Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: David McAlvany
McAlvany Financial Group

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Dennis Tubbergen:

Welcome back to RLA radio. I'm your host, Dennis Tubbergen. I have the pleasure today of chatting once again, with returning guest, Mr. David McAlvany. David is the president of McAlvany Financial and you can get his weekly commentary weeklycommentary.com or mcalvanyweeklycommentary.com. I love his perspective and looking forward to the conversation. And, David, welcome back to the program.

David McAlvany:

And Dennis, great to be back with you.

Dennis Tubbergen:

Well, David let's start. We had talked when you were on the program about a year ago that fed policy would perhaps lead to inflation, seems that the inflation genie is now out of the bottle to use that term. Where do you see things going from here as far as inflation goes, and what would you say the real inflation rate is?

David McAlvany:

You have a couple of factors impacting inflation, certainly fed policy is one of them. And then, of course, the fiscal spending that we saw as a result of COVID, that acts as sort of a force multiplier for the amount of liquidity that's in the system. Now you're talking about money that's not strictly in the financial universe, but also in the broader economy. So fiscal policy becomes another major addition to that. And then there's the unintended consequences of the shutdown for our economy, where folks got to stay home and we're paid to do so, and did do some spending while at home and added to their savings, but are not real keen to get back to work. So now we've got actually some product supply chain bottlenecks, not only from our foreign trade partners, but we're having a hard time getting even vegetables from, and meat and processed foods from our plants to the grocery store.

David McAlvany:

And you're beginning to see these manufacturing bottlenecks as well, which are going to drive up prices. Labor costs are up, logistics costs are up, transportation costs are up. All of these things get factored in at some point. The two big factors of course, are fed policy and U.S. fiscal policy. But now, again, post COVID, it is really interesting to see how the breakdown in some of the supply chains have added to that. And you've got folks like 3M who are telling us that, yes, it's a very big deal. And they've tried to reprice all of their goods to reflect an increase in costs that they're experiencing at the producer level, and they're still not keeping up. That's shocking how fast the inflation rate has come up, in the CFO's opinion there at 3M. FedEx, just this last week, was saying the same thing.

David McAlvany:

"Our results for the first quarter reflect higher operating costs. We're incurring them during uncertain and challenging operating environments." This is the deal. If you have it at the producer level, if you have it at the manufacturing level, if you have it at the company-specific level, ultimately the individuals like you and me are going to be paying even higher prices. So transient is not the word to use, permanent probably isn't either, but for an extended period of time, we're going to be dealing with some version of inflation or shall we say, even stagflation.

Dennis Tubbergen:

David, in your opinion, to what extent is the current price inflation that consumers are experiencing? How much is attributable to fed policy, how much is attributable to fiscal policy? And maybe that's not a fair question, but what's your take?

David McAlvany:

Well we got to see fed policy on display from 2008 to, well, through the current timeframe. And in very little inflation was drummed up. In fact, they had the 2% inflation target and they never could hit it, never could hit it, never could hit it. And basically, the problem was they were creating a tremendous amount of liquidity, but it was being distributed to financial players, and the financial players weren't putting it into the broader economy, they weren't putting it into my pocket or your pocket. Think about it this way. If I have a credit default obligation in my right pocket, how does it get spent exactly? Well, it doesn't really easily. But if I've got a thousand bucks in my left pocket, my literal left pocket, I know how to spend it. And that's the difference between the fed policy of the last decade, which has created a tremendous amount of liquidity for financial players and has put a lot of leverage into, again, strictly the financial markets without a spillover, really, into the larger economy.

David McAlvany:

Now with fiscal policy playing a bigger role and money being generated and handed out, this is really where it's become highly inflationary because a thousand dollars in my pocket, your pocket, and everyone else's pocket, times 300 billion, all of a sudden is real money, it's trillions of dollars that are circulating. And you have new problems. If you go to the bank, the bank would say, "We don't want your money. We don't want your money because we don't have any loans on the other side of the equation, we have too much money in Joe and Susie lunchbox's, left pocket, and we can't take it in deposits because we have no place to take it. We have no place to actually lend it out anymore." So, we're seeing weirdness occur now in the financial markets because of fiscal policy and a major ramp up and inflation, again, showing up in the economy, of course, but it's having ramifications now. Think of it as a negative cycle now impacting the financial markets and the banking sector as well.

Dennis Tubbergen:

So how do you see this playing out, David? The feds, there's taper talk, we're going to slow the rate of currency creation. When you look at the numbers, I don't know, personally, if I necessarily believe that, I think it might be more talk than it is actually action. And Powell recently said, Jerome Powell, fed chair, said that if you need more liquidity, it's not going to be a problem. So there's a lot of mixed messages coming from the fed, at least from my perspective, where do you see a fed policy going, moving ahead?

David McAlvany:

They're early in a tough spot because they are a contributor to inflation, and they are also a contributor to rank speculation in every asset class. And that asset class vulnerability is really what's at stake. The taper talk, if they pull it off and they start shrinking the amount of liquidity that's in the financial system, well, there's really no surprise. If you put more money in liquidity into the financial system, up goes the balloon in terms of scale and size. And you take away that liquidity and down goes the balloon in terms of scale and size. So you have to be willing to see significantly lower prices in the S&P, in the Dow, in the NASDAQ, if you're going to actually follow through and taper. My guess is that they talk about it and then when they encounter some volatility in the stock markets, they walk that back and they don't actually go through with raising rates to a very large degree, 25 basis points maybe.

David McAlvany:

The commentary that we got this week from Mr. Powell, was essentially, nothing's going to change, not a lot of a shift in policy expectations. He has to be very careful in here because he's also trying to get renominated, his job's on the line. If he's going to stay in his cush office, he's got to make sure that he doesn't make anyone angry, and there's no way to make a politician angrier than by creating unnecessary volatility in the stock market, because then people start to question, well, is the economy really okay? If the Dow's going down, how can the U.S. economy be okay?

David McAlvany:

And so people use the stock market as a litmus. It's an evidence, it's a telltale for how the economy is doing. They're actually two separate things, but that doesn't keep people from viewing it and using it as a litmus. And certainly there's political pressure that's burst out of downside volatility in the stock market. So, Powell's in a tough spot, there is inflation, it's growing, they need to cut back, they should have cut back a long time, there are implications to cutting back. You could create the next serious 20, 30, 40% drop in the stock market with actual follow-through taper. They know that. So they talk one way, and as you said, they might end up doing something else.

Dennis Tubbergen:

Well, if you're just joining us, we're chatting today with Mr. David McAlvany. David is the president of McAlvany Financial. I would encourage you to check out his commentary weeklycommentary.com. It is free. And, David, we talked about the U.S. economy, how would you rate the health of the U S economy?

David McAlvany:

Yes. Economy is not in a terrible place. You've got some indicators that are actually quite positive. I think what I don't like is that over the last 18 to 24 months, we've seen a transformation of the U.S. economy from being jobs centric is really small and mid-size businesses, to now seeing much more market share taken up by large corporations. And I don't like the interplay between large corporations and government. I think there's some issues that we have to deal with there from a social and political standpoint, but we're also losing some of the dynamism and some of the creativity that comes from entrepreneurship. A lot of businesses had to shut down in the context of the COVID shutdown, and they don't have the liquidity just to jumpstart things again.

David McAlvany:

So I think some of that dynamism has gone, and where we see jobs being replaced, you're going back to the country store. You owe your soul to the company store, so to say, as the old song went. And I'm not as excited about that. We look at the housing starts, they increased more than expected, that's out this week. And you've got permits, which also were higher than expected. Housing is an area of great strength. And so there are some positive aspects in the overall economy, but I think you also have a lot of people who are hurting. And you look at the jobs numbers today, unemployment is not bad if you're a white male or female. Unemployment's not that great. We're back up to 8.8% if you're in the African-American community. And that was an area where we saw tremendous improvement during the last administration. And I don't think we're gaining the same traction back this time around. So as we've seen some economic recovery, it's not equally dispersed, and I think that's problematic.

Dennis Tubbergen:

Well, David, we have just enough time left in this segment for you to talk about Vaulted. And I'd love to introduce that to the listeners.

David McAlvany:

Vaulted is a program we put together a year or so ago, and it brings gold ownership into the 21st century on a smartphone or on your computer. You can very inexpensively allocate or save to a gold position and treat it like the equivalent of a bank savings account. You even have something called Vault plan where you can put in, again, from any paycheck, $5, $10, and you own allocated ounces stored at the Royal Canadian Mint. And you've got this great access point through your phone, incredibly liquid. If you need to trade it like a cash account, you can. We like the Royal Canadian Mint because they've been handling gold up there in Ottawa for better part of 110 years, and they've been a great partner for us. Crown property, very stable, very secure, and the only place that we could find, actually, that works with exclusively conflict-free gold.

David McAlvany:

And that maybe wasn't an issue of 50 years ago, but you watch movies like Blood Diamonds and things like that, and you realize actually that the supply sourcing for gold, a lot of it, of Africa, you're not dealing with the fair treatment of kids, of women, labor issues are really there. And so to be able to deal with conflict-free gold and have a savings product available where you can own gold in any increment. I was thinking of my kids when we put it together. They've always bought silver because they can't afford gold. Now they can buy gold in any increments. So vaulted.com, and if you're looking for it in the app store, the app will be out in about 30 days, and between now and then vaulted.com, that's the platform that we've used for the last year and a half, met with wild success.

Dennis Tubbergen:

Well, terrific. Well, I'm chatting today with Mr. David McAlvany. He is the president of McAlvany Financial. I would encourage you to check out his weekly commentary weeklycommentary.com. I'll continue my conversation with David when RLA radio returns.

Dennis Tubbergen:

I'm Dennis Tubbergen, you're listening to RLA radio. My guest on today's program is Mr. David McAlvany. He is the president of McAlvany Financial, and I would encourage you to check out his weekly commentary weeklycommentary.com or mcalvanyweeklycommentary.com. And, David, do you know there was a news story that really struck me a couple of weeks ago, that the country of El Salvador, they have a young charismatic president and he has decided now, and the country of El Salvador has decided that Bitcoin is legal tender. What did you think about that development?

David McAlvany:

I think certainly there's wider adoption of Bitcoin cryptocurrencies, and that's a trend that will continue to play out. I think from a high-level perspective, the cryptocurrencies are something that the private sector has innovated and governments are very quickly figuring out that they need to either regulate or completely control. And as we've read some of the thought influencers back in policy circles, back in DC, that certainly has been the trend. "Look, let these guys create something new and different, and if we have to we'll regulate it. If it really takes off, then we'll just take it over."

David McAlvany:

And I think to some degree, it's an indication of where the cryptocurrencies are going in terms of regulation and control and not actually the original vision of the cryptocurrencies, which was a wild west of individualism and free expression where you can go and do what you want to do without necessarily anyone saying anything about it. So some of that wild west is going to go away. I think the sheriffs in town, certainly in the U.S., Gensler wants to bring regulation to cryptocurrencies through the SEC. And so I would look at El Salvador not as necessarily an example of progress, but as a move towards where cryptocurrencies might've gone, inevitably, if they scaled to a certain point, no government wants to lose the franchise on creating their own money, so they might have to actually take over this new, innovative product.

Dennis Tubbergen:

Well, David, I think I know how you're going to answer this next question, but there are those out there that say cryptocurrencies are the new gold. What would David McAlvany say to that opinion?

David McAlvany:

I think this week serves up a great example. We had significant concerns in China and the Chinese credit markets. You had one particular property developer, they have $300 billion in debt. That's a lot of money for one company. And they're crumbling. There's contagion anxiety, and that's spreading throughout the financial markets on a global basis. And so you look at Monday, Tuesday, Wednesday of this week, and there's anxiety. And then finally, some policy response in China and restructuring for this company. But it was very interesting watching what the cryptos did. The cryptos were crumbling, and a part of that is because if you've got major financial issues in China, you've got major players within the crypto space in China. And so you don't have the safe haven bid, meanwhile, gold rallied sharply.

David McAlvany:

If you're talking about real stress and strain, you've got the contrast between the unknown versus the known, the safe haven, which has been for 5,000 years versus the potential upstart, which has been around for less than 15 years. Now, we don't have enough time or experience of various pressures that can be brought to the financial markets to know exactly how the cryptocurrencies or Bitcoin in particular would behave, but we do have that data on gold. And so for my part, for real money, I'm going to put my real money in gold and my lunch money in cryptos, and the real money is because I care about preserving wealth for the next generation and I'm going go on the basis of the larger data set.

Dennis Tubbergen:

David when you take a look at what metals prices have done as inflation has really kicked up a notch, we've seen metal prices pull back. How would you explain that?

David McAlvany:

Well, I think a part of it is we have a tremendous amount of derivatives with the retail person has come into not only the financial markets but also the commodity markets. They like to trade. They're not investors, so they're in today, they're out tomorrow, and it's on the basis of any small data point. And any asset class can be jerked around and pushed around on that basis. Just to illustrate, we've got $2 trillion in S&P 500 options that traded on Friday. $2 trillion worth of call options. Think about that. Those are numbers that have never been registered in the history of the equities markets, right? And that's a sign of not only tremendous speculation, but also retail investor involvement. Now, good news comes out or bad news comes out, that's a tremendous amount of pressure that comes into either upward pressure or downward pressure on the S&P 500.

David McAlvany:

Now you've got all these knee-jerk responses that occur within the commodity space as well. And I think you see the same play if the dollar's up, gold is down, if the dollar's down, gold is up. And the amount of leverage that is in the markets today makes for very short-term volatility, very high volatility in the short run. And I think to some degree, disappointment with the way gold or silver has behaved. I think as you back away from the short-term trades and you see how gold has trended, it's done just fine. It's done just fine. We're in the 1700s, it wasn't that many years ago that we were in the 13 and 1400s. And I think what investors want is higher drama. And some of their expectations are set by the kinds of eye-popping returns that we've seen in things like the meme stocks, AMC and GameStop.

David McAlvany:

And of course, some of the short-term returns that we've seen in cryptocurrencies as well. And you say, well, gold's not doing much. I actually had this conversation with a client the other day and he said, "I'm thinking about selling all my gold, it hasn't moved at all since I bought it, but my cryptocurrencies have really gone up." I said, "Well, I can't argue, your cryptocurrencies are up significantly." I said, "But in a two-year period, for you to be up 35% on your gold position, is that a poor return? Under any normal circumstances, it's performed quite well. Now, your expectations have been so recalibrated by the eye-popping returns given the speculative environment we're in, maybe you have an unreasonable expectation of the performance of gold and silver." And so that's the way the conversation went. And needless to say, he kept his gold and silver, and he actually had not realized it had gone up in price.

David McAlvany:

He just had this impression that gold and silver really hadn't gone anywhere. I think we're going to see reasonably high rates of return in the gold and silver markets. And a lot of that is because you have folks in the financial markets today who would say, "Look, the feds said inflation is transitory, therefore it's transitory." Except Dennis, guess what, you and I know it, and the average man on the street knows it, no it's not transitory. It's been here longer than they already expected, and it's going to be here longer than they think it will be. There's going to have to be a recalibration for gold and silver, and I think it will reflect the amount of liquidity that's been pumped into the system. And it will, in retrospect, look like one of those generational repricings we saw it in the 1970s from $35 an ounce up to $875 an ounce on an intraday trade basis.

David McAlvany:

And I think we ultimately see the same thing. This generation's repricing will have been from 300 up to about 5,000. And so I think we're a good 40% of the way through that. We've gone from 300 20 years ago, to 17, 1,800, 2,000 recently. And ultimately, we price and peak closer to the 5,000 range. How that translates for silver is anyone's guess, but just looking at historic ratios that could put you at 160 to $200 silver. And off of a current price of $20, again, it may not be a cryptocurrency, but I'd rather have physical metals in my hot little land.

Dennis Tubbergen:

So when you start throwing out numbers, David, like $5,000 gold and $200 silver, that's almost 10 fold on silver from where it is today. How do you see that playing out as far as timing is concerned? Is that going to go parabolic like stocks have, or do you think it's going to be more methodical in the way that it advances?

David McAlvany:

Yeah. It's a good question. It's never wise to put time and price in the same equation. We can know one, I don't know that we can know both. But I think ultimately when you look at gold, it is an emotional asset and it moves in many respects like oil does. We saw oil prices move significantly higher when we had our first introduction to Afghanistan, with the Russians invading Afghanistan in '79. Gold went parabolic, oil was moving higher, and they're very dramatic moves on the basis of emotion. Today no one cares about gold, why, well, who should care about gold with stocks putting in all-time highs? There's no reason for concern and there's no reason for insurance. You begin to see the emotion in the precious metals space when people do have reason for concern, not just in terms of the economy, but the financial markets.

David McAlvany:

If the Dow's 30 or 40 or 50% lower than current levels, along with the S&P and NASDAQ, you begin to see an investor class say, "Wait a minute, what is going on here, how do I protect myself?" We've got high inflation rates, the stock market isn't helping us at all. Maybe or maybe not cryptocurrencies are having a positive day in the sun. We don't know. But we do know that the behavior of investors when put under pressure and when equities are underperforming, they gravitate towards gold. Silver doesn't take much of a spillover from the gold market for silver to behave positively as well. And so that's where I think we need to see an emotional shift in equities to see the real drama in gold. And that could be sooner than we think.

Dennis Tubbergen:

Yeah, I certainly agree. Last question, David, we have time for one more question. Would I be making a correct assumption if I said based on the numbers you just threw out there that you're more of a fan of silver or gold at the present time as far as appreciation potential is concerned?

David McAlvany:

Yeah. I think from a total net worth perspective, you have to keep in balanced risk and reward, and know that silver has some economic vulnerabilities that gold doesn't have. So as a reserve asset, gold is sort of the guaranteed winner under deflationary or inflationary circumstances. And silver is not a guaranteed winner. It has that economic vulnerability the same as platinum group metals because of its use in industrial uses. So if you begin to play out financial market circumstances, if it's only financial market circumstances and inflation we're talking about, silver outperforms. If we begin to see an economy grind to a halt and there's some stagflation, it may be that gold outperforms for a considerable period of time and ultimately silver plays catch up. But your silver holder, your silver investor, may for a long time, wonder why it's underperforming.

David McAlvany:

Why, why, why? And I think ultimately it will play catch up, but it'll be interesting to see if people can sit on their hands and do nothing as gold and silver don't perform at the same time same pace. Yeah, I like silver. I think if you look at this gold silver ratio, pressing 80 to one today, the numbers are on your side. You basically, from here to 40 to one on the ratio, can double your ounces of gold. Compounding ounces is what we do breakfast, lunch, and dinner. That's what we do as a company.

David McAlvany:

We've been in the metals business for 50 years, and one of the ways that we distinguish ourselves from our competition is being able to navigate bull and bear markets with a hard asset portfolio and using some of those ratios and premium trades are really effective in terms of gaining an advantage. So, I still have to take an agnostic view and say, "Look, the ratio is 79, 80 to one, roughly, today." You should be heavier weighted to silver than gold, but I would not neglect gold, and I would not do an exclusive positioning in silver, because again, there's circumstances that can mitigate against silver's performance.

Dennis Tubbergen:

Well, my guest today has been Mr. David McAlvany. The website is weeklycommentary.com. David, thank you for your time today. We always enjoy our conversations. I know the listeners do as well, and I'd love to have you back down the road.

David McAlvany:

Look forward to it. Yeah, at weeklycommentary.com you can subscribe for free, we'll send it out to you weekly, and vaulted.com is where you can get to know one of our many service offerings, but a great savings tool, phenomenal savings tool on a period of dollar and currency devaluation.

Dennis Tubbergen:

Well, I would encourage the listeners to check them out and we will return after these words.