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JULY • 2016

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"In the long run even the most despotic governments with all their brutality and cruelty are no match for ideas."

—Mises

You have read and heard us say that when an unshakable belief is held by only 10% of the people it inevitably becomes the majority's belief. But when the number of committed opinion holders is below 10 percent, there is no visible progress. It is only when that number grows to the 10 percent tipping point that this unshakable belief becomes a universal conversion.

No one, however, holds that level of commitment to a belief unless that belief supports an idea worth believing in. Here we must examine the idea itself by placing it against the backdrop of the nature of our environment. We would argue that the context of our world operates much like a financial stranglehold on individuals, households and small businesses due to our monetary policy that is mandated by an interventionist government—a policy that showers favors on a select few at the expense of everyone else.

Release from that overwhelming control is to be found in *privatized banking* and the idea that provides us the use of that process is Nelson Nash's Infinite Banking Concept (IBC).

At the end of the day an idea that can be believed in with such steadfastness is an idea that provides the believer with immediate economic benefits. Without this element there can be no hope of a tipping point and no incentive to spread its message.

But IBC provides these immediate benefits and more! In a financial world filled with anxiety and confusion, it stands alone as the one idea that can help us secede from an economic environment that has gone terribly awry. People everywhere are discovering its truths everyday. This is why it is growing and will continue to grow. It has an undisputable feature that everyone loves— *it works.*

Yours truly,
Carlos and Bob

"It is the masses that determine the course of history, but its initial movement must start with the individual."
— How Privatized Banking *Really* Works

Bitcoin Bust

BITCOIN FALLS 20% AFTER EXCHANGE HACK

(Because of production snags we are able to report on early August news in the July issue—amazing!) The market value of Bitcoin (quoted in dollars) fell more than 20 percent in the wake of a $77 million hack of Bitfinex, a major Bitcoin exchange. Although it is little consolation to the affected users, this event appears to show a flaw with the particular exchange, rather than with the underlying Bitcoin protocol itself. (For more on this distinction, see the guide Murphy co-authored with Silas Barta at: www.UnderstandingBitcoin.us) We recognize that older people especially may not trust something as new as Bitcoin and other "cryptocurrencies," which is why we recommend good old-fashioned gold and silver coins for one's "hard money" needs. Having said that, be sure to look at our interview this month to see the potential for not just Bitcoin, but "the blockchain" as a new technology and platform of human interaction.

BOJ Out of Tricks?

JAPANESE BOND "ROUT" WORST IN THREE YEARS

Bloomberg reports: *"Japanese government bonds' steepest tumble in more than three years is feeding speculation that central-bank easing is nearing its limits. A four-day rout pushed 10-year yields to within three basis points of turning positive on Tuesday for the first time since March, after Bank of Japan policy makers disappointed investors last week by leaving bond buying and their negative deposit rate unchanged… Pacific Investment Management Co. and former Ministry of Finance official Eisuke Sakakibara both say central bank Governor Haruhiko Kuroda is running out of room to expand stimulus."*

To be sure, nothing will literally prevent central banks from continuing to run the printing presses (either physically or electronically) if they so desire. In that respect, central banks won't "run out of ammo" as the financial press sometimes alleges. But what we may see is central bank officials grudgingly admit that continued rounds of "quantitative easing" simply aren't working, and are only digging a deeper hole for when the next crisis strikes. Believe it or not, the economists at the world's major central banks seem to have more common sense than many leading academics, who are literally advising to start dropping "helicopter money" on the general public in a way to

boost spending. Indeed, CNBC reports, *"Citi has forecast a 'gradual shift towards helicopter money' by advanced economies, as countries struggle to boost growth and inflation in uncertain geopolitical climes."*

Goldman Wanrs of Stock Plunge

OPPENHEIMER SEES EQUITY OVERVALUATION

CNBC reports: *"Equities in developed markets are once again looking a little expensive, according to Peter Oppenheimer, chief global equities strategist at Goldman Sachs, who has suggested that a 10 percent drop in the asset class could happen in the coming months."*

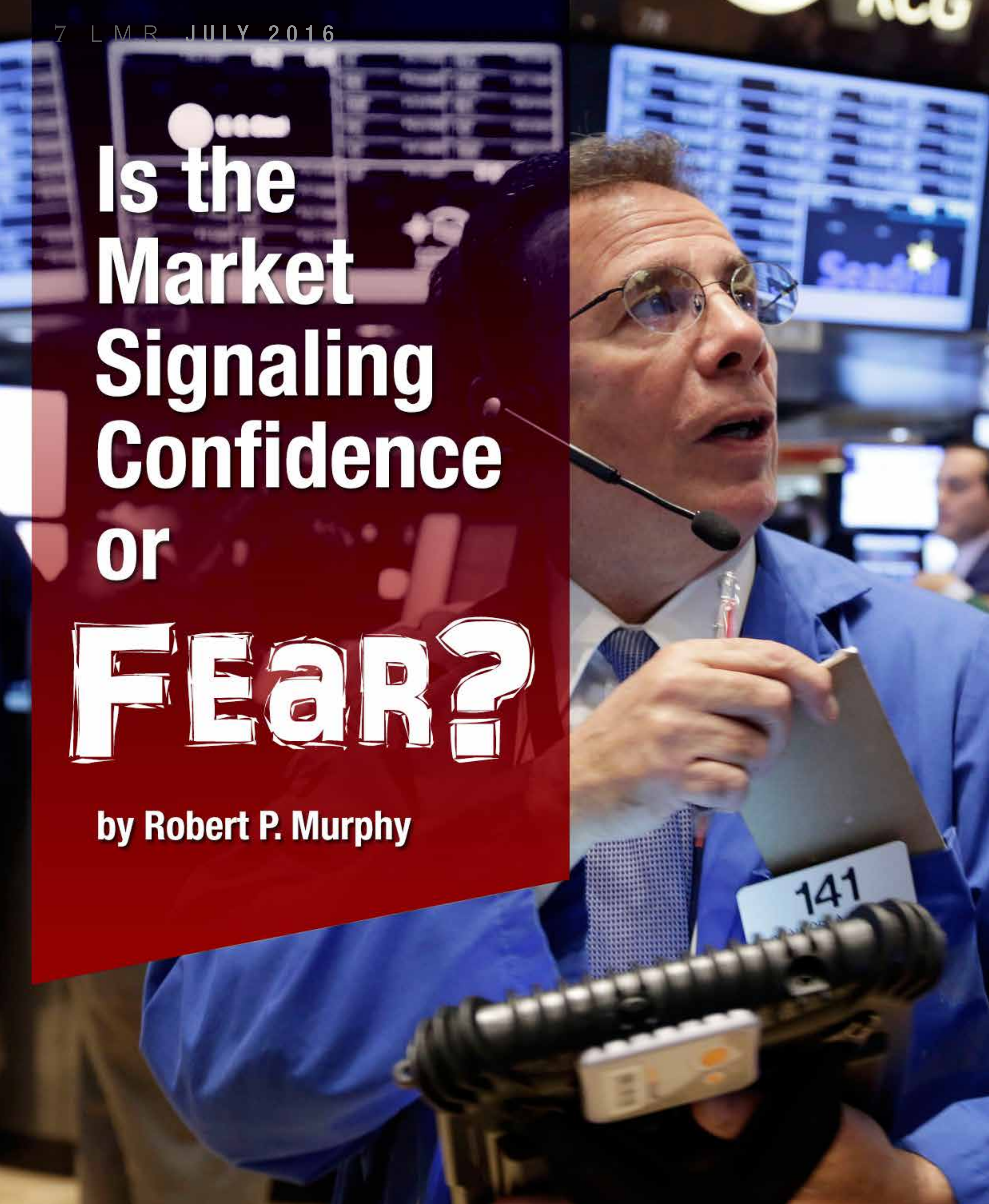
Folks, at this point we are not lone voices crying in the wilderness. Plenty of analysts, using different methods of analysis, are concluding that U.S. equities are overvalued. And even if one thinks things are in line with the fundamentals, the "fundamentals" themselves are utterly dependent on central bank whims. If you don't like the idea of your health care being in the hands of the government, why would you tolerate money and banking being susceptible to political interference?

Swiss Don't Want Taxes

SWISS AUTHORITIES URGE PUBLIC TO DELAY TAX PAYMENTS

The absurdities of negative interest rates continue to pile up. This story came out earlier this year, but it is still relevant: *"Taxpayers in parts of Switzerland this year face an unusual request from fiscal authorities: please delay settling your bill until as late as possible. Zug, the affluent canton outside Zurich, has announced it is ending discounts for early payment of tax bills. The reason? The longer it has cash on its books the more likely it will incur costs as a result of negative interest rates charged by Swiss banks. The canton calculates the move will save CHF2.5 million ($2.5 million) a year."*

We are now in an upside down world where nothing makes sense. Unfortunately, investors and entrepreneurs have been operating in the ZIRP or even NIRP environment since 2009, and have been making "malinvestments" the entire time. We fear that the next crisis will make 2008 seem like a fond memory.



Is the Market Signaling Confidence or Fear?

by Robert P. Murphy

The U.S. financial markets are in an odd position, with equity indices hitting all-time highs while bond yields are hitting all-time lows. Loosely speaking, record stock prices indicate investor confidence in the future, while plummeting bond yields indicate pessimism. So which is it? Are investors divided into two camps with wildly divergent forecasts? Or is there something deeper going on, that is causing both of these outward trends?

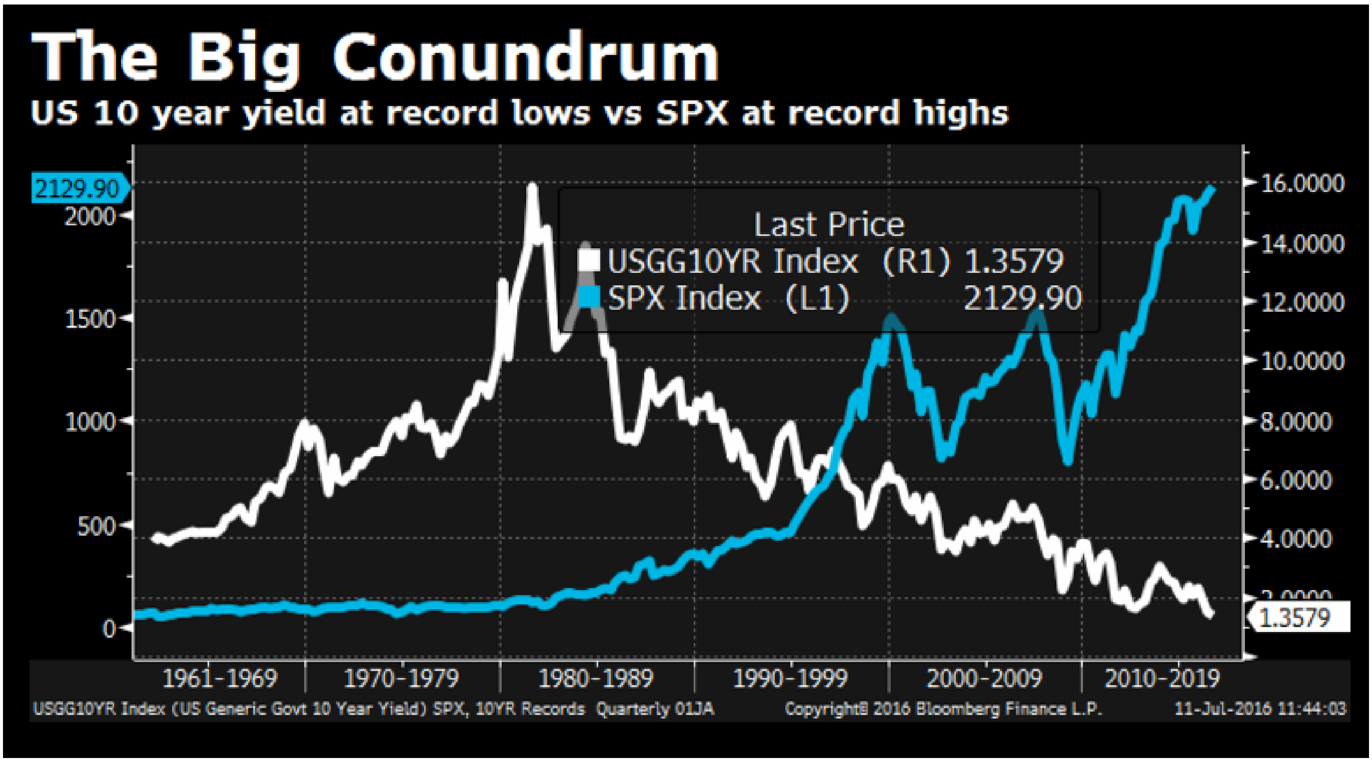
The U.S. financial markets are in an odd position, with equity indices hitting all-time highs while bond yields are hitting all-time lows.

In my view, there are serious storms ahead. To the extent that many market participants share my views, we must interpret recent market action as signs of fear. However, there is also a great deal of uncertainty; we are truly in uncharted territory when it comes to the actions of the world's largest central banks. I'll try to peel back some of the confusion, but the only sure thing we can conclude at this point is that record-high stock prices are no cause for celebration.

Equities vs. Bonds

Bloomberg posted a nice chart illustrating the apparent paradox, in which equities are hitting all-time highs while bonds are at all-time lows:

Figure 1. U.S. 10-Year Treasury vs. S&P 500 Index • Source: Bloomberg



To reiterate, the apparent "paradox" in the above chart is due to the familiar views that a rising stock market indicates optimism, while falling bond yields indicates pessimism. So how can it be that the S&P 500 hits record highs while the 10-year U.S. Treasury yields hit record lows?

Obviously, there's not *really* a paradox here—reality doesn't contain contradictions, at least if you believe in an orderly universe and structure of the mind. But still, how can we make sense of the above chart?

First, notice that the bond trend has been in place since the early 1980s. Remember the "stagflation" of the late 1970s led to new Fed chair Paul Volcker's shock therapy in which he slammed on the brakes of monetary inflation, which caused bond yields (especially short-term ones) to skyrocket. This radical policy shift delivered the painful recessions of the early 1980s, but it also broke the back of runaway (price) inflation, and restored faith in the U.S. dollar.

Ever since Volcker turned things around, bond yields have been gently falling, on a trend that continues to this very day. So it's not as if there were a sudden break recently, causing bond yields to plummet when they had previously been rising.

In stark contrast, we see that the S&P 500 index has had two enormous crashes (in terms of points) twice during this period. (The worst *one-day* crash in percentage terms happened in 1987, but it was a short-lived affair and barely shows up in the Bloomberg chart.) The current U.S. stock market highs are the fulfillment of a trend that has been in place only since early 2009.

Ever since Volcker turned things around, bond yields have been gently falling, on a trend that continues to this very day.

In light of the above analysis, I think it is a mistake to juxtapose the two charts and wonder how to reconcile them. Presumably the forces that have been driving bond yields down since the early 1980s are still at work, while much different forces are in play to explain the wild ups and downs of the stock market in the last few decades.

The Direct Connection Between Low Interest Rates and Rising Equity Prices

Falling interest rates, other things equal, lead to higher asset prices.

Before analyzing bond yields and stock prices separately, we should note the obvious connection: Other things equal, falling interest rates will lead to higher stock prices. Far from being a "paradox," then, the Bloomberg chart is what you would expect, at least if interest rates were falling for reasons that had nothing to do with corporate profitability.

Let's make the point with a simple numerical example. Suppose there is a plot of land that is expected to yield rental income from sharecroppers of $1,000 per year, indefinitely. In other words, the landlord who owns this plot of land expects it to generate an annual flow of $1,000 in net income going forward.

Now suppose the landlord is in dire financial straits and wants to sell the land outright? How much will he fetch for it?

Well, it depends on the interest rate. If the interest rate is 10 percent, then the capitalized market value of that plot of land is $10,000. After all, an investor could plunk $10,000 down in bonds, which—if they yield 10% per year—means $1,000 in annual interest income. That's why (if we abstract away from the higher risk of the farmland versus the bonds) the farmland must *also* sell for $10,000 outright, since it too generates annual income of $1,000.

Using the same logic, if the relevant interest rate falls in half to 5 percent, then the current market value of the farmland doubles to $20,000. So note that falling interest rates, other things equal, lead to higher asset prices.

In this respect, the direct effect of falling interest rates is to *raise* asset prices, including stock prices. After all, stock prices are tied to expectations of future corporate profitability. The owner of a share of Microsoft is a partial owner of Microsoft's balance sheet. If Microsoft generates net income, then whether it pays out dividends or retains the earnings, either way the shareholders have just enjoyed an increase in their wealth. Therefore, to the extent that people today anticipate a future flow of Microsoft earnings, they are willing to pay dollars right now to capture a piece of ownership in those future earnings. How *much* they are willing to pay right now, depends on the discount rate they use when translating those future earnings into a present-value equivalent. The lower the discount rate, the higher the current dollar spot price.

This is pretty standard stuff. Indeed, even Paul Krugman says the same thing in a recent column on the financial markets:

> *When investors buy stocks, they're buying a share of future profits. What that's worth to them depends on what other options they have for converting money today into income tomorrow. And these days those options are pretty poor, with interest rates on long-term government bonds not only very low by historical standards but zero or negative once you adjust for inflation. So investors are willing to pay a lot for future income, hence high stock prices for any given level of profits.* [Paul Krugman July 2016.][1]

To repeat: If interest rates fall *for some reason that doesn't affect investors' forecasts of future corporate profitability,* then we would expect stock prices to rise. Indeed, this is part of the explanation for how loose monetary policy (when the Fed pushes interest rates down artificially) can goose asset prices and cause bubbles.

So Why Do People Think Bond Yields and Equities Should Move in the Same Direction?

In the previous section, I pointed out that as a first cut, there is hardly any "paradox" in record-low interest rates and record-high stock prices, because other things equal, falling interest rates go hand in hand with higher asset prices.

However, the reason the Bloomberg analysts and other commentators are puzzled, is that *in practice* we often see sharp drops in interest rates accompanied by *falling* asset prices.

The reason is that "other things" aren't equal in such scenarios. For example, suppose Hillary Clinton becomes president and announces, "I am going to raise marginal income tax rates by 10 percentage points across the board, and will raise the minimum wage to $15 immediately."

In this scenario, investors armed with basic

In recent decades, "real" economic growth has slowed, not just in the United States but in other industrialized nations.

economics would predict a huge hit to corporate profitability, and would worry about an economic crash in general. Consequently, they would anticipate much smaller values for future corporate statements of "net income," which would push down stock prices today. (In the same way, if our hypothetical landlord above learned that the government was going to ban the use of fertilizer, then his expectations of $1,000 annual earnings would plummet, pushing down the current spot-price of the land.)

At the same time, after our hypothetical statement from a new President Clinton, investors would become wary of outstanding bonds issued from "risky" entities. In the new, uncertain environment, investors would have a higher preference for "safe" assets locking in a flow of future dollars, even if the rate of return were low. So, investors would pile into U.S. Treasuries and bonds issued by the Swiss and German governments, for example (and perhaps gold). Thus we would see the yields on these bonds fall, as investors bid up their prices.

To sum up: Even though *other things equal* bond yields and stock prices move in opposite directions, in the real world we often see a "shock" that simultaneously causes (a) stock prices to fall because of reductions in expected future corporate earnings and (b) safe bond yields to fall because of increased fear and a piling into "safety."

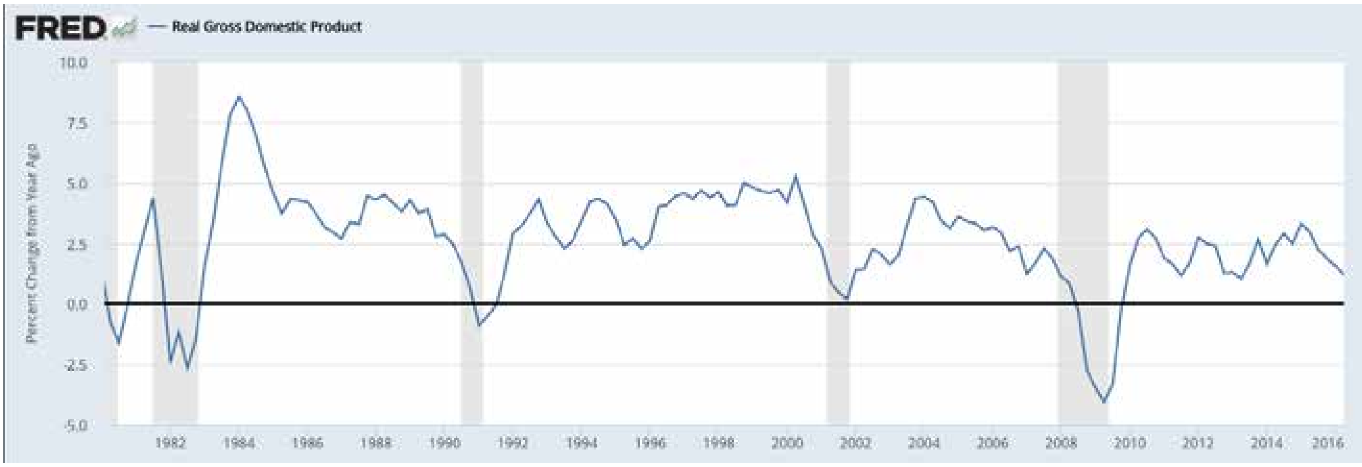
The Long-Term Trend in Falling Bond Yields

As the Bloomberg chart itself illustrated, bond yields have been gently falling since the early 1980s. Now, the total nominal return to a bond can be decomposed into the "real" return and the price inflation premium. For example, if a bond is nominally yielding 8 percent, while investors believe that on average price inflation will be 3 percent per year, then the "real" return on the bond is only 5 percent.

Much of the early dropoff in nominal bond yields was due to collapsing inflation expectations. The escalating increases in CPI during the 1970s led investors to demand higher returns on their bonds, if only to keep pace with the price level. Once Paul Volcker turned that trend around, investors were willing to tolerate lower bond yields because they knew the dollar would not lose its purchasing power as quickly in the mid-1980s as had been happening a decade earlier.

In recent decades, "real" economic growth has slowed, not just in the United States but in other industrialized nations. The following chart shows year/year real GDP growth in the United States, by quarter. It is easy to see that since the (faux) recovery from the dot-com crash in the early 2000s, growth has been anemic compared to the 1980s and 1990s.

FIGURE 2. Year/year Real GDP Growth, United States • Source: St. Louis Federal Reserve, Bureau of Economic Analysis



Now in general, it's not correct to say that "real GDP growth" should match up with the "real rate of return" on bonds or other financial assets. (For example, if there are prisoners in a POW camp who get daily rations from the Red Cross, we can still imagine someone promising 2 cigarettes next month in exchange for 1 cigarette today—for a very large "real interest rate" on cigarettes—even if the amount of cigarette rations stays constant over time.) Even so, it is intuitive that as real economic growth has considerably slowed over time, we would likewise see real rates of return on financial assets drop.

Putting the two trends together—namely, falling (price) inflation expectations and slowing real growth—it is perfectly understandable why nominal bond yields have steadily fallen since the early 1980s.

Is the Stock Market Signaling a Healthy Economy?

Finally, we come to the U.S. stock market. Is the S&P 500 hitting record highs because investors are optimistic about the future?

I don't think so. Let's show, once again, my favorite chart during this alleged recovery:

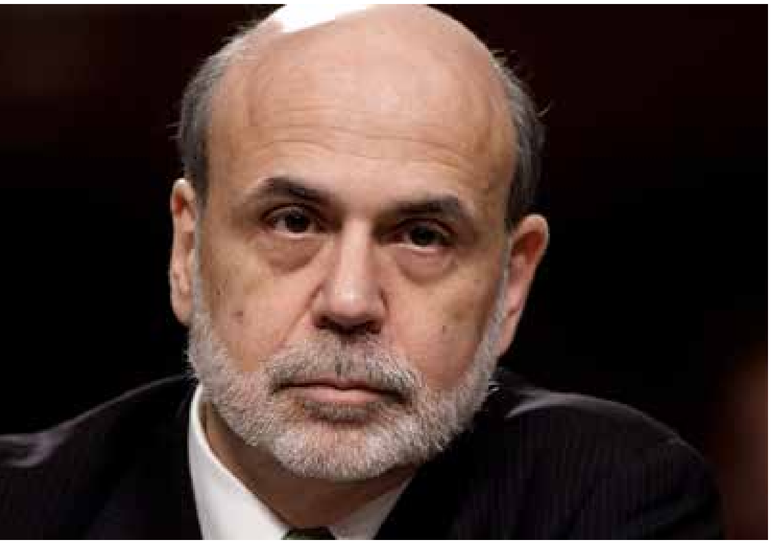
Figure 3. S&P 500 Index vs. Federal Reserve "Monetary Base" • Source: St. Louis Federal Reserve, Bureau of Economic Analysis

I see no reason to view record-high stock prices as a refutation of those of us who have been warning about Ben Bernanke's horrible monetary policies.

Figure 3 shows a few things to keep the current news in context. First, even though the U.S. equity markets are hitting "record highs," they had basically been flat since late 2014, when the "taper" wrapped up.

Second, the chart shows that the boom in U.S. equities since 2009 has been driven by the Fed's monetary inflation.

Third, it is true that in recent months, the red and blue lines have diverged. In other words, the S&P 500 (blue line) has drifted upwards while the Fed's monetary base (red line) has drifted downwards. In that respect, the recent stock market highs are indeed puzzling, for those of us who think the "fundamentals" are still terrible. Time will tell if we are being overly pessimistic, or if the recent bump in stock prices is just a further inflation of an asset bubble that will eventually come crashing down.



Conclusion

In summary, I see no reason to view record-high stock prices as a refutation of those of us who have been warning about Ben Bernanke's horrible monetary policies. In general, U.S. stocks have clearly been pushed up by the Fed's rounds of QE. Furthermore, record-low interest rates are a reflection of Fed intervention but also of expectations of weak economic growth.

For one other confirmation that investors are not viewing the future with rosy eyes: Gold prices have skyrocketed this year, rising from about $1,060 at the start to $1,365 as of this writing—a year-to-date increase of almost 30 percent. As with asset prices generally, this is partly the "natural" reaction to falling interest rates. But surely a sharp rise in gold prices also reflects growing investor anxiety. With the threat of a Hillary Clinton or Donald Trump Administration, plus the uncertainty of Brexit and the European financial system in general, is it really any wonder that investors are panicked? ◆◆◆

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1. Paul Krugman, "Bull Market Blues," July 15, 2016, New York Times blog post, available at: http://www.nytimes.com/2016/07/15/opinion/bull-market-blues.html.

The Cracks Widen For European Banks

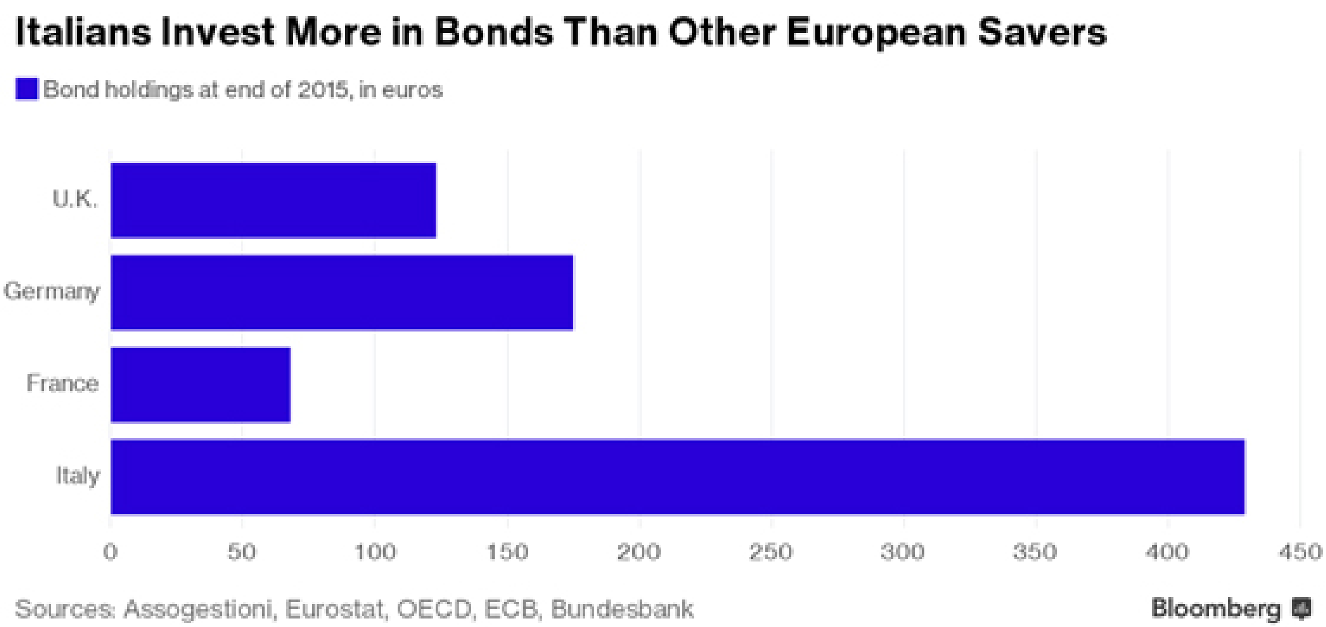
by L. Carlos Lara

Subordinated Debt is a loan or a bond that ranks below other loans and bonds with regards to claims on a company's assets or earnings. In the case of a default by the issuer of these financial instruments, creditors who own subordinated debt won't be paid out until after senior debt holders are paid first. Subordinated debt is essentially treated as an unsecured debt in bankruptcy proceedings and places a greater burden of financial risk on the creditor.

Grasping the meaning of these types of securities helps in understanding one of the biggest emerging problems within European banks, especially with banks in Italy. Italian banks have been in dire financial straits for quite some time with virtually no available traditional means for raising quality capital. Compounding their critical situation is that they have been selling billions of these subordinated bonds to—*not* financial savvy investors, but to unsophisticated households! In effect, Italian banks have sold these subordinated debt securities to their own bank depositors.

Italian banks have been in dire financial straits for quite some time with virtually no available traditional means for raising quality capital.

Italy's banks began using this strategy as way to recapitalize their own financial infrastructure in order to meet the upcoming stress tests under the new banking capital requirements. But what is more obvious is that they have done it primarily to keep themselves from going under. By seizing on Italians' preference for bonds over other types of investments, Italy's banks have capitalized on this selling opportunity. According to a Bloomberg report, Italians held 430 billion euros in bonds as of 2015—even more than German and British investors. (SEE: Figure 1)[1]



As the low interest rate environment in Europe declined into negative yields, subordinated bonds, which often pay a slightly higher yield than government bonds, became more attractive and easier to sell. Consequently, the more desperate banks have marketed these instruments to retail investors. According to Bloomberg,[2] there are cases where banks pushed their own depositors having little financial knowledge to swap their sovereign (senior) bonds for subordinated (junior) debt instruments. Today, Italian households own 31 billion euros in these risky subordinated securities, on top of the billions they hold in "contingent capital debt instruments,"—a fancy term that refers to instruments that start off as a bond and then flip to stock when a bank crisis ensues. Their only hope in keeping this questionable scheme from coming unraveled has been the so-called economic recovery that is soon to arrive and lies just over the horizon. (SEE: Figure 2)

As the low interest rate environment in Europe declined into negative yields, subordinated bonds, which often pay a slightly higher yield than government bonds, became more attractive and easier to sell.

Unfortunately, the surprise of the year exploded on the scene just 30 short days ago in BREXIT. This one turn of events could become the straw that ultimately breaks the camel's back. After Britain's vote to leave the European Union, the shares of all European banks, especially Italy's banks, plunged precipitously. All hope for that economic rally has dissipated. If Italy's banking crisis is not solved soon there is serious concern that their particular plight could spread to other banks within the Eurozone.

Bail-Ins Are Coming

The huge issue at stake for Italian banks is the "bail-in." A "bail-in," as explained in a previous May 2014 ***LMR*** article entitled *"Bank Deposits Are Risky—Now More Than Ever,"* is described as rescuing a financial institution on the brink of failure by making its stockholders, creditors, and depositors take a

loss on their holdings. Italy's Prime Minister, Matteo Renzi,[3] simply does not want that alternative, even though he knows it's coming. There are so many private investors and depositors currently involved in Italy's banks he fears a bail-in would panic the entire country and trigger a run on all banks.

However, changing a bail-in into a *bailout* using taxpayer money to rescue Italy's banks will mean a head-on clash with Chancellor Angela Merkel of Germany—a confrontation Renzi is willing to undertake. Merkel has so far been unwilling to change the EU rules. Ironically, Renzi's chances for winning that debate this time have never been greater because of several opportune reasons. For one, Merkel is afraid that after Brexit other nations that have been on the fence about leaving the Union, Italy being one of them, could be easily triggered. This concern would most likely temper Merkel's attitude in a faceoff with Renzi.

Their only hope in keeping this questionable scheme from coming unraveled has been the so-called economic recovery that is soon to arrive and lies just over the horizon.

Second, Merkel is currently facing the worst criticism in her political career on account of the rash of violent attacks in Germany this past month.[4] Migrants seeking asylum have stunned the German public with a shooting spree, an ax attack, a suicide bombing, and a machete attack all within a few days of each other. It is Merkel who is

responsible for the entry of more than a million refugees into Germany in 2015. In fact, she has been the most outspoken proponent of an open border policy—a policy that has unleashed an unexpected wave of terrorism across Europe.

Finally, Merkel and Renzi share identical fears of possibly igniting a banking crisis throughout all of Europe, if the Italian banking problem is not handled with care. The biggest fear for Merkel is not so much the Italian banks, but Germany's own flagship financial institution—Deutsche Bank. Deusctche is a behemoth in size and is already on the ropes financially. It's not going to take much for it to go down for the count and send panic everywhere.

Deutsche Bank's Profit Fell Sharply Last Month

Economic uncertainty stemming from Briton's vote to exit the Union, persistent low interest rates, and rampant terrorist attacks last month impacted Deutsche's earnings this quarter by falling 98% from a year earlier. As reported by the Wall Street Journal, "the German lender said net income fell to 20 million euro from 818 million euro a year earlier."[5]

In my February 2016 ***LMR*** article, *"Like Lehman Brothers in 2008, Deutsche Bank—Five Times Larger—Is In Trouble!"* I was able to lay out in detail all of the various critical stress points of this particular bank, as well as those of other small and large banks throughout Europe. If we can recall, the year began with a tumultuous stock market drop here in the U.S. and abroad that was especially jarring for bank stocks. Italian bank stock shares at that time were noted to be down 31%. But Deutsche bank experienced a 50% drop in share price going from 21 euros a share to 13 euros a share! This pricing drop came on the heels of Deutsche's announcement of having lost 6.7 billion euros for the year ending 2015. Consequently, this last quarter's results com-

pared to the 10% gains in trading revenue being experienced by banks of similar size in the U.S. made several media sources quickly note the grave disparity between them and Deutsche.

In a telephone interview with analysts, Chief Executive John Cryan said that his bank must undertake even "more ambitious" steps in what he calls "paralyzed markets" in Europe. Deutsche has been in the midst of a major turnaround effort by getting out of unprofitable divisions and selling off assets. He claims that European banks are suffering disproportionally from low interest rates, "…a fundamental symptom of Europe's woes. Banking customers will increasingly feel the impact of negative or near-zero rates. We don't think that banks will just sit there and absorb the costs themselves." He ended his conference call by saying that "banks will likely increase fees and take other measures to pass on the pain." [6]

Deutsche Bank is clearly his favorite lender and Trump's financial empire has become largely dependent on his relationship with this major player on Wall Street.

All this is of course magnified by the unrelenting investor concern over the quality of Deutsche bank's reserves, which has kept them in the spotlight. The required Tier 1 ratio for quality capital should be 12.5%. Deutsche had dropped to 7.8% in 2014. In a show of improvement, its ratio had risen to 11% last year, but has recently dipped back down to 10.8%. The problem is that taking these necessary capital-raising measures at this time is an expensive proposition and Deutsche is doing all it can simply to cut expenses and manage its cash flow. Having lost 40% of its market value,[7] steering the bank towards profitability has obviously increased in difficulty for the CEO and his turnaround team. Analyst question if Deutsche can actually pull it off since it still has a 9 billion euro hole to fill.

Finally, there is the nagging criticism regarding the 5.2 billion euros in expenditures last year stemming from the bank's legal battles with U.S. government regulators. Deutsche is being accused of wrongdoings related to mortgage-backed securities transactions during the 2008 financial crisis. Reuters reported that Deutsche Bank agreed to pay a $2.5 billion dollar fine to regulators in the

U.S. and abroad for its role in rigging interest rates. As we can see these are serious allegations and the fines expensive.

But it gets worse. For example, it's no secret that Deutsche Bank was one of the "too big to fail" mega banks involved in the mortgage crisis of 2008. But what most people don't know is that Deutsche Bank also attempted a sneaky maneuver to reorganize itself in 2010 by taking out its American subsidiary from its holding company in order to dodge the $20 billion reserve requirements spelled out by the Dodd-Frank Act.[8] The Federal Reserve would have no part of it and ultimately forced Deutsche to comply, but the litigation issues between Dodd-Frank and Deutsche continues. Needless to say, the bad press coming from all these legal wranglings has not helped Deutsche's image one bit. The really bad news for Deutsche is that future litigation costs are expected to mount up to $14 billion making it even harder for the bank to come out of its woes alive.

A financial bunker of some kind has become immensely important for every household and business wishing to weather the financial storms that lie ahead.

Trump's Cozy Relationship With European Banks

How Donald Trump enters this bizarre picture should not surprise anyone. All we need to do is just think real estate and remind ourselves that behind every mortgage there is a lender. So where does a big property buyer, builder, and developer like Trump get its money? In Trump's most recent financial disclosure statement we get the answer, "… it lists 16 loans from 11 different lenders, totaling at least $335 million, and the aggregate amount is likely much more. Deutsche Bank is clearly his favorite lender and Trump's financial empire has become largely dependent on his relationship with this major player on Wall Street and the global markets. The German bank has lent him at least $295 million for two of his signature projects. In 2012, Deutsche provided Trump with $125 million to help him buy Trump National Doral golf course. Last year, it handed Trump a $170 million line of credit for his new hotel project on Pennsylvania Avenue in Washington, DC."[9]

Interestingly, in 2008 Trump owed $640 million to several banks including Deutsche during the construction of a Chicago hotel and ran slow making his interest and mortgage payments in the aftermath of the crash. Deutsche quickly demanded Trump pay $40 million he had personally guaranteed. But in typical Trump style, he immediately sued Deutsche for $3 billion and called the 2008 economic recession an act of God. He accused Deutsche Bank of attempting to undermine the project.

Obviously the relationship between Trump and Deutsche has mended since 2008, as recent borrowing and lending indicate. But in light of Deutsche's current financial straits and Trumps new role as the Republican Presidential candidate of the United States, it will be interesting to see how all this plays out on the world stage.

Conclusion

While we have been waiting for a massive banking crisis to erupt here in the U.S., it's very possible that the unraveling of the financial mess could actually begin in Europe—indeed Robert has been cautioning people that a crash in Europe could ironically make the US dollar *strengthen* (even as we warn about its long-term fate due to Bernanke's reckless policies). At the moment, as this article has attempted to explain, the indicators certainly seem to be pointing in that direction.

Obviously, we can't know for sure. But what we can ascertain is that we are definitely in an interconnected global economy and whatever happens in other parts of the world, good or bad, certainly affects us in record time. In a matter of a few days all within the same month we have witnessed the social, political, and economic landscape shake as though the entire edifice could collapse. Now, more than ever we see the frailty of our society and what's at stake.

This is why a financial bunker of some kind has become immensely important for every household and business wishing to weather the financial storms that lie ahead. In an environment where most anything can trigger a market crash, or crashes that could easily lead to something even worse, having such a reinforced shelter has become imperative.

Bob and I recommend keeping a close watch on the financial markets through the lenses of Austrian economics and securing one's wealth using Nelson Nash's Infinite Banking Concept (IBC). This is the solution we want everyone to know about as quickly as possible. It is the single purpose for the IBC Practitioner Program for financial professionals created by Nelson Nash, David Stearns, Robert Murphy and myself. If you are a financial professional and are interested in this course of instruction for yourself and your clients please visit www.infinitebanking.org for more information and instructions on getting started.

If you are not a financial professional and simply want to know how IBC works please listen to our podcasts at www.Lara-Murphy.com where you can get the cliff notes version of IBC in audio conversations between Bob and me. More in-depth study can be found on both of these two websites.

If you already know all about IBC and are ready to talk to a live financial professional in your state here or in Canada, go to www.infinitebanking.org/finder/ and meet up with one of our graduates that will be happy to work with you in getting you set up.

If you want to communicate directly with Bob or me, please feel free to email us directly. Bob is at rpm@ConsultingbyRPM.com I can be reached at USATRUST@comcast.net We genuinely want you to know about this.

The information is all there and available where you can investigate it for yourself and at your own leisure. But please don't put off doing this any longer. If there is one comment I have now heard hundreds of times, wherever I go, from people who have embraced the concept of *Privatized Banking through IBC*, is that they only wish they had started it sooner. It's that good! ◆◆◆

They only wish they had started it sooner. It's that good!

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A "Monetary Reformation"?

Interview with Matt McKibbin

Matt McKibbin has been discussing Bitcoin and decentralized applications hosting his podcast Liberty Panacea in 2012. He has since co-founded Ubitquity.io (the blockchain-secured platform for real estate transactions), is the Chief Decentralization Officer at D10e.org (a conference dedicated to exploring decentralizing technologies), and is now a VP of Business Development at www.familyoffice.vc which is helping to connect family offices interested in funding disruptive startups. Ultimately he believes the blockchain represents a technology which creates monetary and societal reformation much like the printing press aided in disseminating information during the religious reformation.

Lara-Murphy Report: How did you become interested in Austrian economics?

Matt McKibbin: I first learned about Austrian economics and became politically aware from Peter Schiff and Ron Paul during the 2008 bailouts. The first Austrian economics book I read was *How An*

Economy Grows and Why It Crashes by Peter Schiff. I then went on to read Mises, Rothbard, Hayek, and many others.

Lara-Murphy Report: You recently hosted a conference that was an unusual first. Can you explain?

MM: Yes I was the organizer of the D10e conference[1] held in San Francisco July 19-20. We had one previous conference in Amsterdam in February 2016. D10e is a "numeronym" for decentralize and naturally this conference focuses on decentralization and technologies which promote decentralization and individual empowerment in society. I discuss this more in a blog post[2] written last year. D10e has four main pillars for the content including: Blockchain/Fintech, The Sharing Economy, The Future of Work, and Disruptive Tech and Culture. The San Francisco conference was one of the first ever to be virtual

"Peer to peer" means there is no central authority in the middle when a transaction occurs unlike when using Paypal, banks, and other financial institutions.

reality livestreamed using new cutting edge camera technology.

LMR: We've previously discussed Bitcoin (April 2013 *LMR*), but for the benefit of our readers who may be novices, can you explain the difference between Bitcoin and "the blockchain"?

MM: Bitcoin with a capital B is a network and a protocol for peer to peer value transfer. "Peer to peer" means there is no central authority in the middle when a transaction occurs unlike when using Paypal, banks, and other financial institutions. All transactions that occur on this network are recorded on an immutable public ledger, which is "the blockchain." The tokens or units of account which are traded and used to incentivize participation on the Bitcoin blockchain are called bitcoins with a lowercase b.

LMR: You told one us (Murphy) at the recent FreedomFest conference some of the amazing potential you saw for applications of the blockchain. Can you list some of them?

MM: The first application of the Bitcoin protocol and blockchain is to send the bitcoins or units of account from one user to another as a medium of exchange. Similarly the first applications for other protocols like TCP/IP for information sharing, HTTP for websites and SMTP for email were very basic. Eventually you saw more advanced applications like Gmail, YouTube, Facebook, etc. built on top of these internet protocols. One can think of Bitcoin and other blockchain networks as protocols for money/value transfer or "the internet of money." This opens up possibilities to any other type of application that participants may want to exchange with each other, besides simple units of account. Applications such as voting, digital identity, or registering and tracking of stocks, bonds, or property titles, and dispute resolution are possible on top of the blockchain or immutable public ledger infrastructure.

One can think of Bitcoin and other blockchain networks as protocols for money/value transfer or "the internet of money."

Let's take voting and title registration as two examples to expand upon. As stated before, blockchain applications allow for users to interact and trade value or record information without the interference or trust of a central third party. When voting occurs either in the political arena in elections or in a corporation, a person or party has to be trusted to count the votes and ensure they are recorded correctly. Given the political system we live in many have cried foul on claims of voting fraud or manipulation. With blockchain-based voting systems, the votes can be counted anonymously, and are permanently recorded on the blockchain where all changes made will be recorded, so that even if there were fraud, the audits would catch them.

Digital assets and title registration are also new applications being created on top of blockchains. For our example we can use the application layer Colored Coins which integrates with the Bitcoin blockchain. Colored Coins allows for specific units of bitcoin to be "colored" or tracked independent of the bitcoins' value. This then creates the ability of real world assets to have a unique digital token in order to represent any stock, bond, property title, and more on the blockchain. They are tracked using software called a block explorer which puts the data associated with each transaction into an easily readable form. For a Bitcoin block explore you can go to blockchain.info. You can see the examples of a property registered by Loveland with my company Ubitquity.io on the colored coins block explorer the link in the endnotes.[3]

Applications such as voting, digital identity, or registering and tracking of stocks, bonds, or property titles, and dispute resolution are possible.

LMR: In our conversation, you described the blockchain as a "reformation" of sorts. With apologies to our Catholic readers, can you explain what you meant?

MM: Many factors contributed to the Reformation. One large factor was the invention of the printing press. The printing press made it easy to cheaply and near infinitely reproduce written words so scriptures could be translated and disseminated without having to go through the central authority of the Catholic Church to be interpreted. Today

The printing press made it easy to cheaply and near infinitely reproduce written words so scriptures could be translated and disseminated without having to go through the central authority of the Catholic Church.

central banks have the power to print fiat money at will and we are forced to use that money by legal tender laws. With the advent of Bitcoin we no longer have to hold our money in depreciating fiat currency and be at the whims of whatever Keynesian central banker decides to hit CTRL-P [i.e. the keystroke shortcut command to "print"—eds.]. Bitcoin allows us to have a programmable money which cannot be managed by central banks. There is no central point of failure to attack or manipulate. The network protocol will run and more bitcoins will be produced at the rate which is programmed and controlled only by consensus of those willing to add computing power. State actors cannot control what the network does without trying to control every computer on the network. You can point a gun at a math problem but

no matter how many times you point the gun at 2+2 it will never equal 5. This creates a sort of "monetary reformation" in that central banks will still continue to print their money but you can choose to store your value in something that cannot be devalued by central institutions. Bitcoin and other cryptocurrencies are still at the nascent stages but over time the applications and security will grow as the internet grew rapidly in the 1990s and 2000s.

In the future, reputation, identity, and contract law can be built into these applications on top of the blockchain to augment the already programmable and immutable value transfer. Central authorities both in banking and governance are outdated, bureaucratic, slow, and expensive. New startups and applications that can eliminate the State in our lives are just starting to be realized. The future of mankind can disintermediate these central authorities and create a new economy from the ground up.

All in all, the blockchain represents the separation of State and economy as the reformation represented the separation of the Catholic Church from the sole regulator of one's religion. ◆◆◆

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EVENTS & ENGAGEMENTS

JULY 14-16, 2016
LAS VEGAS, NV

Murphy presents on various topics—and hosts karaoke social—at Freedom Fest

JULY 24-30, 2016
AUBURN, AL

Murphy lectures on Austrian economics at Mises University

AUGUST 13, 2016
NASHVILLE, TN

Nelson Nash, Lara, and Murphy present IBC to the public for CCC Corporation

SOME EVENTS MAY BE CLOSED TO GENERAL PUBLIC.
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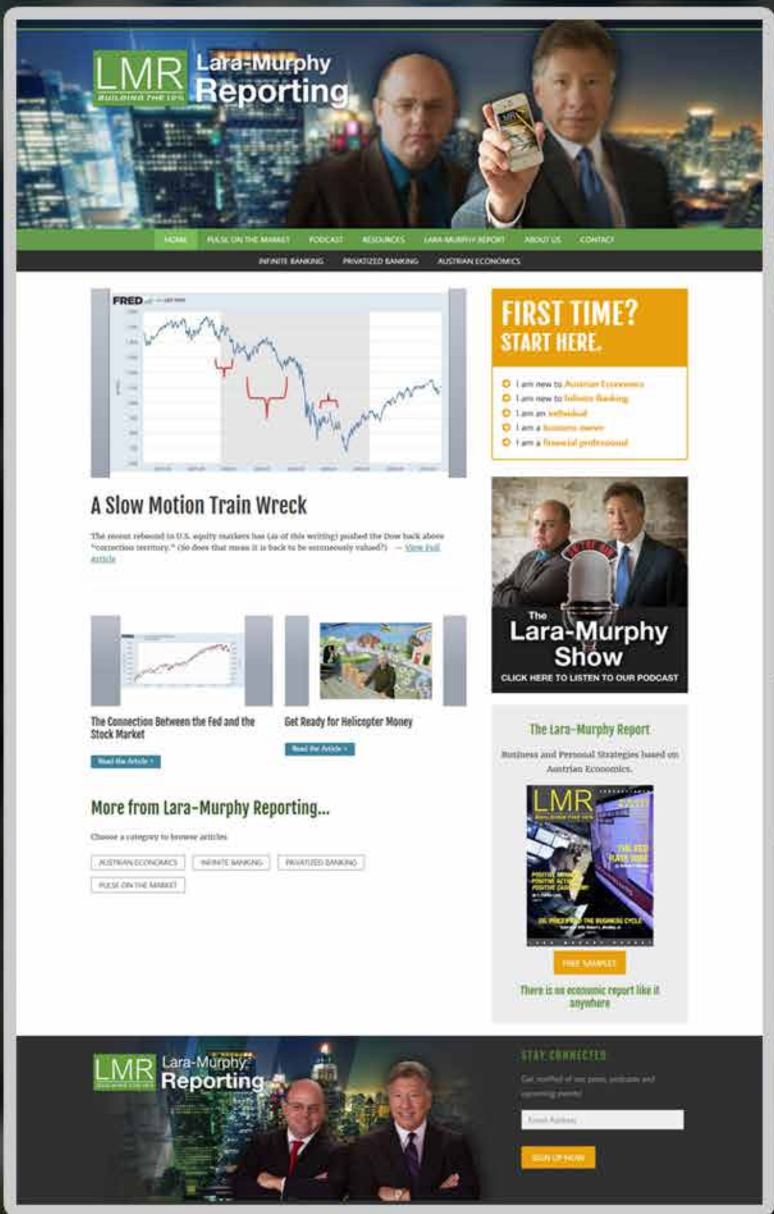

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