Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me once again on today's program is my guest, Mr. Dave Skarica. Dave is the publisher of the newsletter Addicted to Profits. You can learn more addictedtoprofits.net. And Hey Dave, welcome back to the program.

David Skarica:

Thanks for having me. It's sure in this very interesting time.

Dennis Tubbergen:

Well, yeah. We're recording this. We are waiting to see the results of the US election. It seems like there's just a lot of crazy stuff going on. And certainly, we could talk for multiple shows about that, but what do you think that does to the markets?

David Skarica:

I just think right now, we saw this knee jerk where the market's rallied, and you just look at, let's just take the results at face value right now, regardless of what happens in the next month or two in terms of litigation and the whatnot. Essentially, looks like you have Biden in the presidency. But the one upset that looked like happened is that the Republicans will retain the Senate. So, that gives you a gridlock.

David Skarica:

And you remember, I'm not an overly political person, but I am fundamentally and my belief system I'm a libertarian. So, the Democrats were looking at raising capital gains taxes, and taxes, and they would have done a lot of fiscal stimulus, which would have helped certain areas of the economy.

David Skarica:

But I think in terms of the stock market, obviously by raising taxes, that might've hurt it a bit because you're going to have a much higher capital gains tax, right? You might want to lock in your gains now. But now with some of the Republicans in the Senate, maybe you don't have the fiscal stimulus, but you don't have the large tax increases. Maybe in a few years, just let the tax cuts by Trump roll back, but you're not talking about these draconian measures to the tax code and the whatnot.

David Skarica:

Now, just so you know, longer term I think something's going to have to happen here. Because you know I'm a libertarian, I'm also a realist. With the national debt now 27 trillion, and the debt to GDP at all levels of government North of 150% of GDP, you're going to have to probably have higher taxes. And probably similar taxes that we see, I'm Canadian, as they in Canada or Western Europe are going to happen in the states. Because they're going to have to raise revenue to basically close this budget gap at some point, right?

David Skarica:

And I don't care how low rates are, even if you're paying almost no interest on it, you're paying I think pay 15 or 20% of its government revenue and interest payments because their debt's 250% of GDP. Even though they have zero rates because just the debt level is so high.

David Skarica:

So, I just think that at some point, you're going to have to see that happen anyhow. But in the short term, which the market, they always say, looks out whatever, six months, nine months. That doesn't look like it's going to happen.

David Skarica:

But I think on the other side, I think other markets are more interesting. You've seen this really big dump in the dollar. The dollar's starting to break down. A lot of foreign currencies. Canadian dollar, Australian dollar, Euro are all starting to breakout against the dollar. And of course, you could say that Bitcoin, and gold, and precious metals and some currencies. They're moving higher, and looking to breakout, too.

David Skarica:

So, it looks like what's happening is I think this ineptitude in the political system [inaudible 00:03:35], which is by the way has not been going on for years. Not just an election. Maybe this election has been nail in the coffin for it, or the most extreme example, is I think having people lose faith in the US dollars.

David Skarica:

And you look at all this debt that's been issued. If you take the foreign ownership of the debt as a percentage of total debt, foreign ownership, phenomenal nominal terms has gone higher because people are buying US debt just because there's so much being issued. But there's so much being issued, too, their actual total ownership of the total amount is going down.

David Skarica:

So, that's also, to me, I think it's actually something like a 10 or 20 year low. So, that to me is also signaling a loss of faith in the US dollar, and I think we're going to see more of that going forward. And remember, and one thing about that fiscal stimulus, you do know as a libertarian I'm not a huge fan of blowing up the debt more.

David Skarica:

But short term, it does increase GDP growth. And a lot of times, these foreign currencies will out-perform the dollar because they're expected that their economies will out-perform. And it doesn't look like to me, in terms of economic performance, the US is going to do much better than Canada, or Europe, or most of the countries in Western Europe, or definitely going to under-perform in places in Asia. So, I think that could also be leading to this weakness in the dollar.

David Skarica:

One thing about the election, what I found interesting, is not just all this stuff going on with the votes, but during the debates, during the campaign, during everything, I never heard the debt and deficit mentioned once. You remember when Ross Perot ran in the '90s, that was one of the main platitudes he ran on was the debt and deficit were out of control, and the country was going to go broke. And back then, the debt and deficit was the future.

David Skarica:

Now, we're getting close to 30 trillion, and no one is even talking about it. And I think because people have been lulled into complacency because of these low rates, so you're not seeing it hit the bottom line of the government finances yet.

David Skarica:

Because the simple scenario is this, okay, the debt and deficit are up 10 fold in the last 20 to 30 years. Right? But rates, for example, from 40 years in the early '80s are down from 15 to half a percent. So, if your debt goes up tenfold, but the rates go down 90%, you're actually essentially paying the same amount of interest in nominal terms.

David Skarica:

And of course, the economy is much bigger now. So, it's not real. Interest eating up your whole budget is basically how countries go bankrupt, and go into a bankruptcy that's essentially what happened to the Weimer Republic, or what's happening in Venezuela. So, that's what happening. But now with these ultra low rates, it's not being felt yet.

David Skarica:

But like I said, there is some point where there is a tipping point where even if you have these ultra low rates, the debt gets so large, even at low rates, the interest payments start squeezing into the budget. And remember, that will be happening in the next five to 10 years while the baby boomers are retiring, and outlays are increasing, too.

David Skarica:

So, that's another thing is that the structural deficit, meaning that the deficit you're going to have every year, not just because of some stimulus because of that coronavirus, is going to get larger. And that essentially will, again, continue to increase the debt.

David Skarica:

And again, like Europe has, and Canada, the Western world has similar problems, but places like Asia do not. Because they don't have a baby boom. They don't have government pensions on mass like we do in the West. I really think that, and I started talking about this in the late '90s when I first started out, and it did happen from about 2000 to 2011 where the emerging markets outperformed. And they've underperformed the last 10 years, but I think we're going to see another 10 to 20 year period where emerging markets begin to outperform.

Dennis Tubbergen:

So David, to go back and talk about the relationship between the dollar and GDP, I just read a piece on this by Allister McCloud and I found it fascinating. Since GDP is measured in US dollars, the argument that he makes is that are we really getting GDP expansion? Because when you measure GDP in terms of gold, you get a completely different picture. What would you say about that? What would your reaction be?

David Skarica:

I would say that's the truth. Because another thing, too, is you've got real GDP growth as well, right? Because after inflation. And if gold and commodities, or the US dollar's going down against other currencies, which increase import costs, which is inflationary as well. If inflation is going higher, and is really at five or 6%, not at 2%, and you're growing at two, 3%, are you really growing at all, right?

David Skarica:

And then, there's other things like population growth. That all factors in as well. Yeah, I would agree with that. I would say that if you're getting these foreign currencies, and these signs of inflation going higher, you're not really growing as much as you think you are.

David Skarica:

And look it, I think that's kind of seen. Look, we can all look around. You live in Michigan. I'm from a town called Hamilton, which is a depressed steeltown. Hamilton's basically the Detroit of Canada, or was. It's had a resurgence recently.

David Skarica:

But and it's like you can look around and see that, hey, 30 years ago, I don't care what the GDP per capita was or GDP was, the rates were a lot higher, but people just seemed to have more money. More money for vacations, more money to go spend on, I don't know, a pair of shoes, or sneaker, or tennis racket. That seems to me that people had much more disposable income.

David Skarica:

And that in itself just looking, doing the eye test, might be the most simple kind of example of that. That people didn't have to get into debt to buy big ticket items or luxury items. And now, they do. And partly because they can, because debt is so cheap.

David Skarica:

So, I would say yeah, a lot of those GDP numbers, for lack of a better term are BS, and they don't really represent people's standard of living or their day-to-day cost.

Dennis Tubbergen:

Yeah. Well, and BS is a highly technical financial term, so we all understand that. David, let me jump in here in the three and a half or four minutes or so that we have left here. Powell, the chair of the US federal reserve, has pretty much come out and said, "We need more stimulus," which is basically him blatantly saying, "We need to print more money." It seems like we're going down that road.

Dennis Tubbergen:

And Herbert Stein, the late economist, said that, "If something can not go on forever, it will stop." And certainly money printing I would think fits in that category. What do you think the end game looks like here? How does it stop, and how will our listeners potentially be affected?

David Skarica:

I think the end game is the bond vigilantes. I know that no one thinks that can happen anymore. They think that central banks can do MMT, and just keep rates depressed, and basically subsidize all this government spending. But what I think what makes the US different, and I'll give an example, a historical example in a second, but say from Japan, that's the example people use. "Oh, Japan has had this debt going on for 20 years now, 30 years now."

David Skarica:

But if you look at the makeup of the Japanese, first of all, their society, we're seeing all this instability socially, and economically, and politically in the States, the Japanese really don't have that. They're very stable kind of society on a social level. And then, they own all their own debt. The Japanese debt is all domestic owned, right? Where the US, I said that percentage is going down, but still got 40% of its debt owned by foreign governments, foreign central banks, foreign investors, et cetera.

David Skarica:

So, I think at some point they could be inclined to dump. Because they might say, "Hey," you go look at the political system right now, they might say, "Hey, we're not supporting this dysfunctional system any longer. We're not doing this any longer." Right? It's kind of like when Rome got dysfunctional, people refused to pay their taxes to support a corrupt central government in Rome.

David Skarica:

Another example I'll give is after World War I, the UK was a superpower. Their debt exploded, and the world did subsidize it for about 20 to 30 years into World War II. But then after they were really broke in World War II, they had to get an emergency loan from the Americans after the war.

David Skarica:

And then, if you remember in the Suez Canal crisis, the Americans basically threatened to dump that debt if the UK proceeded with that transgression. And then, that made the UK back out because that dumping of debt and spike in rates crash, in the pound would have basically sunk their economy.

David Skarica:

So, I think at some point, it's essentially it's the return, again, of these form of bond vigilantes. When you got the debt high enough. We don't need a big spike in rates. If essentially rates wouldn't normalize three or 4% on the 10 year bond, which historically is extremely low, the government essentially would be broke at the federal level.

David Skarica:

So, I think that if you're going to take, at some point, this fiscal irresponsibility will be met with skepticism, and threatening to do that. And then, it doesn't matter.

David Skarica:

And then, if the fed has to buy let's say 5 trillion of bonds once they be dumped, what will happen is you'll totally debase the currency, and you'll get super high inflation. So, I think the end game is essentially people running out of patience with the exponential growth in debt. I think that's kind of the end game.

David Skarica:

But the problem is we don't know when it's going to happen. The classic example I use just to end off here is that in 1995, I bought a book. I was just starting out as a teenager getting interested in economics, and finance, and markets. And it was by Harry Figgy, and it was called Bankruptcy 1995. And it was about how the debt was going out of control, and the country was going to go bankrupt. And here we are 25 years later, and the debt is 10 times as high as it was back then, and we haven't seen any of that. So, the problem is these things always take longer than you think. But when they unravel, they unravel really quickly.

Dennis Tubbergen:

Well, to show you my age, I have that book in my library as well. We are chatting today with Dave Skarica. His website is addictedtoprofits.net. Stay with us. I'll be back with Dave, and we'll talk some more after these words.

Dennis Tubbergen:

Welcome back to RLA Radio. I'm Dennis Tubbergen, your host. I'm chatting today with Dave Skarica. Dave is the publisher of the Addicted to Profits newsletter. His website is addictedtoprofits.net.

Dennis Tubbergen:

And Dave, in the last segment, we were talking about the fact that the end game is that essentially the fed, the United States prints so much currency that people say, "Look, enough is enough." And that's happened many times historically. So, that's got to be bullish for tangible assets, doesn't it? What's your take?

David Skarica:

Yeah. I think that when you look at QE, people wonder why did QE not increase? Actually, the last nine or 10 years we saw a decrease in the price of precious metals until the last year or so, and we saw decreases in the prices of most commodities. And actually, there's a great chart that shows commodity price compared to the S&P, and they're almost as cheap as they've ever been. And people go, "Why all this pretty money didn't?"

David Skarica:

And I think the answer is quite simple, and I think that simple answer is that actually, because that suppressed volatility just put people into risk assets. People went back into housing, they went back into the financial markets. A lot of that printed money just went on bank's balance sheets, and they're involved in more of the financial community.

David Skarica:

So, now that we're talking about more of an unraveling of the system, and the government debt, I always use the quote after financial crisis. Because the government debts are so much higher now than they were in 2007. Is that in 2008, governments bailed everyone out, but then the next crisis, who's going to bail out the government?

David Skarica:

So, I think we were looking at this macro aspect going on where it looks more like this is going to be a sovereign problem rather than a private financial crisis at the bank or individual level. I think that just means the printed money this time will go more into these commodity or inflation hedge instruments, because people will see the massive debasement of the currency. So, it means gold, silver. It's obviously my two favorite, especially because I do a lot in the junior miners, which have a lot of leverage. And especially if gold goes North of 2,000 again, and silver in North of 25, I think that's when you see the big leverage coming to those.

David Skarica:

And then, Bitcoin and cryptos would do well as a hedge. Once you get the shake out in the frackers, and supply comes out the market, oil will probably begin to rise again. The mixture of devaluation and stimulus probably help the base metals. Agricultural prices are really depressed.

David Skarica:

So, I think virtually all of these commodities, like what happened from 2000 to 2011, or like happened in the mid '30s to just about the end of World War II, or like happened in the '70s, you're going to see now this period where inflation assets do really well.

David Skarica:

And I think this'll be even more extreme because I think we're seeing the demise of the superpower of the world and its currency. So, that will even help that even more. And people don't realize that after The Great Depression ended, the bad part of it, 1933, and until 1951, commodities soared in price. Partly because of demand because of the war. A lot of money printing during the war. And obviously, part of the reason probably is, too, is because the British pound, which was the reserve currency, went down a lot, and lost it's reserve currency status. And as a lot of things were priced in pounds in the '30s and '40s, they would have gotten more expensive. So, I think that's what scenario we're about to see here in the dollar.

Dennis Tubbergen:

So Dave, let's talk about the relationship between the price of gold or the price of silver, and how mining shares in general as a group collectively relate to that.

David Skarica:

Yeah. You have more leverage in the mining shares, because you have fixed costs, right? So, the quick example I like to give to people is if a mine's all in costs, meaning putting construction, then it's year to year cost is $1,500, well, at 1,500, it makes zero, or 1,501, it makes a dollar. But at 1,900, all of the sudden it goes from making zero or a dollar to 400. So, you can see the leverage there, and that would be leverage to the stock price. Of course works on the downside, because if gold goes to 1,200, then all of a sudden you're losing $300 for every ounce produced over the course of the life of the mine.

David Skarica:

They have leverage in that regard. And see, what makes the junior miner so leveraged, and the reason I like to use them on top of you get private placements so you can have warrants, which basically give you the right to buy more stock or that sort of thing. It's just, again, simple math. If you're say a large gold company, you got 20 million ounces in the ground, well, you find a million ounce deposit, that only increases your asset base by 5%.

David Skarica:

Well, if you're a little junior miner that just got a couple hundred thousand ounces of ground, you have a big find. And you find a couple million, well, you've increased your asset tenfold. Plus the value of that asset in the ground is going up as gold rises in price. So, that makes them hyper leverage.

David Skarica:

And a lot of these companies have very small market caps in the tens of millions. And again, it's a lot easier for say a 20 or $30 million company, and say, go to be worth 500 million with some exceptional news, than it is for a $2 billion company to be worth 10 billion, right? That's why I like them. Just the small size of them. The fact that, yeah, they're financed mostly with equity, so you get these warrants attached to them.

David Skarica:

With me personally, I've been in that industry for over 20 years. So, I know a lot of good, solid management. So, I have a history of finding mines, and putting them into production, or selling them to majors. So, I think that is why I like them in below markets.

David Skarica:

And because I know the industry as well, I have the opportunity to get in a lot of these things on the ground floor. So, it's not like I'm getting into a junior deal after it's run up five or 10 times, and they have it. I'm looking to get into it right from the start.

David Skarica:

Now, not everyone is going to work out. It's a very risky sector. But usually if you're going to do five, 10, 15 of these deals, and you know the people behind them, in the long term it will pan out.

Dennis Tubbergen:

So Dave, let's just talk a little bit about your forecast for gold and silver. There seems to be no end in sight, as we talked about, to the feds money printing policies. So, is it a fair question to say where do you see this going in the near term as far as the price of gold per ounce, and the price of silver per ounce?

David Skarica:

Yeah. It's difficult to know because you got to talk about the money in circulation. I always like the Dow to gold ratio as a long term deal. And I think obviously the market is overvalued. We could see the climb. But again, because of inflation, I don't know if we'll see one of these 70, 80% bear markets like we saw in the NASDAQ in the 2000s, or the Dow in '29, or even the financial crisis when the market fell over 50%.

David Skarica:

But we could see a 20 to 30% drop mixed with huge inflation, which in real term is it makes it go down a lot. So, let's say the market and the Dow ends up trading around 20. Well, if you look at that one to one ratio where these things usually end in the gold, precious metal market, that's 20,000 for gold, maybe 10,000, whatever it may be. I think that's a pretty fair price based on the amount of money being printed, the amount of debt being run up.

David Skarica:

I remember with the deficits, and then I'll end on this note, and this is why I think gold can go so high, even if they don't do a stimulus, the tax base has been decimated. The amount of money that they have to spend is now higher, because there's more people on benefits. Baby boomers are retiring, so that makes Medicaid, Medicare, Social Security expenses all higher. That increases the structural deficit probably between one and 2 trillion a year.

David Skarica:

So, the fed is going to have to probably monetize that even without some kind of stimulus, right? So, that's why I'm so bullish. Because if you're going to run to one to 2 trillion a year deficit for whatever, the next four, eight, 12 years, it's hard to see gold going down.

David Skarica:

And there's no political will in the States to do that. Because even, let's face it, from a fiscal standpoint, the Republicans have been just as bad, if not worse than the Democrats. So, nobody wants to cut spending, because that loses you the elections. But if everything plays out like I say, and these debts blow up, probably the government will be forced to at some point.

David Skarica:

But yeah, with this uncontrollable debt out of control, I don't really see how this is going to really stop anytime soon. And I just think even with the Senate being, if it is controlled by the Republicans, even then, I still think they'll have to make some kind of deal on a stimulus anyhow. And it might not be as big, but you're still going to get more money printing, more spending, bigger debt, et cetera.

Dennis Tubbergen:

So, are you more bullish on gold or silver moving ahead?

David Skarica:

I'm still more bullish on silver, because that gold to silver ratio is still roughly 80 to one, which historically is a high level. And it was over 100 to one, which I think was an historical all time high. And I think the median is 60 to one. And then in extremes, it's gotten down to when the Hunt brothers manipulated silver, it got down to 16 to one. But I don't know if it'll get to that again, because like I said, silver got manipulated for a few months then. But yeah, definitely getting down to 20 or 30 to one is definitely reasonable.

David Skarica:

So, let's say it just goes to 40 to one, just to be conservative, that essentially would mean that silver would go up twice as much as gold. So, if you got a $10,000 gold price for argument's sake, you'd get whatever, that would be a $250 silver price. Which again, you do the quick math, 10,000, that would be five X on gold, and it would be 10 X on silver.

Dennis Tubbergen:

To what extent do you think the gold and silver price have been manipulated? And this is probably the last question we have time for. You had a major firm just pay almost a billion dollars in fines to settle criminal and civil allegations that they were rigging the silver market. Another big bank happened a couple years ago. What's your take?

David Skarica:

I think they do that in everything. I think when we look back at history, one of the things that caused all this, this unrest we're seeing, this now political failure, was the biggest mistake ever was when they bailed out the banks. Because those are probably the most corrupt institutions on earth right now. And remember, they've gotten those penalties for doing the libor rates, doing MBS securities. They always get penalties for everything.

David Skarica:

So yeah, I think there's a form of manipulation in there, but I just think they do that with everything because they're basically corrupt. So, I don't know if it's more manipulated than anything else. I think there might be an aspect in there. Because if gold and silver go up, it's a sign that the system, we can see the system is crumbling anyhow, but it's really a sign when they go higher because you can see some kind of tangible evidence of it through their prices. Right?

David Skarica:

So, I definitely think it plays a part, but I think the banks have got their hands in the cookie jar of so many things. It's not as big as people think, because they're trying to scrub off points everywhere to make money. There's been bank funds where they've basically been working with international drug lords, right? To make money off of that trade.

David Skarica:

So, the banks have their hands in a lot of things. And I think there is that somewhat going on, but let's call a spade, a spade. We had a huge run in gold and silver price into the summer. I actually informed my readers plus myself to sell about 20 to 25% of our position in the summer awaiting this correction. I think now's is the time to start reentering. But it was just a normal, technical consolidation and corrections. So, I think people do get a little carried away with the whole manipulation scheme. And the banks are just, they got their dirty hands in almost everything.

David Skarica:

I'm a big Miami Vice fan, a show back in the '80s, and there's this one great scene where they go into a bank, because they're trying to hunt down a drug dealer, and the bank's totally within the ins with the drug cartel. And the speech the banker makes it's like, I was like, "I don't know who wrote that, but they definitely had some brains." Because the same thing's happening 35 years later, right?

David Skarica:

And that's all I'm trying to say is that the banks are in so many dirty businesses. It's almost like the mafia in a way. It's like the mafia has a lot of legitimate businesses, too, right? But they also get involved in shady, illegal stuff. And so yeah, I don't know. I don't stay up at night worried about manipulation. Especially because now I think the system is losing control over the ability to do that.

David Skarica:

And I think the next shoe to drop is, like I said, we saw the financial crisis. We saw this. And then, the next shoe to drop will probably be the corona thing this year. The political instability is probably when the governments fiscally can not bail out everybody like they have these last two crises. Right? So, that's probably it.

David Skarica:

And by the way, that's going to be really bad. Because again, when I go back to what I said earlier about the issue with them bailing everybody out at the banker level, well, that made the bankers even more corrupt, even more above the law. And then, because they got to bail out, everyone got to bail out during the corona crisis now. Airlines, people getting inflated in unemployment checks, et cetera.

David Skarica:

And then, now as in the next crisis, it's a government debt crisis, no one can get a bail out because the government won't be able to afford it. And with everyone expecting bailouts now, it's kind of like anything, right? It's you're at a job and you're making, I don't know, good money, 200 grand a year, and all of a sudden the company does bad, you're expecting that 200 grand a year, and they're like, "Hey, we're still going to pay you 150, but we're struggling." Losing that 50 hurts a lot more when you become accustomed to it, the extra positivity and the lifestyle gives you, et cetera.

David Skarica:

So, that's the issue I see here is that essentially we're going to see this next decline being the government decline, and then they can't bail everybody out when there's a negative downturn in the economy.

David Skarica:

And the perfect example of this, the standoff, is back in the 18th century when it was much more of a laissez-faire economy, when you have those banking crises and financial crises, no one expected a bailout. It was like you would go bankrupt, and that would be it. And you would have to start over again.

David Skarica:

And ever since FDR started the New Deal, and having the government more actively involved in the economy, now everybody expects government bailout. And what happens when the government can't? We can see this in places like Venezuela or Argentina where the government, because they've had so many of these crises, doesn't have the financial ability to bail everybody out, people starve, there's high unemployment, people leave the country. So, that's going to be the next shoe to drop. It's not exactly the most positive thing in the world.

David Skarica:

But again, it's the timing. Who knows. Could it happen quickly and within the next four years?Will it be like after 2008? After 2009, we had an 11 year expansion. Could we have another 11 year expansion before that crisis starts? I don't know. So, those are the things that are almost impossible at the time.

Dennis Tubbergen:

Well, the clock says, Dave, were going to have to leave it there. My guest today has been Dave Skarica. His website is addictedtoprofits.net. And I will return after these words.