Power and water suppliers that make it difficult or impossible for consumers to opt out of smart meters or electrical services or go off-grid.
- Utility firms that promote green energy, climate change, or other legislation primarily to impose regulations which reduce competition for their services or justify unnecessary prices increases on their customers.

COMMUNICATIONS SERVICES

- Telecommunications companies and internet service providers that:
  - Spy on web-surfing activity and email content of their users,
  - Sell data about their users' activities and behaviors to third parties, or otherwise compromise privacy and security, or,
  - Provide government agencies with data on users without legitimate court orders,
  - Engage in activities described above under Consumer

ENERGY

✦ Oil and gas exploration firms that use covert operations to obtain or exploit drilling properties or refuse to remediate their excessive damage to the environment or that do both.

INDUSTRIALS

✦ Defense and surveillance firms that:

- Promote war and engage in torture,
- Profit from the compromise of national sovereignty (i.e. missing money),
- Engage in mercenary activities that violate the principles of national sovereignty and the monopoly of force by a sovereign within its jurisdiction, or
- Organize, implement or participate in false flag events,
- Participate in global spraying,
- Manufacture and/or implement invisible weaponry that engineers weather warfare or "natural disasters."

✦ Government contractors that manipulate the government contracting process for their gain at the expense of taxpayers.

TECHNOLOGY

- Social media firms that:
  - Spy on the web-surfing activity and email content of their users,
  - Sell data about their users' activities and behaviors to third parties, or otherwise compromise security, or
  - Provide government agencies with data on

users without legitimate court orders.

- Software companies that offers backdoors.
- Manufacturers of voting machines that can corrupt the outcome of fair elections.
- Government contractors that manipulate the government contracting process for their gain at the expense of taxpayers.
- Knowingly deliver entrainment technology, subliminal programming, and other technologies designed to create addictions, and increase usage and profitability, or otherwise engage in activities described above under Consumer.

ALL SECTORS

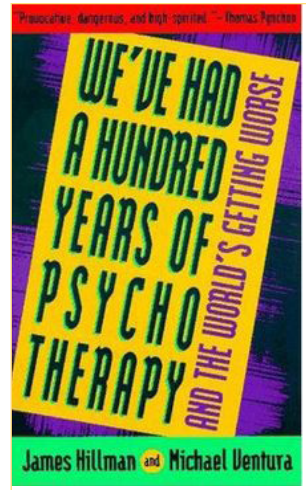
- Firms that manipulate and lobby legislatures in order to pay little in taxes or receive unnecessary government purchase orders or subsidies;
- Firms involved in slave trafficking or whose executives or contract managers are engaged in slave trafficking or pedophilia;
- Firms that use illegal tactics, including covert operations, such as violence and assassination, or control files to silence and manage its employees, to lobby for new laws and regulations or to target or weaken competitors or regulators;
- Firms complicit in accepting and laundering criminal proceeds or governments cheap capital arbitrage.

This list is a work in progress. Suggestions are welcome.

A strict application of these criteria in a negative screen would disqualify many large companies in the top holdings of the most popular SRI funds. It would also not disqualify the securities of many companies often disqualified by SRI investors, such as gun manufacturers, some tobacco companies, and alcohol producers

Conclusion

As I review the world of ESG, including screening, I am reminded of the title of a wonderful dialogue between James Hillman and one of my favorite essayists, Michael Ventura, *We've Had a 100 Years of Psychotherapy – And the World's Getting Worse.*

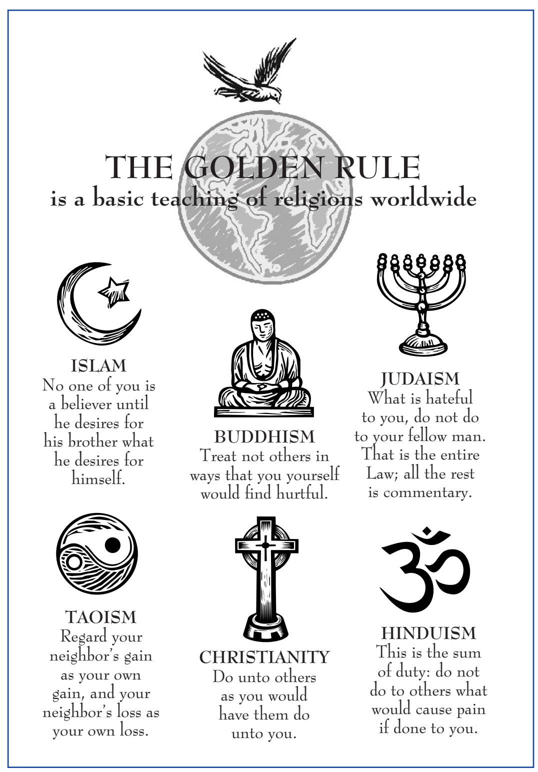


After a review of the growth of ESG-related investment to date, it looks as if an inhuman corporate model continues on the rise. Unfortunately, the rush of globalism has contributed to a lack of accountability and a cross-border freedom for a wide range of corporate shenanigans. Ditto, invasive invisible technology and weaponry.

Nevertheless, I believe that a combination of transparency and broadly based application of the Golden Rule to finance and investment can make a difference. We have the benefit of decades of hard work of committed proponents of SRI and good corporate governance from which we can draw. This gain occurs despite the occasional mess created by the Soft Revolution spinmeisters to use ESG criteria for irresponsible purposes and the waste created by an absence of transparency that investors need if they are going to successfully apply ESG criteria on an economic basis. This is in no small part thanks to an increasingly useless, if not dangerous, corporate media which is why more than a few of these companies do not qualify as productive companies in my book.

> **"I believe that a combination of transparency and broadly based application of the Golden Rule to finance and investment can make a difference."**

So, I am a believer, but a discerning one. If you are a creator or consumer of ESG-related services, I hope this Solari Report inspires you to be a more discerning one too.



"The Golden Rule" is a basic teaching of religions worldwide. From Catherine's book, *Prayers For The Year 2016*