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Today we're going to go back in time to Thursday, October 24, 1907, precisely 01:30 p.m.. It's a guy named Ransom Thomas. Great name ransom Thomas. He was the head of the New York Stock Exchange. And he's frantically rushing into the offices of JP.

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Morgan. And I'm not talking about he's rushing into the, like the bank, JP. Morgan. I'm talking about he's going into the office of the guy J. Morgan.

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J. P. Morgan is the banker of bankers. He is the head of the New York banking establishment. And ransom.

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Thomas tells JP. Morgan there's about to be a massive financial catastrophe. Now this is one of these things. J. P.

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Morgan must have rolled his eyes and said, oh my God, here we go again. Because in this period of time, this is actually known as the Panic of 19 Seven. The Panic of 19 seven was a really big deal in US. Financial history. It had started just a couple of weeks before where some stock speculators, they were trying to get control of this copper company and they'd actually basically run the company in the ground.

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They shorted the stock all the way down where the stock collapsed. And when the price of this copper company stock collapsed, it actually brought down a bank, right, because there was this bank that had actually had been exposed to this copper company. And now with the copper company stock down, the bank said, oh my God, we've lost all our capital. And so the bank went under. Well, this is the way it works in the banking system.

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It very seldom does one bank, especially a fairly large bank, go under by itself. Sometimes banks, especially large banks, are so big that other banks have business with them, other banks are exposed to them. We saw this in 2008. You had these huge companies, these huge banks that went under and it caused this chain reaction. Lehman brothers went under.

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And then all of a sudden, everybody that was doing business with Lehman Brothers suddenly now they lost billions of dollars. And then they lost billions of dollars. They went bankrupt. And then when those secondary banks went bankrupt, everybody that was doing business with them went bankrupt. They started chain reaction.

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And this is what happened in 1907. There's a chain reaction. This one copper company goes under, the stock price collapse, one bank goes out of business, which meant another bank went out of business. And then another and another and another start a chain reaction. And JP.

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Morgan had actually stepped in to try and prevent that. It was a couple of weeks before, about a week before JPMorgan. Had stepped in. He said, okay, you know what, guys? We got to do something about this.

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So he calls up all of his wealthiest friends and said, let's start making deposits in these banks. Let's start trying to provide confidence. Let's start telling everybody that we're confident in the banking system and actually putting money in all these troubled banks. And they did that. Actually, JP.

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Morgan put lots of money in this case, actually a lot of his own money. He convinced his rich friends like John Rockefeller to go and put money in some of these struggling banks and calling reporters and giving press conferences saying, I'm going to pledge so much of my wealth to make sure that the banking system doesn't fail. Everything's fine. If I'm confident, then all these the little people out there should be confident as well. And so they thought that they had kind of gotten that under control.

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But now here, a couple of days later, thursday, October 24, now all of a sudden, the head of the New York Stock Exchange comes running into his office and he says, we got a problem. So imagine you just imagine JPMorg. Just the exasperation go, what is it now? Oh, my God, we just put so much money to shore up the banking system and restore confidence. What is the problem now?

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Well, now there's a problem on the stock exchange. Now there are all these brokerages and these broker houses that they were about to go under because they couldn't get financing from the banks, and it was going to be a total catastrophe. And so the head of the stock exchange, he says, we need $25 million. And that was a lot of money, obviously, back then. This is 130.

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And so Morgan, immediately he starts summoning all the other bank presidents on Wall Street, said, you guys need to come to my office right now. So everybody was running up when JP. Morgan said, you need to come to my office now. Everybody stopped what they're doing and they ran over to JPMorgan's office, and he got everybody together in a room. It's 02:16 p.m..

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He gets everybody together in a room, and he said, we've got to raise $25 million, like, now, like now, in a matter of minutes. And so they did. And by 230, about 2023, $24 million basically managed to reach the New York Stock Exchange. And they saved the day. And the stock exchange didn't have to close, and the markets were able to continue functioning because I think everybody knew that this was just going to be another thing, that if the stock market had to close early, the market failed.

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There was some kind of huge issue with the stock market that would again be one of these things that caused everybody to panic, and they'd start taking their money out of the banks, and it would have been a total disaster. And so this continued for quite some time, and eventually things calmed down. Eventually things calmed down. Took several weeks of I mean, it must have been incredibly tense. Incredibly tense.

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But finally everything calmed down. And the panic of 19 seven, as bad as it was total, full blown financial calamity was averted. And in the aftermath of all this, of course, politicians being politicians. There were hearings and committee meetings and all these things. And one of the things that they decided to come up with was they said, we need a central bank.

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We have to have a central bank, we have to have some lender of last resort, we have to have some function in there that somebody that's able to provide essentially limitless amounts of liquidity. So in the event that there is another financial panic, we've got this central bank that's able to go out and make emergency loans to prop up the financial system, emergency loans to prop up the market, emergency loans to prop up the banks. And this is essentially what ended up happening, that all these bankers got together in Jekyll Island later on, and in 1913, they passed the Federal Reserve Act and they created the Federal Reserve. Now, the story behind that is actually much, much longer. We could do an entire podcast just on that.

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Honestly, it's almost like a murder mystery. There's just so much intrigue in this and how that was actually passed and how it came to pass. But I want to focus on that. This is actually the birth of the Federal Reserve is now 110 years old, and the Panic of 19 Seven is like many events throughout history. It is the event, it signals a new era.

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It signals something so important. The Panic of 19 Seven was sort of the end of this, let's say, unregulated financial era. And it ushers in the era of the central bank, where now everything's regulated and all these rules and supervision and so forth. And this is the thing that happens so often throughout history, is that there is often some iconic event or series of events that essentially signal this major shift or transition. And we've seen this again over and over throughout history.

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An easy example, 476 Ad, you've got this barbarian king, Otoeser, comes down and deposes the Western Roman Emperor, this kid, Romulus Augustus. And this is the iconic event that historians circle and say, that was the end of the Western Roman Empire. Now, what's interesting is that at the time, if you were in the Western Roman Empire, if you were in Italy at the time, and you heard about this and say, oh, Ramos Augusta was deposed. Is it Tuesday again? Oh, wow, another Roman Emperor has been deposed.

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Big deal, big whoop, who cares? It happens all the time. It was kind of regarded as just a passing event. Nobody really cared. It wasn't a big deal.

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Nobody looked at that and said, ghastly event, that the Western Roman Empire has now fallen. Nobody viewed it that way. Things are already so bad in the Western Roman Empire. Nobody really cared, right? But historians view this.

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That's the iconic event that signals the transition and the end of the Western Roman Empire. In the same way the Panic of 19 Seven sort of signals this shift in US economic history, the stock market crash in October 1929. There's actually a series of crashes over a period of several days. But it's often what people think about the stock market crash in October 1929 as that iconic event that signaled the Great Depression. There are a lot of signs of the Great Depression really unfolding and really major economic crisis well before the stock market crash in October 1929.

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But the stock market crash is the thing that sort of that most people think of when they think about the Great Depression. We talked about last week. We did a whole podcast. We talked about the Reformation. We talked about Martin Luther.

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And even though there were plenty of signs of the Reformation in advance of Martin Luther, it's this iconic event of Martin Luther. The legend, the mythology of Martin Luther marching to the church door in Wittenberg and proudly nailing his 95 Theses to the door and sparking this major movement in human history. That's the iconic event. And I think if you go forward in time decades from now in the way that if you went forward in time decades after the Great Depression, high school students read about the Great Depression, they read about the stock market crash and all these things. I think if you go forward in time decades and decades from now, what will future historians circle about our own time?

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I think it's actually possible that one of the things that they circle is the Silicon Valley bank collapse from last week. They may, in fact, say March what was it been? March 10, 2023? Silicon Valley bank collapse. This might be one of those things that we read about, just like the stock market crash or Romulus Augustus or Martin Luther.

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This might be one of those iconic events that signifies this major it's that signal of this major trend. And God knows there's so many of them, but the major trend that we're talking about, so many signals, so many different events. We could go back and we could say, oh, well, there was the debacle in Afghanistan, the helicopters over the embassy in Kabul. We could look at, you know, we could look at COVID, we could look at the Pandemic. We could look at so many different things that might signal that.

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But the major trend is essentially the decline, the peak and decline of the United States, the dominant superpower. And you could say, really, the west in general, but specifically the US. Is the dominant superpower. And I don't think it's controversial anymore to say that the US. Is in decline.

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I started saying this when I started Sovereign Man back in 2009, and it was a very controversial thing to say back in 2009. But I was one of the people saying it in 2009, saying, look, this is not a pretty picture. You got a lot of debt, you got a lot of deficits, you got wars, you've got really funny stuff happening with the currency and the central bank and so many things that just don't make sense. This is obviously a place that's past its peak, and I don't take any pleasure in saying that, but I think it's important. Again, I went to West Point.

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I served in the military. I have absolutely no pleasure in saying that the United States has passed its peak. But I think any rational individual who's being intellectually honest has to take a very sobering appraisal of the facts, the actual objective facts, not the political spin, but the actual facts and data that are publicly available and out there for everybody to see and make an honest assessment. Because if you understand these trends and you understand again, throughout history, you could see there's never been a dominant superpower that's lasted forever. You can go back to the empire of Alexander the Great, the Romans, the Mesopotamians, the Assyrian Empire, the Ottoman Empire.

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I mean, there's just so many of these instances throughout history. Regional powers. What we can see is that power, great powers, rise and fall, reserve currencies, rise and fall. They come and go. These things happen over and over and over again.

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History is so cyclical. Rise and fall, rise and fall. And it's silly. Quite often, most dominant superpowers, the Romans and the French and everybody at a certain point just simply assume that their power and dominance would last forever. But it never does.

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It never does. And if you understand those cycles of history, you understand, you take really an intellectually honest approach to examine the facts and circumstances that are publicly available for anybody to see. I think any rational person would draw the same conclusion, saying, this is a place that's in decline, it's past its peak, and that doesn't mean the world is coming to an end. It doesn't mean that civilization and life as we know it is going to fundamentally disappear forever. No, of course not.

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That would be super dramatic. There are, of course, people out there talking about the collapse of this and the collapse of that and all this sort of stuff. But that's silly. That's silly. The world isn't coming to an end.

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Nobody's going to spontaneously combust. But a shift to transition away from US. Dominance, a shift in transition away from the dominance of the dollar as the main predominant reserve currency in the

world, that's a really big deal. It means that people, I think, especially in the US. Or people that are really exposed to US.

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Dollars, have some thinking to do, have some planning to do, have some things that you really got to make some plans, and you got to take some steps to reduce the risk and your exposure to some of that, because it's a really, really big deal. Again, if you look to history and you see the economic effects of transition from being the dominant superpower to going in decline, it's usually a really big deal. The french and the British and the Romans and there's so many examples of this. Very seldom, if ever do we have an example of some dominant superpower that goes into a period of decline and everything's just fine. There's no economic consequences, there's no social consequences.

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That's a really rare feat. So this has been the ethos of sovereign of our organization really since inception. And again, to say these things back in 2009 was considered really quite radical or quite controversial. I think now it seems pretty clear. Most people could understand, yeah, this is a place that's in decline and if we go back, if we think about the future and we think how are future historians going to regard our time?

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There's going to be something that they circle on the calendar. It's going to be some iconic event that's going to say this is what really signaled the decline. What will that be? Will it be the withdrawal from Afghanistan? Will it be COVID-19?

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Will it be so many different things? I think they could point to, they could point to elections, they could point to whatever, they could point to so many different things. But to be fair, I think it's possible that the Silicon Valley Bank collapsed last week. Could be one of the things that they circle as that iconic event. I'm not trying to be dramatic in that but I think it's important to understand that the Silicon Valley Bank collapse and the subsequent consequences, this is a really really big deal and I think a lot of people don't fully appreciate how big of a deal this really is.

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And this is what I want to talk about. I've been writing about this a lot this week and what I want to do is kind of briefly summarize some of those points because the long term implications for this are really extraordinary. Number one, it's important to remember silicon Valley Bank did not go bust because they had bought some crazy high risk investment. This is banks notoriously take their customers money and they go and buy stuff with it. They go and buy assets, they make loans, they buy bonds, they do all sorts of stuff.

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Back in 2006, 2005, banks were going out and buying these ridiculous super high risk mortgage bonds. They were out making loans to unemployed homeless people and they were doing it with your money, with our money, with depositors money, taking these crazy risks and pretending like there was never going to be any consequence to that whatsoever. Obviously it was stupid. It almost brought down the entire US economy, the entire US financial system, the global financial system, which is why they called the global financial crisis the GFC. When it finally busted in 2008, silicon Valley Bank wasn't doing any of that.

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Silicon Valley Bank didn't go bust because they'd been making loans to unemployed homeless people. They went bust because they bought US government bonds. Supposedly the safest investment in the world but it turns out there's no such thing as completely and totally risk free. Even US government bonds which are supposed to be the safest investment in the world do carry risk. There is a risk that the government will not pay you back and I think the longer term bond you get if you get a 28 day T bill you're probably okay.

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If you buy a 30 year bond, you're really taking a lot of risk there. Because the US. Government finance is getting worse and worse. And now, obviously, they have this debt ceiling fiasco, so who knows what that looks like down the road? But US.

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Government bonds can also lose value in the same way that any other bond can lose value. Now most people understand the stock market pretty intuitively. You understand that companies have stock prices stock prices go up and down sometimes they have dividend yields and so forth. A lot of people don't fully understand bonds and bond prices. Well, the number one rule to understand is that bonds lose value when interest rates increase.

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And if you think about it really it actually makes a lot of sense. Bonds bonds are basically it's essentially usually considered fixed income. Sometimes bonds can be variable but for the most part you have this sort of fixed rate of return. You buy a bond and you get some certain yield and that yield lasts throughout the maturity of the bond. Again, every bond is different but this is the way, for example, most US government bonds work.

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There are some exceptions to this tips and things like that. But if you go out and buy like a ten year treasury for example, basically you're going to get this fixed rate of return for ten years and that's the way it works. And so ten year yields were basically nothing. If you go back to 2000 and 22,021 I think the all time low was like eight basis points that some poor bastard bid on US ten year Treasuries back at the very beginning of COVID And so if you think about eight basis points remember a basis point is one 100th of 1% so eight basis points means basically a yield of 0.8%.

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If you bought a government bond at an eight basis point yield that means that that's all you're going to make. Your rate of return is locked in for ten years that's all you're going to make is eight basis points. You're going to make an 8% yield every year. I mean obviously that's nothing that's horrible. Now interest rates are obviously significantly higher so you've got this bond that you bought now a couple of years ago that's making 0.8% the government's now issuing new bonds the new ten year Treasuries that the government's issuing are paying three and a half, four, four and a quarter percent.

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So if somebody can go out and buy a new bond that yields let's say 4% or 400 basis points right and you've got your bond that's stuck locked in at eight basis points. And now all of a sudden you decide, hey I want to sell my bond. Well why the hell would anybody want to buy your bond? It's only yielding eight basis points. Somebody could literally go out and get 500 times as much.

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They get 400 basis points or 4% from the new bonds. So why would anybody want to pay top dollar for your bond that's yielding eight basis points when they can go out and buy a new one for 400, right? It just doesn't make any sense. So if you want to sell your bond that's stuck at eight basis points locked in for the next several years at eight basis points, it means the only way you're going to be able to sell it is if you heavily discount the price. Your bond has lost value because interest rates have increased.

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Makes sense, right? So this is what happened with Silicon Valley Bank. These guys went out and it was stupid, but these guys went out and they bought all these long term government bonds and agency debt, et cetera. And they did so at a time when interest rates were basically nothing. So Silicon Valley Bank is now sitting on these long term Treasuries and US housing bonds and so forth and the rates are like nothing.

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And now all of a sudden interest rates have increased substantially. Well guess what? The value of their bond portfolio has declined significantly. Significantly. So this is a really interesting thing because back in 2007, 2008, when these banks started collapsing, 2009, the new lexicon emerged.

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People started calling them toxic assets, right? All these terrible the Ninja loans and the loans to homeless and unemployed people and all these things they call those, this became known as the toxic securities. Well the new toxic security now apparently is the US government bond because one of the largest banks in the country went bust buying these supposedly safe US. Government bonds. That's how extreme interest rate changes can be.

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It can wreck havoc in financial markets to the point that a bank can go under by buying US government bonds. Pretty crazy. But again the government here, I mean if you step back and you look at this, the government had spent years trying to prevent another crisis like this. The government spent years after the 2008 crash, the 2009 crisis, dozens and dozens of banks went under. The government steps in, they create these new laws, these new rules, these new regulations.

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And one of the things that came out of it was stress tests. They said banks, regulators need to, need to make sure that banks pass stress tests to make sure that these banks are going to be able to stay solvent in the event of some kind of economic adversity. Well guess what? Silicon Valley bank followed all the rules. They followed the regulations.

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There were some rules that they bent they went for a long time without a chief risk officer, which was, I mean, not only a bonehead thing to do, but this is something that the regulators totally missed and apparently we're fine with. I mean it was just another example of all these guys being asleep at the wheel. But Silicon Valley Bank, in its own financial report, they say, quote, this is the most recent financial report from December 31 of last year. They said, we conduct capital stress tests as part of our annual capital planning process. These stress tests allow us to assess the impact of adverse changes in the economy and interest rates on our capital adequacy position.

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So Silicon Valley Bank was in fact stress testing its entire portfolio to say, what's going to happen to our portfolio if interest rates rise? And it's not like they did this in a vacuum. They were being supervised by the regulators. So the regulators saw them taking these stress tests, undergoing these stress tests and said, oh great, you guys are good to go. So this is such a hilarious failure of the regulators.

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Once again, you got Congress, they went and passed all these laws, didn't do any good. The regulators supervising all this didn't do any good. The banks complying with this stuff didn't do any good. The mountain of regulation and scrutiny amounted to nothing. And one of the really ironic parts about this, of course, is that the guy that wrote the cornerstone banking legislation is called the DoddFrank Act, partly named after this guy, Barney Frank.

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Barney Frank was a hardcore left leaning, hated big businesses, hated big banks, loved high taxes, all that sort of stuff. He was the guy who was the architect behind the legislation that requires stress testing and deeper supervision and scrutiny of banks. Well wouldn't you know it? This guy, after he retired, suddenly discovers capitalism, embraces his newfound love for capitalism, goes and joins the board of, became a director on the board of directors of one of these banks that just went under. This is the guy that wrote the legislation, and a lot of good that did.

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And it's just another example of politicians just don't actually understand the problem. They might

have had good intentions, but it doesn't matter because they go and they create these rules. Fast forward ten or 15 years and it turns out all the rules ended up doing absolutely no good whatsoever. What's going to happen now? They're going to come up with new rules, right?

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This is what they always do. They come up with new rules. They go, oh well, the old rules didn't work, so what do we need? We need new rules. So they come up with more rules and more rules and more rules and this ridiculous cycle never ends.

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Yes, Silicon Valley Bank was stupid about the way they did it. They bought $120,000,000,000, most of that in bonds. Most of that was long term bonds with maturities going ten to 2030 years at a time, 30 year maturity. I mean they were taking on huge interest rate risk. At some point somebody in that bank should have been like, hey guys, you realize if interest rates go up to like three 4%, we're going to be totally screwed.

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But apparently nobody realized that. So they just kept buying these ultra long term government bonds. And again the regulators saw it. It's not like the regulators didn't have access to that information. The regulators were supervising them the whole time and said, oh great job Silicon Valley Bank.

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Nothing to see here. You're doing a great job. So Silicon Valley Bank is not some innocent babe in this whole scenario. They were totally stupid. And obviously the fact that senior management was selling stock before the collapse, it looks really bad, but a lot of things they're doing look really bad.

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But you got to look at the government's role in all of this, passing all these rules that amounted to nothing. The regulator's rules. The regulators saw all of this information and not just a couple of months ago. It's going back two years. I mean the regulators should have seen in 2020, hey, you guys are loading up on a lot of long term debt that's going to expose you to interest rate risk.

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But they didn't. Nobody said a word. All the Wall Street analysts said nothing. In fact when Silicon Valley Bank released its earnings report in mid January about two months ago, and their earnings report said very clearly, hey, we're basically insolvent because our unrealized losses on our bond portfolio are so vast, our entire capital is wiped out. What happened to the stock price?

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It went through the roof within a matter of days of them announcing basically that they were insolvent. All these hotshot wall street traders and investors and analysts bid up the Silicon Valley Bank stock price from in a matter of days after announcing essentially that they were insolvent on a mark to market basis. So there's just so much head scratching, incompetence and stupidity. Go look at all the regulations you passed. The guy who wrote the regulations is on the board.

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Now discovered capitalism is on the board of one of these failed banks. The Wall Street guys didn't see it. The regulars were totally asleep with the wheel. And then of course now you've got the Federal Reserve. The Federal Reserve is another basically bank regulator.

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They supervise all of their member banks. So the Federal Reserve, the central bank in the US, which is the Federal Reserve, is what came out of the panic of 19 seven. They said we need a central bank. We need a bank that's going to be a lender of last resort. So when there's a crisis like this they can go out and make emergency loans.

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This is what the Fed does. The Fed is there in part to supervise the financial system. They have an entire. Department whose responsibility is to supervise banks across the US. Banking system.

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The Fed had access to this information months ago. What do they do about it? Nothing, right? They did nothing about it in advance, and now all of a sudden, Silicon Valley Bank went under. Bear in mind, the chairman of the Federal Reserve three days before Silicon Valley Bank went under, testified to the United States Senate Banking Committee that there was no risk.

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He says, quote, nothing in the data suggests that we've tightened too much nothing in the data suggests that we've raised interest rates too much too quickly. Nothing to see here, people. Everything's fine. Three days later, one of the largest banks in the United States went under because they had bought US. Government bonds, right?

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That's one of the reasons why I think if you step back and how future historians are going to look at this, this thing is just boiling over with incompetence in every step of the way. Where people think, future historians, you just got to look at this and go, how did you not see this? How did the regulators not see this? How did the politicians not see it? How did the bank not see it?

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How did all these people, how did the central bank, how do these key officials of the Federal Reserve, where the guy went and testified in front of the Senate and said, everything's fine, there's no risk in the financial system. I mean, talk about just mind bending incompetence. This is why this may be not guaranteed, but it may be the event that future historians circle and say, that's the iconic event that really signaled the decline of the United States. When you see, like, these are supposed to be the experts of experts of experts, the central bankers, the hotshot Wall Street guys, the financiers, all this, and nobody saw it coming. In an era where they're going and doing stress tests and following all the rules, how did this possibly happen?

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This is ridiculous. None of these guys saw it. And so how do they respond to it, right? How do they respond to it? Well, the first thing they did is they had to roll out the guy who shakes hands with thin air.

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They put him on camera to say, oh, the banking system is strong, and I have full confidence in the banking system. They sent out the Treasury Secretary to do the same thing. I have full confidence in the banking system. And then what happened, right? The FDIC stepped in and said, we're going to fully guarantee all bank deposits at Silicon Valley Bank.

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And that's a departure from what they usually do. They usually guarantee deposits up to $250,000. But in this case, we're going to make an exception. Or as I like to say, we're going to make an exception. Again, it's yet another exception from the FDIC.

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And so the FDIC then made an exception. We're going to guarantee all deposits, even if your deposit balance is above $250,000. So this sparked widespread controversy, said, oh, they're bailing out the depositors, and this is a taxpayer funded bailout. Again, we need to be intellectually honest. It's not a taxpayer funded bailout.

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I'm no fan of a lot of these parties involved, but the reality is being intellectually honest, the FDIC is funded by banks, right? The FDIC's got $128,000,000,000 insurance fund. And the real irony here is that where does the FDIC invest its insurance fund? They invest all the $128,000,000,000 in US

government bonds, right? Which, by the way, have massive unrealized losses, just like Silicon Valley Bank.

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So maybe the FDIC needs a bailout now because these guys are underwater on their bond portfolio. But the FDIC gets this money, this $128,000,000,000, by charging fees to its member banks. So these big Wall Street banks pay fees to the FDIC. The FDIC then pools all that money together into an insurance fund, basically. And then when a bank goes under, they dip into that insurance fund to make depositors whole.

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In this particular case, instead of just smaller deposits with $250,000 or less, they decide to bail out everybody. So essentially, this is not a taxpayer funded bailout. This is a bailout where Wall Street banks are bailing out wealthy West Coast depositors in Silicon Valley bank. That's essentially what this is. It's not a taxpayer funded bailout.

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But the real bailout is not the FDIC. The real bailout is from the Federal Reserve. And the Federal Reserve. This is the extraordinary thing. And also one of the reasons why I think future historians, or even economic historians in particular, would look at this and circle this as the iconic event, because it's also about the response, not just the blundering incompetence of all the people that are involved, the Wall Street analysts, the bankers, the central bankers, all these people that are involved.

[00:30:32.030]
It's the response. And so the Fed stepped in and they just created this new program. They invented a new program called the Bank Term Funding Facility. Sorry. Bank Term Funding program.

[00:30:43.250]
Btfp. I think it's what it's called. Btfp or bank term facility program, something like that. Anyways, it doesn't matter because I say it's believe the fiction people. That's really to me what it actually stands for, when in my mind, Btfp stands for believe the fiction people.

[00:30:56.930]
My friend Carl says, Believe the fake paper. I like that one, too, because the idea is they're just making it up. They're just making up everything. So the idea is, let's say you're Silicon Valley Bank, right? You spend $120,000,000,000 on bonds.

[00:31:09.350]
You spend $120,000,000,000 on bonds. And by the way, you spend $120,000,000,000 of your customers money on bonds. And so this is your customers money. And $120,000,000,000 now, it's worth like $100 billion. At this point, their last financial disclosure, they had about $17 billion in losses.

[00:31:27.520]
Maybe they're probably up to $20 billion in losses now. So let's say out of that $120,000,000,000 you've lost 20 billion. Now you're down to it. Your bonds are now worth $100 billion, no longer 120. Well, what does the Fed say?

[00:31:39.200]
No problem, bro, no problem. We will loan you money based on the entire, the original $120,000,000,000, right? So this is the way this works. Remember the Federal Reserve was created out of the panic of 19 seven. It took them a few years.

[00:31:53.750]
All the bankers had to again, it's like a murder mystery story, has all sorts of intrigue and secret trips and all these things. But they got this Federal Reserve Act passed in 1913 and part of the charter of the Federal Reserve, that part of the whole point of its existence. The reason it came into existence

was to act as a financial stabilized, to act as a lender of last resort. So that if there is some problem in the banking system, banks are going under, markets are going under, financial players are going under. The bank's able to step in and just start putting liquidity in the system, say no problem, here's some money, here's some money, here's some money.

[00:32:31.140]
They make loans, emergency loans to banks to stabilize the financial system. They think about how loans work. Well, when you and I go to the bank and get a loan, we've got to post some kind of collateral. People want a mortgage, right? They use their house as collateral and the bank loans the money using the house as collateral.

[00:32:48.570]
When you get a car loan, you put your car up, the car is collateral, the automobile is collateral. You put down a down payment and the automobile is collateral. People get loans when they buy jets, when they buy businesses, buy factory equipment, all sorts of things, right? So a lot of times these loans that we make, consumer loans are often secured. They have collateral backing them up.

[00:33:09.070]
It's the same thing when banks borrow money, commercial banks borrow money from the central bank. When a commercial bank's got to borrow money from a central bank, this is actually written into the law, the Federal Reserve Act. The bank is supposed to post some kind of collateral, right? So the bank says, oh well, here I've got this bond portfolio as collateral. I've got $120,000,000,000.

[00:33:29.490]
I got a bond portfolio that I paid $120,000,000,000 for but is now worth 100. So I'll post that as collateral. So now, ordinarily a central bank would say, well if your bond portfolio is worth you bought it for 120, it's worth 100. But we need to reduce our risk as a central bank. So we'll loan you like 90 billion, we'll loan you 80 billion based on the market value of your bond portfolio.

[00:33:55.060]
So we're going to get $100 billion in market value of assets. We're going to loan you $80 billion. So that way if you commercial bank default, then that way we still have some margin of safety and we're not going to take a loss. But that's not what the central bank is doing now, what the Federal Reserve is doing with this Btfp, believe the fake paper, believe the fiction, people is they're saying, oh, you've got $20 billion in losses. Well, we're just going to pretend that you don't.

[00:34:20.150]
We're going to pretend that your bonds are worth more than they're actually worth right now. We're going to pretend they're worth as much as you paid. We're going to pretend that they're worth even more technically that you paid. Because actually, the program, I mean, this is actually so ridiculous. The part that's really offensive is that the Fed put so much thought into this that all they could come up with was a half page term sheet.

[00:34:38.860]
There's a half a page, basically, of explanation on what this Btfp really is. It does most of these things, these bureaucracies that go on for hundreds of pages on what it is and the law and the regulations, all this stuff. It's half a page. Half a page basically saying, we'll give you 100 cents on the dollar of the face value of the bond. Most of the time when banks buy bonds, they don't actually pay full face value.

[00:34:59.550]
They pay a little bit less than face value. So not only is the Federal Reserve going to loan more than the bond portfolios are worth, they're actually loaning more than the banks paid. They're loaning more than the banks paid. So this is total insanity. This is complete total insanity.

[00:35:15.790]
This is as stupid as the subprime lending crisis back in 2006, 2007, when banks were going out

loaning money to unemployed homeless people, right, what were banks doing? They were saying, oh, because banks are all in competition with each other, everybody wanted to write these mortgages. And so you had one bank saying, well, we'll give you a loan that's equal to 80% of the home's value. And the other bank would say, oh, well, we'll give you 90%. And the other bank said, we'll give you 100%.

[00:35:40.060]
And it got so ridiculous. There were banks that were making loans for 100 and 510% of a home's value. A lot of times even it was they'd say, oh, I'm going to buy a house for $300,000. The purchase price was $300,000, but the home's value might be they say, oh, the value of the house. The appraiser would come in and say the house is actually worth $320,000, and the bank would go in and give somebody 105% of the value of the house, not even the purchase price.

[00:36:07.580]
I mean, it was so stupid. It was so high risk. The bank is loaning more money than the house is worth more money than the buyer is actually supposed to pay, right? So who's on the hook in that scenario? If the buyer doesn't pay or the home declines in value, who's on the hook?

[00:36:24.670]
Well, the bank is on the hook. But when you think about it. No, the bank's not on the hook. The bank is just some middleman in this whole scenario. Who's on the hook?

[00:36:32.180]
The depositors are on the hook because the bank is making these insane loans with their depositors money, right. And so this is really the issue because what the Fed has done here is they've said, hey, no problem. We'll loan you just like the subprime crisis where people are loaning more money than the house, is worth more money than people are actually paying for the homes. The Fed's saying, hey, we'll loan you more money than your bonds are worth. We'll loan you more money than you paid for your bonds, even.

[00:36:59.880]
That's how crazy we are. We're crazy fed right? So we're going to loan you more money than the bonds are worth. And bear in mind that the total potential losses in the banking system right now due to the total sort of lost bond value, according to the FDIC, is between 600 and $650,000,000,000. So that's how much risk the Fed is essentially taking on right now.

[00:37:21.290]
The Fed is taking on almost $650,000,000,000 in potential losses that these commercial banks just are essentially just getting to pass on directly to the Federal Reserve, right? The Fed is taking on this financial risk, not the banks. The banks get a free pass, as always. The banks get a free pass. The banks get to pretend that they don't have any losses so the banks get to pretend they don't have any losses and pass all that risk directly on to the Fed.

[00:37:46.760]
The Fed's giving them more money than the bonds are worth, more money than the banks actually paid. And you look at the I challenge anybody to go to the Federal Reserve Act or any of the subsequent legislation and find any part of the Federal Reserve Act that states expressly that they are allowed to just make up whatever value they want for the collateral. It doesn't say that in the Federal Reserve Act, does not give them the authority to do that. The Federal Reserve Act is actually very explicit in what it says because Federal Reserve Act, they knew when they, when they wrote that law, they knew that part of the whole reason why the Fed needs to exist, according to their thinking at the time, was they need a lender of last resort. And so they actually spelled out, this is how you will be a lender of last resort.

[00:38:26.990]
You can make loans to financial institutions. Sure, that's your role as a central bank. You can loan money to banks, but you have to accept collateral. And they actually say, here's exactly the kind of

collateral that you can accept. I mean, actually it says this right there in the law.

[00:38:41.930]
Nothing in the law gives them the authority to just go and make up whatever value they want to do. So when you think about it, they're making up the value for the bonds. They're making up the authority to do that. To begin with, it's all just make believe values, make believe authorities. This is so full of pretend make believe nonsense.

[00:38:59.970]
I fully expect the Fed Chairman, in his next press conference, is going to dress up as Big Bird in front of reporters because this is all about pretend and make believe. This is so ridiculous. Nothing about this is actually legal. Congress did not provide the authority for the Federal Reserve to do this. But the Federal Reserve, in the same way that when I explained when banks did this, they're going out making these risky loans, right?

[00:39:22.790]
They're essentially passing that risk on to their depositors, which as a depositor, you're essentially a creditor of the bank. That's really what you are. You're a creditor of the bank. So the banks, when they're making loans to unemployed homeless people, 105% mortgages, loaning more money than the house is worth, loaning more money than the buyers are actually paying, they're passing that risk on to their deposits, to their creditors. Well, the Fed is doing the same thing, right?

[00:39:46.170]
Because the Fed is again, they're just a middleman in this. That's just some organization who's ultimately on the hook. Who's ultimately on the hook. People say, oh, the taxpayers on the hook? No, the taxpayers aren't on the hook.

[00:39:56.280]
It's not the taxpayers because the Feds, if you pull out a US dollar, right? What does it say? What does it say on the US dollar? It says Federal Reserve note. Now, I don't want to get into kind of an existential discussion about the dollar and get philosophical about all this, but realistically, US dollars are the liabilities of the Federal Reserve.

[00:40:20.640]
The Federal Reserve, if you look at the Federal Reserve's balance sheet, right, it's got assets and it's got liabilities. The Federal Reserve's assets are things like government bonds and housing bonds and all these sorts of things. Its liabilities are US dollars, the money supply across the country. In fact, when the Fed prints money, essentially what they're doing is they're just creating more liabilities for themselves. And so what the Fed is basically doing is they're passing on all this financial risk, $650,000,000,000 to its creditors, which is essentially the US dollar, people that use the US dollar, which is every single man, woman and child in the United States of America, every single foreigner who holds US dollars.

[00:40:57.940]
And I'll come back to that in a minute. But the Federal Reserve was able to do this, was able to pass on 600 plus billion dollars in potential risk and potential liabilities to make sure that the banks don't lose any money, right? So we're going to pass on all that risk from the banks through the Fed, to every single person in the world, including in the United States, that holds and uses US dollars. And they did it all without any approval from Congress. There was no vote, there was no committee meeting.

[00:41:26.740]
There was no people on the floor of Congress arguing, debating whether or not the Fed should have this story. They just made up the authority to do it. They're making up the values of these bonds and again, doing this without any actual legal authority whatsoever. It's completely and totally ridiculous. I'm amazed that and this is not the first time the Fed has done this, by the way.

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The Fed routinely makes up authority to do this, to do all sorts of things. They just make up stuff that they shouldn't be allowed to do. But it's astonishing to me that nobody cares. I wrote about this the other day. I said that the Fed just hijacked American democracy.

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And yes, there were people always say it's a republic, yes, it's a republican democracy, representative democracy. But the point is, there's supposed to be a say that people, through their elected representatives, have a say in what these officials are allowed to do. But you've got a bunch of unelected people at the Federal Reserve who, by the way, have been wrong about virtually everything. These are the people that three days before Silicon Valley Bank collapse said, there's nothing to see here, there's no risk, everything's fine. Who last year, my favorite quote ever of the Federal Reserve was, now we finally understand how little we understand about inflation.

[00:42:31.650]
The same people who the previous summer, in 2021 said inflation is transitory, it's going to be over in a couple of months, who a few months prior to that, in February 2021, said, Inflation. There's no inflation. There's not going to be any inflation. What are you talking about? You must be insane.

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They have been wrong and wrong and wrong and wrong, and now they've been raising rates. They can't get their arms around inflation. They still don't understand inflation. And now what are they going to do? They've just made up the authority they've made up the authority to give themselves the authority to make up whatever value they want to loan $650,000,000,000 and stick every single person in the country who uses US dollars, virtually everybody, with all the risk and all the consequences.

[00:43:14.690]
It's utterly disgusting. And you can start to see why. I think if people take an honest assessment of this in the future, they're going to look at this and go, wow, this is a really big deal. This may be that iconic event. The longer term implications here, I think, are important to understand.

[00:43:30.950]
Now, I want to talk about foreigners, right? This is just another sign of rust for the US dollar. And think about it's not just US banks. I was saying, kind of tongue in cheek, who's lost money on their US government bond portfolio. I got Silicon Valley Bank, but I wrote earlier this week, I said, look at Silicon Valley Bank has lost a ton of money.

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So has everybody else. So has everybody else, every other bank. And all you got to do is just look at their financial reports. Wells Fargo has lost $50 billion. They have $50 billion in unrealized losses according to their own financial statement.

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This isn't some conspiracy theory. Just look at their financial statement. You can see $50 billion in unrealized losses in their bond portfolio. Every bank, because interest rates have risen so quickly, is sitting on huge losses in their bond portfolios. The FDIC's Insurance fund is sitting on massive unrealized losses in this bond portfolio.

[00:44:23.530]
The Federal Reserve has $300 billion in unrealized losses in its bond portfolio. Bear in mind, the Federal Reserve only has a few billion dollars in statutory capital. So the central bank of the United States is completely and totally insolvent. Is that a good thing? Probably not.

[00:44:41.370]
Probably not, right? And so it's everybody in the financial system that holds these bonds, and there's so many of them. And that includes foreigners. It includes foreign banks, foreign governments, foreign central banks, foreign institutions, foreign corporations. These guys bought government,

bought US government bonds as well.

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They bought US government bonds at eight basis points and they've lost their asses. And on top of that, they bought US government bonds at eight basis points. Now those government bonds are way down in value that they bought. So they've lost a lot of value in those government bonds. So basically now they're taking a loss on their investment.

[00:45:16.670]
On top of that, these bonds are in US dollars. US dollar has lost seven, eight, nine. If you think about going back two years, I mean the rate of inflation over two years, they're down another 1215 percent just because of inflation. On top of that, they're sitting on a US dollar asset. Well, the US dollar has gotten weaker against their home currency, right?

[00:45:38.590]
You think about something like the renminbi, since over the last couple of years, renminb is probably about 5% stronger than the US dollar. The Singapore dollar is about 8% stronger. Even the Mexican peso is stronger than it was against the US dollar a couple of years ago. So foreigners, they've lost because the bond has lost value. They've suffered inflation on top of that.

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They've suffered exchange rate risk on top of that. These guys are looking around, they're going, okay, I am so tired of this. Right. Think about a foreigner. It's like you've got all these issues, so many of these issues.

[00:46:15.750]
Your central bank is insolvent hundreds of billions of dollars in unrealized losses. Now you've signed every holder of the US dollar up for 600 plus billion dollars in risk to backstop the banks, even though by the way, you're running around telling everybody the banks are strong. Well if the banks are so strong, why are you backstopping $600 billion worth of risk? You wouldn't have to do that if the banks are strong. But hey, we'll just move on from that.

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You got all these issues. You got 31 and a half trillion dollars of US government debt. These guys cannot get their act together. They can't fix anything. They can't stop the spending.

[00:46:46.060]
They got multitrillion dollar deficits every single year. You got all this risk in the financial system, so many issues, the bickering, the inability for the federal government to do anything positive, to do anything, to actually solve any problem. They can't even acknowledge problems, let alone understand them, let alone discuss them rationally, let alone actually solve anything. And now they just want to spend trillions of dollars more every single year. Who wants to deal with that anymore?

[00:47:13.680]
If you're a foreigner and you're looking at this going, god, are you kidding me? I don't want to deal with this anymore. I'm sick of it. I am so sick of it. I don't want to deal with this nonsense anymore.

[00:47:24.500]
Who needs it? Who needs this US dollar, the inflation and the nonsense from the central bank, who needs it anymore? Right? Why would anybody want to keep doing this? And meanwhile you got the Chinese running around the world preaching the gospel of the renminbi, their own currency.

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They're going around doing deals, making peace between Saudi Arabia and Iran, going around saying, hey, we want to broker a peace in Russia and Ukraine. A lot of people are really starting to take them seriously. A lot of people saying, well, hey, they got a strong economy. They don't do all these crazy things. Maybe we should give their currency a try.

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I'm not saying that China is the answer or it's a good idea. My point is that people are so sick and tired if they look at you, step back and you look, if you're a foreign institution, you're a foreign central bank, you got to be so sick and tired of this just constant bullshit with the dollar and the US. Economy and the US. Government. Who needs it, right?

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Why would you keep doing this? Why would you keep taking these losses? It just doesn't make any sense. And the Chinese are going around. They're saying, hey, let's set up oil contracts.

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Right now most oil contracts are in US. Dollars. Let's start buying and selling oil. Let's start transacting oil markets in our currency in renminbi. Let's start transacting in other financial securities in renminbi.

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Let's start doing interest rate forwards in renminbi. Let's start doing all these other things in renminbi, actually give people a reason to buy and hold renminbi. And people are going to see, again, foreigners seeing this thing, this crisis in the US. Banking system, and they're going to say, yeah, maybe that's actually a good idea. Maybe we should actually diversify a little bit.

[00:48:57.640]
We've got too much exposure to the US. Dollar and who needs it, Matt? Who needs this crazy level of just stupidity and incompetence? And this is why. This is why future historians, I think, may actually circle this Silicon Valley bank when they write the economic textbooks in the future.

[00:49:14.030]
And the way that people look at the stock market crash in 1929, they may say Silicon Valley Bank collapsed 2023. Of course, there are plenty of warning signs of the Great Depression way before the stock market collapsed in October 1929. There were lots of signs of it before that. In the same way there were lots of signs of decline in the US. A decline in appetite for the US dollars, the world's reserve currency.

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Lots of signs before that. But maybe this becomes that iconic event. We don't really know. But this takes me back to the beginning again. I have written extensively about this.

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I recorded podcasts about this. We did one a few weeks ago talking about that the war in Ukraine may in fact end up shifting the tide away from the US dollar, because wars often do that throughout history. Wars often signal the changing of the guard from the dominant superpower. And when that happens, the change in the reserve currency isn't that far behind the changing the guard between one superpower and another. They don't even need to be opposing each other.

[00:50:13.090]
They don't need to be even fighting against each other in the war. We saw this in World War II where the US. Sort of took the mantle of world leadership from the UK. They were on the same side in World War II, but it still happened because wars often do that. Major crises, financial crises often do that.

[00:50:29.530]
We're seeing both of those at the same time in this whole period of turmoil. Again, the war, of course, the shameful Afghanistan withdrawal, the humiliating helicopters over Kabul, the guy that shakes hands with thin air, the debt ceiling fiasco, now this unraveling of the US banking system. Again, it's not that the US. Is just going to disappear into the night. The world isn't coming to an end.

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But it is time to acknowledge rationally that the dominant superpower has peaked. It's well past its peak, and we can go back and just take a rational approach of the data of the events that we've seen unfold, and realize, like, yeah, this is what's happening. And it doesn't mean that the world is coming to an end, nor does it mean that anything's going to happen tomorrow. And nothing goes up and down in a straight line. History is very cyclical, but it's not constant in that way.

[00:51:17.420]
Nothing goes up or down a straight line. We did a couple of podcasts about this. There was a Roman emperor, Aurelian, who took Rome back from the brink and brought Rome back and made Rome reestablish Rome's dominance and power. There were periods of history. I did one about the UK coming into the early 18 hundreds in England.

[00:51:39.140]
You got Napoleon's at the gate, and you got a guy, the King of England, the King of Britain at the time was a guy who was, like, literally crazy. A guy had lost his mind. I mean, there are all these incredible. Stories about King George supposedly shaking hands with an oak tree, believing that it was the King of Prussia. I mean, it's just ridiculous things.

[00:51:57.190]
The economy was in the dumps, they had a currency crisis, and yet after that was the most powerful, the most prominent, the most prosperous time in the history of Britain in the 18 hundreds, the PAX Britannica. And there was so much prosperity. Nothing goes up or down in a straight line. So is this in some bleak picture where we've got to get our affairs in order because the world's coming to an end tomorrow afternoon? That's not at all what I'm saying.

[00:52:21.240]
Nothing goes up or down a straight line. There will be good years and bad years and periods of recovery and periods of decline. But it is important to understand that the United States is very clearly past its peak. That has a lot of implications, lots and lots of implications. Decline ultimately is inevitable, because this has happened over.

[00:52:39.640]
There has never been an instance in history where the dominant superpower has remained the superpower. If that were the case, then the ancient Sumerians would still be the dominant superpower today. The Romans would be the dominant superpower today. But it just doesn't happen. Superpowers always rise and fall.

[00:52:54.170]
Reserve currencies rise and fall. And it doesn't mean the world is coming to an end. It does mean, however, that if you're not the superpower, if you don't have the reserve currency, then you can't get away with these ridiculous things that you're getting away with. If you think about all this stuff that's going on right now, the debt ceiling fiasco is a great example. The debt ceiling fiasco is a great example, because you got these people, they can't agree on the debt soon, they can't agree, like, they can't get spending under control, they can't do any of these things.

[00:53:20.160]
Multitrillion dollar deficits and politicians that actually have the balls to look at the camera, close their thumb and their index finger together and say that it costs nothing. It's the most ridiculous things ever. No other country could get away with that. And we're not even talking about, yeah, Costa Rica is not going to be able to get away with that. But not only is small countries not going to be able to get away with that, big countries aren't going to be able to get away with it.

[00:53:41.600]
The United Kingdom can't get away with that. The United Kingdom can't get away with endless multitrillion pound deficits. They can't get away with some massive, constantly rising, never falling government debt. They can't get away with it. And we know this to be true.

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This isn't some wild speculation. We saw this firsthand just six months ago, if you remember, the bond market. Bond investors completely crushed the UK. They caused the pound to go into freefall. They caused us British government debt, known as Gilts, to go into freefall.

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And the leader of a sovereign government, one of the largest, most powerful economies in the world. The Prime Minister had to resign. Had to resign because investors didn't like her economic plan, right? So this is the sort of thing, this is the reality, right? You don't get away with standing in front of the cameras saying that it costs nothing.

[00:54:30.180]
You don't get away with trying to dress up multi trillion dollar deficits and 31 and a half trillion dollars in debt and say everything's going to be fine in ten years. They say we're going to cut the deficit by a few hundred billion dollars over a ten year period. Give me a break. Over ten years, cutting the deficit means you still have a deficit. You're saying that even in ten years you can't figure out how to balance your budget over a ten year period?

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That is disgusting. That is such a horrendous amount of incompetence. And you're just not going to get away with that anymore. That's the whole point. This is the sort of thing that's in store, is that the government is going to be forced to learn how to live within its means.

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Means there are going to be cuts. There's going to be cuts to Social Security, and we can see when they make cuts to these programs. Look what's happening in France right now. The whole country is on fire. People out in the streets torching cars, they got the garbage strike, all these things.

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This is the sort of thing that happens. You got strikes, people go on strike cutting essential services. People go out in the streets protesting these things. It creates a lot of social turmoil when you start cutting, start making just sensible modifications to social safety net programs. Same thing.

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Less spending on defense, which is essentially relinquishing just handing the keys to the castle. You're relinquishing global dominance to the Chinese. Less spending on just about everything, right? They're going to have to live within their means because nobody's going to loan them money anymore and say, oh sure, we'll keep buying your bonds at rates way below the rate of inflation. We'll keep getting killed because of inflation, because of exchange rate differences, because of these terrible yields that we're getting on your bonds.

[00:56:08.030]
Sure, let's just keep doing that forever because hey, we like you so much, we're just going to keep losing money because we like America. That's just not going to happen. You can't continue to depend on that. And so this has got to change. That's ultimately what this means.

[00:56:20.890]
It means there's going to be cuts, higher taxes, all these sorts of things. It's going to be a fundamental shift in US economic life. It doesn't mean the world's coming to an end. And by the way, I would add that there are plenty of reasons to be optimistic. I think that the US and the world could be looking at a massive energy renaissance, which I actually hope to discuss with you soon.

[00:56:43.270]
And it's not the end of the world. They will eventually find the right balance of having strength with economic stability, but they're not there right now. Right now, it's nothing but weakness and it's instability. It's the debt ceiling fiasco. It's all sorts of crisis and uncertainty.

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And now on top of everything else is a banking crisis, which is why I think down the road, at some point, decades in the future, historians could look at this and circle this and say, march 10, 2023, silicon Valley Bank went bust. And that becomes the iconic event that defines signals the shift of US. Dominance in the world. This is a huge, huge story, and I think people need to be prepared for this. People need to understand the implications.

[00:57:24.130]
It's not the end of the world, but we cannot continue to do the same things that we've always done, especially to our money, with respect to our investments, with respect to our businesses. It makes sense to really expand our horizons and think critically and differently about what this world is going to look like post US dominance. It is virtually a certainty. And again, future historians may look back and circle this as the moment. Thanks so much for listening, and we'll speak to you again soon.