



T. Boone Pickens Media Coverage 10.1.11-10.3.11

Total of 4 Placements

- Print: 2
- Online: 2

Coverage Summary

Chesapeake Energy CEO Aubrey McClendon has a guest op-ed on Forbes.com. In making the case for increased use of natural gas, McClendon reveals that if the Dept. of Defense was powered by U.S. natural gas instead of foreign oil, taxpayers could save \$11 billion a year. In addition, McClendon cites a recent study by the American Chemistry Council revealing that increased production of shale gas would produce nearly 400,000 new jobs in the chemical sector and among suppliers. Finally, McClendon states that increased use of natural gas will also stimulate the economy through improved balance of trade and increased consumer confidence.

Highlighted Placements (Full Articles Below)

- **Chesapeake Energy's McClendon: How America Can Get Its Swagger Back** – *Forbes.com* – 10/3/11 <http://www.forbes.com/sites/christopherhelman/2011/10/03/chesapeake-energys-mcclendon-how-america-can-get-its-swagger-back/2/>

Print Placements (Full Articles Below)

- **Gas advocate: Self-reliance a possibility** – *Williamsport Sun-Gazette* – 10/1/11 <http://www.sungazette.com/page/content.detail/id/569246/Gas-advocate--Self-reliance-a-possibility.html?nav=5011>
- **Clean Energy to Build Natural Gas Station for Florida Logistics Company** – *Orange County Business Journal* – 10/3/11 <http://www.ocbj.com/news/2011/oct/03/clean-energy-build-natural-gas-station-florida-log/>

Blog/Online Placements (Full Articles Below)

• **Interview With John Mauldin** – *End of the Debt Supercycle* – GuruFocus.com – 10/2/11

<http://www.gurufocus.com/news/146984/interview-with-john-mauldin--end-of-the-debt-supercycle>

HIGHLIGHTED COVERAGE

Chesapeake Energy's McClendon: How America Can Get Its Swagger Back – *Forbes.com* – 10/3/11

By Christopher Helman

This is a guest op-ed by Aubrey McClendon, the co-founder and chief executive of Chesapeake Energy (and a member of the Forbes 400). With 3 billion cubic feet per day of domestic natural gas production, Chesapeake is second only to ExxonMobil. The company is the leading acquirer and developer of oil and gas from shale formations—which hold enough gas to meet U.S. demand for 20 years.

The current shocks to the U.S. financial markets share a fundamental characteristic with the contentiousness surrounding the recent debt ceiling debate in Washington: pessimism about our nation's economic prospects in the years ahead means we've lost some of our swagger abroad and at home. How to best regain it? Become energy independent and invest the saved trillions in the American economy.

A major problem in the current budget debates is that no one is betting on game-changing economic growth. Over the next 10 years, America will export at least \$5-7 trillion of American wealth to import foreign oil – unaffordable and unsustainable? Yes.

Imagine the mood swing from the White House and Capitol Hill to Wall Street if our budget assumptions took a portion of that \$5-7 trillion in anticipated foreign oil purchases over the next 10 years and instead invested that money right here in America developing American oil and natural gas resources. Instead of importing \$100 per barrel oil from foreign countries, we can find American oil at less than \$20 per barrel and American natural gas at less than \$2.00 per mcf (that's the energy equivalent of about \$12 per barrel), and pocket the difference – 80% of that \$5-7 trillion of expected oil imports.

Yes, it's really true: America's future energy needs can be supplied 100% from home-grown energy resources. Production of unconventional oil and shale natural gas from 32 of our 50 states now provides fuel sources of revolutionary abundance, allowing us in the years ahead to stand tall again without the weight of exporting trillions of dollars to the world's oil producers.

This new energy supply revolution in the U.S. is so enormous that American manufacturers now enjoy natural gas costs that are the envy of the world. Since 2008, the abundant supply of natural gas has dropped the price of natural gas by 67%, providing a national economic stimulus of \$250 million per day. This domestic energy cost advantage is already attracting industrial facilities back into the U.S.; witness the almost weekly announcements of new jobs in the American chemical industry, for example. In the next few years, rising production of American natural gas can spark a 21st century American manufacturing renaissance, producing jobs that will help revitalize America.

That's just the beginning. If we use natural gas as a primary transportation fuel, we can save businesses and consumers about \$2 per gallon. All we need to do is invest about \$2 billion in building compressed natural gas (CNG) and liquefied natural gas (LNG) pumps at truck stops across the interstates to give vehicle owners confidence to buy CNG/LNG vehicles and manufacturers the confidence to build CNG/LNG vehicles. Chesapeake alone is committed to investing 10% for the needed \$2 billion infrastructure, and others will join us.

While consumers will be huge beneficiaries of these lower fuel prices, Uncle Sam can take advantage of the same savings at the pump. The Department of Defense alone consumed 5.5 billion gallons of petroleum fuels in 2010. If DoD were powered by U.S. natural gas instead of foreign oil, taxpayers could save \$11 billion a year.

The energy sector is one of the few bright spots on the domestic job front and remains one of the few American industries that still lead the world in technology and performance. American natural gas and oil producers are adding tens of thousands of jobs and generating tenfold more jobs for contractor, supplier and service industries. Chesapeake this year has hired almost 3,000 Americans directly and 30,000 indirectly through our position as the nation's #1 driller of new oil and natural gas wells.

But other industries win as well. According to a recent American Chemistry Council study, increased production of shale gas would produce nearly 400,000 new jobs in the chemical sector and among suppliers. Steel, plastics, glass, cement, all have a new incentive to invest and hire in America. This will not only ease taxpayer spending on unemployment benefits and add to federal, state and local tax revenues, but will also stimulate the economy through improved balance of trade and increased

consumer confidence.

These new opportunities are real and should be embraced by our political leaders and the public. This new American oil and natural gas supply revolution is not dependent on government subsidies. All it needs is appropriate regulatory caution and certainty. This uniquely American energy treasure can be safely developed by Americans and for Americans. In the process, we can break foreign oil's four-decade stranglehold on our economy and our foreign policy. Let's regain our swagger and create value and jobs right here at home – we have the resources, now let's use them!

PRINT COVERAGE

Gas advocate: Self-reliance a possibility – *Williamsport Sun-Gazette* – 10/1/11

By David Thompson

Prior to his presentation Friday at the Community Arts Center, billionaire financier and oil and gas tycoon T. Boone Pickens took to the stage to participate in a roundtable discussion before an invitation-only crowd.

Pickens said the nation's economy has been hamstrung by 40 years without an energy policy. As a result, Americans are at the mercy of foreign countries that do not like us.

"The challenge we have is that we are using the enemy's resources," Pickens said.

Moderated by Williamsport-Lycoming Chamber of Commerce President Vince Matteo, the panel included Gov. Tom Corbett, state Sen. Eugene Yaw, R-Loyalsock Township, state Department of Environmental Protection Secretary Michael Krancer and several members of the natural gas industry, including Douglas Miller, president of EXCO Resources Inc., Rob Brown, president of Talisman Energy USA, and Alan McKim, president of Clean Harbor.

Pickens praised Corbett and his role in promoting shale gas development. Pennsylvania's experience with the Marcellus Shale should be a model for how natural gas development should be done throughout the U.S.

"They see what you are doing and realize we can do this all over the United States," he said.

Pickens said New York may soon lift a moratorium on gas development and that can be a good thing, but only if the overall development of natural gas "fits into a plan that changes the economy of America."

He said it is sad to see young people educated in their home states, then leave because those states lack employment opportunities.

Because of natural gas, that can change, he said.

"Your young people are going to stay here because the opportunities are here," he said.

Pickens said Pennsylvania already has a heritage with the oil industry - the nation's first oil well was drilled in Titusville in 1859. The Marcellus Shale boom will be quite unlike that early oil boom, he said.

"This is not the same kind of boom like in Titusville in 1859," he said. "This is going to go on for a long time. It's not going to be boom and out of here."

Corbett said developing the Marcellus Shale has the potential to make Pennsylvania "energy independent," but added that policies and regulations need to be put in place to make sure that happens.

Next week Corbett said he plans to begin working next week on legislative and non-legislative measures that will help ensure responsible development of the resource.

That, in turn, will help fuel economic development in the state, he said.

"Energy equals jobs," Corbett said, adding that it is no coincidence that Williamsport has seen unprecedented growth in recent years. He attributed that growth to the Marcellus Shale.

Corbett said he is confident the shale can be developed responsibly.

"If we can put a man on the moon in 1969, we can do this right," he said.

Krancer discussed DEP initiatives he said will ensure safe development of the natural gas, including increasing drilling operation setbacks from water supplies, chemical disclosures by the gas industry and increased enforcement.

Krancer said a report submitted by the governor's Marcellus Shale Advisory Commission includes almost 100 recommendations to be considered by the Corbett administration.

Brown called the Marcellus Shale a "huge treasure" and predicted in four years it will produce 3.5 billion cubic feet of gas per day.

Miller said his company plans to invest \$1 billion a year for the next five years in the shale play, but said the challenge will be to develop the resource slow enough that it can be done with minimal impacts.

"This is perhaps the largest gas field in the world," Miller said. "If we do it right and do it together, there is a lot of money to be made and a lot of jobs (created)."

One of the challenges facing the industry in the Marcellus Shale is the number of companies involved in drilling here, Miller said. While the larger companies may work responsibly, "the little guys are taking shortcuts," he said.

"We can't put them over our knees. You'll have to put them over your knees," he said to the state officials on the stage. Miller also predicted that in the coming years, the number of companies working in the Marcellus Shale will be reduced due to larger company taking over small operators.

"(In the future) there will be 10 operators," he said. "Right now, there are hundreds."

Corbett offered closing remarks, telling the audience that education is the key to making Pennsylvania citizens feel comfortable with shale gas development.

Clean Energy to Build Natural Gas Station for Florida Logistics Company – Orange County *Business Journal – 10/3/11*

By Chris Casacchia

Seal Beach-based Clean Energy Fuels Corp. signed a deal to build and operate a compressed natural-gas truck fueling station for Saddle Creek Transportation Inc.'s headquarters and warehouse in Lakeland, Florida, between Orlando and Tampa.

Saddle Creek provides trucking, warehousing, fulfillment services, contract packing and other logistical support for retailers and other companies.

The deal calls for Clean Energy to operate the station for 10 years.

It's believed to be the first of its kind in the state for the commercial sector.

Construction is under way and the fueling station is scheduled to open in December.

Saddle Creek expects to have 40 new natural gas trucks in use by the end of the year and another 40 in early 2012, executives said.

Investors shrugged off news of the deal, and sent Clean Energy shares down about 4.5% in midday trading to a market value of about \$744 million.

The Saddle Creek contract is the latest in a string of recent Clean Energy deals that aim to bring a low-cost, low-carbon alternative to diesel fuel to a broader market.

The company has secured \$300 million in funding since July to back its plan to develop corridors of natural gas fueling stations throughout the country and other projects.

In August it secured \$150 million from three Asian investment funds to continue building the network. In addition to construction, funding will be used for marketing, purchasing delivery trucks, and hiring management and maintenance personnel, the company said.

That investment followed another \$150 million investment from Oklahoma City-based Chesapeake Energy Corp. in July.

Chesapeake's investment was for some 150 liquid natural gas fueling stations at Pilot-Flying J Travel Centers across the U.S. The goal is to establish what Clean Energy is calling "America's Natural Gas Highway."

When the multi-year project concludes, major transportation arteries in California, Texas and the Midwest are expected to have natural gas stations spread out every 250 miles or so.

Clean Energy has annual revenue of more than \$200 million and hopes to clear earnings hurdles by building a network of fueling stations for the largest segment of the market: heavy-duty haulers that consume some \$30 billion of fuel annually.

That dwarfs the public sector and waste management industries combined.

Legendary oilman and corporate raider T. Boone Pickens started Clean Energy as a tiny part of his Dallas-based Mesa Petroleum in the late 1980s. He split it off in the late 1990s.

BLOG/ONLINE COVERAGE

Interview With John Mauldin – *End of the Debt Supercycle* – GuruFocus.com – 10/2/11

John Mauldin, best-selling author and omnipresent e-presence, needs no introduction, so I won't get in the way. The president of Millennium Wave Investments very generously spent some quality after-breakfast time with me on a deck on the shore of a gloriously remote Maine lake, right after S&P downgraded the U.S., and this is how the conversation went. Listen in.

KMW

So what's the next step in the end game, now that we've seen S&P downgrade the U.S.?

It's going to be a series of steps – and they are going to seem surreal. I mean, here we were last night at a gathering of some of the finest economic minds in the world, when the first word of the downgrade started leaking out. When I was told by Jim Bianco and John Silvia to stand by, Bloomberg was going to need commentary because S&P had reportedly issued the downgrade, my initial reaction was to laugh and say, "Guys, if you want me to make a fool of myself in front of a million people come up with a more credible lie." Yet in an odd sense, I am hoping that the downgrading of the U.S. government, acts as a wakeup call to our Congress and to the President to recognize that we really do have to do something. This is the whole process of the end game.

Which, it just so happens, is the title of your latest bestseller, "Endgame: The End of The Debt Supercycle and How It Changes Everything," which you wrote with Jonathan Tepper.

Well, could we have a clearer signal that this is the end of the debt super cycle? What we have done is use leverage for 70 years to finance our growth. At the beginning of the supercycle, it was giving us \$5 of growth for every dollar of leverage. But towards the end, it was giving us 50 cents for every dollar of leverage – so it was not a good bet anymore. While this is hard for an author to say, the most important book of the last decade was not, in fact, mine, but Ken Rogoff and Carmine Reinhart's book, "This Time

It's Different," which gave us a marvelous, marvelous framework for analyzing the crisis backed up with a data series of one financial crisis after another. What we have learned (or, really failed to learn) is that it's never different this time. There is a pattern, and the United States is no different than Greece or Ireland or Italy or Japan or any other country in history. Highly indebted governments, banks, or corporations can seem to be merrily rolling along for an extended period, when bang! – confidence collapses, lenders disappear, and a crisis hits. There's a limit to how much the bond market is going to let us borrow. As we approach that limit – and we're not there yet, we have time, thank God – we can make choices about how we want to deal with the problem. But the problem is too much debt and too high a deficit. And we have to deal with it. Our choices are only about how.

Meaning?

When I am in front of a crowd speaking about this, I frequently liken the problem to a bottle of wine. I like to take a bottle of wine out and put it in front of them, saying, "We're going to have this much pain and there is not anything we can do about it. But we can choose to take it all at once– that's probably a depression – or we can turn the bottle on its side and take only little bit at the beginning, and then as we grow over time, we can take more. Now, as we all learned in Economics 101, if we reduce government spending, that is going to reduce GDP. But the economic literature tells us that it's going to reduce GDP only for about 4 quarters, on average, so that is not a long-term effect. The problem comes in because we're going to have to reduce the deficit by about 1% of the GDP a year in the first year and then do the same the next year and then the next year. We're going to have to do it for 5 or 6 years. Now, that doesn't mean we can't have phenomenal growth in the meantime that will help us bring GDP up even as we reduce the deficit. But we are also going to have to deal, in the deleveraging process, with a couple of recessions because that's what happens. That is what the recent McKinsey Global Institute study that I mentioned in my book made very clear: This is not a normal cyclical, or business cycle recession; it was brought on by too much borrowing, and now we have to repair our balance sheets by deleveraging at the same time that the assets we bought in the boom are falling in value. What's more, empirically, a long period of deleveraging almost always follows a major financial crisis. These deleveraging periods, it's very clear, include both recessions and periods of growth, and we are talking about a five-to-seven year process.

In other words, there's no quick exit, for those looking for instant gratification?

No such luck. I was with Senator Rob Portman (R, Ohio), who was the head of the OMB [Office of Management and Budget] from 2006-2007, under President George W. Bush, just last week. I was with 10 senators, as a matter of fact, at the invitation of Sen. Portman, basically giving a seminar on this

process. By the way, it was tri-partisan. There were Democrats in attendance and also Sen. Joseph Lieberman, so we had an independent! These guys were very engaged. But as you began to explain to them that we have a 57 year outlook dominated by the problems of slow growth, high unemployment, and there is nothing they can do; there is no pixie dust that they can sprinkle on these problems, it was plain that it wasn't what they wanted to hear. Hearing that, in fact, when you start dealing with the problem in a credible manner, you are going to create the very situation that your constituents don't want, isn't something that warms politician hearts.

Or what passes for hearts in those environs. I would have loved being a fly on those walls.

As you're sitting and talking with them, they're saying, "This is not fun," Several of them had already read the book. They knew. That's why they brought along colleagues. That's how you get 9 or 10 senators in a room for 90 minutes. The ones who knew had been working the floor. When they had asked me to come, I thought there would be 3 or 4 maybe at the meeting. But you do what you can. It was a sobering group. There were people in that room who were going to be named to the government's "Gang of 12," which is charged with finding budget cuts under the debt ceiling deal.

Have you noticed how Chinese terminology is seeping into political discourse?

It is, isn't it? But my point is that we're going to be lurching from crisis to crisis; my deep concern is that second half growth is going to be slow, 1% if we're lucky.

I'd say we're flirting with stall speed – or worse.

We are and the problem is that Europe – somewhere in the next six months to a year, maybe sooner, is going to have a true, true crisis. And for us to think that it is not going to visit our shores seems absurd on its face – after all, our subprime problems, which originated in Vallejo and Riverside and Nevada and Arizona and Florida, took the entire world of banking and credit down. It is all really interconnected. I use an analogy of a sand pile in my book. There was a wonderful computer experiment in the mid-'80s, used to study the stability of a simulated sand pile. They would drop one piece of electronic "sand" onto a sand pile, over and over again, and when the pile became unstable, it would show up red on the computer screen. So over time, you would get these large fingers of instability that would build up through the system. Sometimes they'd produce little small slides but sometimes the pile would build up and then you'd have a massive slide. Well, we now have so many fingers of instability among our banks and among our financial institutions around the world that this interconnectedness is going to create, I think, another crisis here in the U.S. I expect it to push us into a recession push unemployment even higher. And I expect all of that to happen right in the middle of the election year – even though,

historically, you'd expect 2012 to be a good year for the economy, because that's what the presidents do.

It sure helps, if they want to get re-elected. Hence, the presidential cycle.

My point is that the end game takes away all the previous cycles, all the data. That takes me back to my meeting with Sen. Portman. I said, "Your former guys at OMB are making projections that the U.S. is going to be growing at 3.5% and that unemployment drops to 7% – by using past performance as their guide. Yet every email that I send out, every letter I write, everything I publish has a disclaimer at the bottom, saying that "past performance is not indicative of future results," because it isn't.

True, though nobody reads those disclaimers – and lots of folks invest like they believe in the predictive power of past performance.

Yet the single most-important thing we need to understand is that we are in the end game – and understand that you cannot use past models in the endgame. We have a lot of physics employed in the economic world these days. We want to be able to model things – and sometimes the models even work – but that doesn't necessarily mean that we have built smart models.

It's amazing how many physicists around Wall Street seem to have forgotten everything they once learned about the way complex systems can become too complex – go critical – and then fail catastrophically.

We have the potential for another banking crisis, at least equivalent to what we just went through. Because 80% of European banks are going to be insolvent; they are all more leveraged than our banks. They weren't required to put up any capital against their holdings of sovereign debt because everybody knew the sovereigns are sovereign and cannot default. Well, they were wrong. So now we're in this crazy situation where our banks have loaned them money and their banks have lent money to ours, and we've all sold each other credit default swaps – and Dodd-Frank didn't solve the central issues. We still have banks that are too big to fail, we did not put most credit default swaps on an exchange – because, God knows, that would have hurt the banks' profits –

In my opinion they're an innovation that should be banned in most instances.

Well, I disagree. I'm actually in the school that says we don't have too many derivatives – we don't have

enough. Derivatives are a good thing, but they need to be on an exchange. A futures contract is a derivative – but it's on an exchange and so you know your counterparty is going to keep their end of the bargain.

It's also tied to a physical, not merely some third or fourth degree paper construct created to facilitate financial speculation.

I believe you can have markets for pure speculation. But what I want to know is who the counterparty is. If the counterparty is AIG, then it's no longer speculation. You put the public purse at risk and it is utterly absurd to give Goldman Sachs \$10 billion of public money because they bought protection from AIG. If you buy protection from a private party, it is up to you to know who the private party is and it's up to you to have done your homework. It is not up to the public to come in and say, "Oh, Goldman Sachs, you poor boy, you didn't know what you were doing," and bail you out.

But AIG was a "triple A" credit.

No excuses. The upshot is that as a society, we're in a situation of being forced to embrace austerity; it's a word you don't want to use. But being forced to gradually reduce the deficit and deleverage changes the underlying tectonic plates of the economy. Businesses are just going to have to shift, individuals are going to have to shift. I was talking to one of our Maine fishing guides last night; he was asking what does all this mean for me? He said, "I'm a small businessman. I thought if I came through this last recession, I might be okay." But I had to sit there and tell him that, "You're probably going to have to survive another five years of this." Then he said, "I don't want to work for another 5 years." I looked at him and said, "You're probably going to have to." That's just the reality, more and more— not just in the U.S., but around the world. My throwaway line in "Endgame" is, "Japan is a bug in search of a windshield." Japan is going to hit the wall sometime within the next few years – and unlike Greece, Japan makes a difference.

It's still the third largest economy in the world—

So going back to my meeting with the senators, I said, "Guys, the real problem you guys are going to have is not getting the deficit under control. You can figure out a glide path – just like taking a plane in, you find your glide path and take it down slowly. You can figure it out. Your real problem is going to be that every major economy in the world tries to take your currency down.

You see competitive devaluations?

The euro, if it exists in two years, is going to be a lot cheaper. I said in 2002, when the euro was at 88 cents, that it was going to a buck-fifty and all the way back to a buck in 12-15 years. You could see this coming. The pound is going to parity. The yen, when they start printing – and they will – will go to 125, 150, 175, 200, 250. What's the end? I don't know, but you will buy a Lexus cheaper than you can buy a Kia. And South Korea is not going to like that, just as the Swiss are complaining bitterly. [And the SNB just fired a salvo, setting a floor under its currency.] The Chinese are going to be looking at their largest client, which is actually Europe – not the U.S. – with a currency that has dropped like a rock, while the U.S. is griping and complaining that the Chinese currency needs to rise another 25%-30%. Meanwhile, the ECB is in crisis, who knows what QE3 might look like, commodities prices are under pressure again, yet we seem to be having terrible weather patterns, which will be exerting upward pressure on food prices.

So part of your gloom stems from your perception that QE3 is inevitable?

Oh, yes. The old line is that if the only tool you have is a hammer, then all the world looks like a nail.

True enough. But isn't even that tool impotent?

The point is, for the Fed, the only tool they have left is liquidity. When all the world looks illiquid, they don't want to be sitting around in a room saying, "There is nothing we can do." Because everybody will be saying, "Do something." Well, the only thing they can do maybe is something like make the next QE look like Operation Twist from 1948 – where they just purposely drive the 10-year yield down to 1.5% 2%. So, again, when we're sitting around in Maine next year at this time, we'll be saying, again, "My God, what have they done? It's like we're living in a Dali painting. And it's going to seem like that because it's never different this time and we just have to go through that wine bottle's worth of pain.

We're just stuck?

If we don't deal with it – if we don't proactively say we're going to get our deficit under control – let me put it this way: My personal belief is that if we do proactively get our long-term budget issues under control, the bond market will say, "Okay, you're credible and we will buy your bonds, because you have put yourself on a credible path – whether it's through cuts, whether it's through tax increases, however you want to do it – but you have to do it. But you have shown us a credible way to get to the place where the growth rate of your deficit is below the growth rate of nominal GDP."

But if we don't do that, my wine bottle of pain becomes a jeroboam and we end up downing it all at once.

That sounds ugly.

It is. It will force budget cuts; it will force tax increases of the magnitude that no one is ready to contemplate. We're talking cuts in Medicare, cuts in education, in defense, in spending of all kinds. That would create a depression, a true depression that would last 4-5 years, push unemployment to 20% 25%. And the Fed truly would have to start monetizing debt; there'll be no choice. That's a world in which economic assets get turned on their heads. That's what I lay out in my book. Which is where I come in and say, "Guys, we have to make the hard decisions now." I'm an expert in bad choices. I have 7 children, as you know. You met one of them, Trey, last night. He is the last of my teenagers. So I have watched teenager after teenager grow up, and that process teaches you something about them: Teenagers always make the easy choice. They put the difficult choice off to the last minute. Well, we made the easy choices as a culture for a very, very long time and now we have the difficult choices in front of us. For the Greeks, their choice is between disastrous and even more disastrous. Do you leave the eurozone, and employ every lawyer in Europe for the next 10 years trying to work out what that looks like? Do you stay inside the euro and just simply repudiate the debt? Do you tell people who are retired at 50 years old that they have to go back to work? Those are all very, very bad choices that you're going to have to choose among. But you have to make those hard choices. Ireland is going to tell the European Central Bank, "You know that 80 billion euros that you loaned us to cover our banks, you need to move that from the loan side of your books to the capital side. Here's the key to your bank. By the way, what are you going to do with your bank, we're just curious."

Well, it was Ireland's banks that were wanton. Not Irish taxpayers.

That's right. And that's what Iceland did – and Iceland's economy was down for something like 9 months to a year and now they're coming back. That should be done. Take the hit; go on and do it. There's something to be said for the cleansing moment that I guess the Austrians want us to have. It's not the choice that I would make–

On the scale that needs to be done, it's not a credible option in this country. I don't think we're there; we will only do something like that if it's forced on us. But it will be forced on us if we're at a place where the bond market says, "No, we're not going to finance you anymore." Just like the bond market is saying that we're not going to finance Greece or Portugal or Ireland, and we're watching Italian rates, thinking they could go up any week. In one sense what S&P did last night was really and truly screw Europe.

How so?

Because how can S&P now not downgrade the ECB, which is holding hundreds of billions of euros of truly junk debt – debt that if it has to be marked to market would create losses of at least ten times the value of the capital that they have. Is the ECB now going to come to Italy and say, "You're 20% of this operation; we want you to put up 20 billion euros to recapitalize the ECB so that we can then give 3.5% loans, which you are going to have to back, to Ireland, Portugal and Greece?"

Perhaps. But why anybody pays any attention to S&P at this point, is beyond me – even if it's a legal requirement! They have zero credibility.

The only credible rating agency out there is Egan-Jones, and they'd already rated the U.S. double A awhile back.

That's very true – but only the really smart money pays attention to Sean's work.

It's too bad. When Sean Egan was on TV the other day pointing out that he thinks the average haircut on Greek debt will be 90%, you could just see jaws drop. Other people were going, "It can't be that bad." But I was sitting there going, "Yes, it can be, it certainly can be." Greece has been in default during 160 out of the last 200 years, so why are we shocked? They have made an art form of defaulting. I've visited Tuscany for two years in a row. I find it a wonderful place to vacation and work from – and I fully expect that the day will come when I will be using lira rather than euros when I visit. I've always said the euro was not a currency, it was an experiment. And we're now seeing how this experiment works. Are the Germans going to pony up? Can the coalition work? Nobody knows. One of the things that we have long had is the luxury of looking over the pond and asking, "What are you going to do?" But now they can turn around, look back and say, "What are you guys going to do?" It was incredibly absurd this morning, however, to hear France was expressing solidarity with the United States, saying, "We believe in the credit of the United States."

Well, they'd better. They have to hope against hope for some sort of international rescue party, like we put together in 2008. Has anyone at S&P looked at the French banks, I wonder. That country's deficit situation isn't exactly jolie. All of the major countries of Europe, including Germany, have been the biggest beneficiaries of the weakness of the euro – which has been pulled down by the woes of its periphery. And their banks are up to their gills in the periphery's sovereign debt –

Up to their "gilts," you mean. It is a mess, and we have years of struggle still ahead of us. But I do know that we get through this, one way or the other. The one thing about this process that we can learn from history is that there is an end to the endgame. We have this marvelous clearing mechanism in capitalism. The markets do get cleared out, asset prices do get cleared out. We've hit the reset button.

Those of us of a certain age remember "the blue screen of death." You would just have to unplug your computer from the wall, wait for fifteen seconds, plug it back in, start it back up, and hope you didn't lose too much. If you were smart, you were backing things up because you never knew when it would happen. Well, we're hitting the reset button now, that's the process we're in, all over the developed world. Then we'll come back.

But it always entailed a loss.

Right. There was always some data loss, and there are going to be financial losses.

We haven't suffered enough?

No, unfortunately. It typically takes about 3 recessions to really end a secular bear cycle in stocks, and we are getting ready to have that third one. We'll see averages come down further. The good news is that secular bear cycles average about 17 years, and this one started in 2000, so it won't be too long until we're getting ready for the next long bull market cycle. Consider what Japan has gone through. In 1978 and for the next 10 years, the Japanese were beating our brains out and buying every trophy property in the U.S. they could get their hands on. In 1978, unemployment in the U.S. was as high as it is now, inflation was running 17-18%, and no one wanted to hear about stocks as an investment.

I can vouch for that.

But that was on the cusp of one of the best economic and bull market runs we've ever had.

So you do see light at the end of the tunnel? GDP growth and jobs?

Oh, certainly. The answer to the question, "Where will the jobs come from?" is that I don't know – but they will. That's what free markets do – that's what American entrepreneurs do. Create jobs. The job of every politician – the first thing they should ask themselves when they get up in the morning – is, "What can I do to make it easier for entrepreneurs to create jobs in my town, city, state, country? Because that's how we come back from this endgame. As businesses reorganize as new businesses, as industries come back and as new industries are created because we will create whole new industries. We will create whole new ways of manufacturing; there's going to be a wonderful future. That's the book I'm working on right now, "What The World Will Look Like in 2032." I need to finish writing it before we get there! But it is going to be a marvelous future. We just have a financial bump to get over and technology will do it, just as it got us through the Depression, World War II, the Cold War, and Jimmy Carter. That entrepreneurial free market response is built into our DNA. And we're adding 3 billion

people to the global group, whose entrepreneurial DNA has been unleashed, so the changes are going to come even larger and bigger and faster. The reality is that governments can do very, very little to be constructive; most of what they do is destructive. They're very good at that. Here, they need to do as much as they can to get out of the way.

I'd like to see little things, like throwing out the tax code and starting over, and taking private money totally out of politics. But I'm a dreamer.

Well, I would start by changing the accredited investor rules. I would start by saying that if you're a small entrepreneur and you need to raise money, you need to be able to advertise the fact that you are an entrepreneur and are going to raise money for a specific business on a website. We should allow people to use their own judgment to make or lose money in your business. I understand that the government wants to protect people, but the whole protection process we have set up ends up reducing the flow of information and the flow of capital. We do this because we want to make sure the little guy doesn't lose money, but we have to allow people to take risks. Risk is good.

Happy endings are not guaranteed, but it is definitely not good when the little guy has a false sense of security – thinks he's being protected – by people or organizations that in no sense can really protect him.

That's the way it is today, in the securities industry. We have all these rules and regulations that we follow – but there's fraud left and right. Still, I believe in the American spirit. New technologies, biotech, nanotech. I truly believe we will find new energy sources. I'm giving my youngest son a car this fall – I will buy a new car and it will probably be the last combustion engine car that I buy. The next car that I buy – seven, eight, 10 years from now – will be an all-electric car. That's a massive retooling that's going to create a number of jobs. I think we should raise the price of gasoline by 2.5 cents a month, every month, until our oil imports stabilize. And, by the way, we should be tooling everywhere. Boone Pickens is right. We should change our truck fleet to natural gas. As I explain in my book, everybody can't deleverage and run a trade deficit at the same time in this global economy. So we've got to reduce our trade deficit in order to be able to bring our government deficit down. We also need to take a, say, 2.5% tax increase and invest it in infrastructure, so it stays at the local level. That means local communities can then issue bonds against that revenue – and start building today, creating jobs today. Because then they will know that we'll have money coming in that can help us rebuild water systems and bridges and roads, power grids – all the stuff that we need to be doing to modernize our society. As much as I know that using the words "tax" and "increase" in the same sentence is anathema these days, I know what is needed. Let's take a tax increase and use it to buy or build something that will help the next generation.

I'm on board with that. We're still living with infrastructure investments that our grandparents made during the Depression and after WWII. We could stand to refurbish them – and add new ones.

My hobby is biotech. I believe that before the end of this decade we're going to see announcements about companies curing various cancers; that Alzheimer's will not be something we have to worry about. I expect a cure for liver disease; a cure for cirrhosis of the liver will be announced in the next 12-18 months. There's just one thing after another that we're on the edge of.

From your lips to God's ears, as an old friend used to say. Thanks, John.

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