Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

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Pento Portfolio Strategies

Date Aired: December 19, 2021

Produced by:

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Dennis Tubbergen
Welcome back to RLA Radio. I'm your host, Dennis Tubbergen, I have the pleasure of chatting once again today on the program with Mr. Michael Pento. Longtime listeners will recognize Michael as the founder and president of Pento Portfolio Strategies. He is also the host of the Mid-Week Reality Check podcast, you can learn more about his work and check out the podcast, which I would encourage you to do at pentoport.com. And Michael, welcome back to the program.

Michael Pento
Thanks for having me back on, Dennis, pleasure to be with you.

Dennis Tubbergen
So, Michael, the Feds talking about tapering for our listeners that aren't familiar. They want to they're allegedly going to slow the rate at which they're creating new currency. Do you believe them?

Michael Pento
I do, I really do. And, and the reason why I do is because they're actually victims of their own quote unquote, success. You know, you remember following the wake of the Great Recession, they were on this asinine pursuit of 2% inflation. But you have to remember since 1913, the Fed was chartered with the ability to provide us with stable money, and 0% inflation. Well, somehow that morphed into, well, the economy cannot survive.

Michael Pento
Unless we have a 2% inflation rate. Well, they were trying and trying over and over again. And they were sending, you know, $85 billion a month of Wall Street and Wall Street would just buy more bonds and more stocks and more real estate, and real estate and you have massive bubbles and all those things. But it never got to the consumer price inflation. Consumer was left out; it was just a Wall Street inflationary phenomenon. So, they consistently went below 2%.

Michael Pento
But then something happened, the outbreak of the great Wuhan virus COVID-19. And then they I guess they stumbled onto the secret of inflation. We can create inflation by paying people trillions of dollars to stay home and do nothing. And in other words, you know, lockdown the economy, eliminate all the goods and services that these people were producing. But give them all of that buying power. And voila, you know, now inflation is running the way they measure it at 6.2%. And I think the CPI print on Friday could be even higher close to 6.5 6.7% year over year for the November figure. So that means inflation is now running at three and a half times higher than

their inane target of 2%. So, the Fed is worried about it. They have a horrific reputation. That's true.

Michael Pento
But whatever reputation they have, they're going to try to save. So, they are going to try to end this taper, they're going to try to expedite the tapering pace. So, they're going from $120 billion a month, the average over the last 18 months has been 250 billion. But let's just say from 120 billion to zero, by March, so from December to March, Dennis, they're going to wind down that entire tapering, that is the that is the steepest monetary cliff we have ever seen. And they're going to do it because they are trying to get the table set for interest rate hikes and normalization.

Michael Pento
Now, to your point, if I can read your mind, I know and you know, that they'll never get to their normalization, or there you know, our star whatever the hell they want to talk call it, you know, normal interest rates, they think now is 2.5% on the Fed funds rate, you know, and I know that they'll never get there. But on the way to that goal, they're going to crush the repo market, the high yield market, the stock market, the real estate market, and the economy. So no, they won't get there, but they're going to sane and interest in trying.

Dennis Tubbergen
So, Michael, let's just say that they start down this path. And you know when you look at the math, you know, the math really doesn't lie. The US government now is operating with like a, you know, 41% of expenditures, our deficit expenditures funded largely by the Fed. How does all that play out as far as any economy? Don't we have to go into this extreme deflationary period?

Michael Pento
Of course, well, that's, you know, the, the whole predicate of my firm is looking at the rate of change of inflation and growth. And you have to understand where to invest based upon those macro-economic conditions.

Michael Pento
So, for instance, if you look at Kathy woods, Ark ETF, you know, the average stock down there is 20%. In the last couple of weeks, two of their stocks are down 80% They had a little bounce back in the last couple of days. But what does Cathy Woods invest in? She invests in disruptors, a lot of these companies have very, very high P E ratios, some of them have no earnings at all. And it's a very volatile sector. Well, these volatile sectors don't do well, when the rate of change of growth and inflation are slowing rapidly. So,

you have to know where to invest. And that's what my model does inflation, deflation economic cycle model, it helps you avoid some of these pitfalls.

Michael Pento
So, for instance, right now, at Pento Port, we think bond and bond proxies might actually do well for a while, especially as we head into 2000 to 2022. And the first and second quarter, because look what's going to happen, Dennis, earnings growth is going to crash from the mid 40% range to say five or 6%. That is a second derivative change that's massive, a massive slowdown in the growth of the economy, and in the growth of earnings. And on top of that we just talked about the biggest monetary cliff we have ever seen. The Fed has never ended QE this rapidly. And from that high of a level that high of a degree. So, we have a big problem in the second quarter and I'm not looking for just disinflation, then I'm looking for outright deflation, as the repo market and the credit markets freeze up, once again, that's a, that's a very big risk in 2022. And when the stock market falls, it's not just going to fall gracefully, you know, at 205% of GDP.

Michael Pento
That is the valuation of the stock market, we have never seen anything close to that in history as a reference point, you know, in 2000, was about 140 145% of GDP, the total market cap of equities to the underlying economy. Now we're at 205%. And I'll remind you that in the year 2000, the NASDAQ lost 80%, over 80% of its value, and assess the S&P 500 lost 50%. So, we have a very dangerous situation where we have the most overleveraged highest margin debt on record the highest stock market valuation ever running into the biggest fiscal and monetary cliff ever. Now, that's not a guarantee things are gonna fall apart. But you better have a model that can identify such a situation happening and have both hands on the wheel because you're buy-n-hold money manager isn't going to help you.

Dennis Tubbergen
Well, if you're just joining me today, I'm chatting today with Mr. Michael Pento. Michael is the president and founder of Pento Portfolio Strategies. He's also the host of the Mid-Week Reality Check podcast. You can learn more about both at pentoport.com. Michael, I mean, it seems like we're in this vicious cycle here. So, say we get this deflationary event we see this this massive stock market correction, doesn't the Fed go back to really the only tool they have left in the toolbox, which is more currency creation?

Michael Pento
Of course, but at what point Dennis, so you know, I don't have the tolerance. Me and my investors don't have the tolerance for a 30 50% decline in the stock market. And then Jerome Powell has to, you know, wake

up, has the epiphany of saying, oh, gee, the credit markets are freezing, now I've got a problem. I'm looking at consumer price inflation in the sixes. And yet I have to go back into QE.

Michael Pento
I mean, this is this is a, you know, a very difficult decision to abide by the Federal Reserve, because I mean, their credibility has they have no credibility with me, but they're trying to maintain some semblance of credibility to fight inflation. So, you remember, last month, they said they were going to taper assets at the pace of $15 billion a month? Well, a month later, they're saying, Wait, hold on a second, this is going to be announced next week, probably most, most assuredly, Jerome Powell on the FOMC is going to say, we are going to double the pace of tapering to 30 billion a month drawdown of new asset purchases and the size of the increase of the monetary base on the balance sheet. So, I mean, this wouldn't be a very difficult turn that by April of 2022, perhaps he's going to have to come out and say, well, wait a second, we're going to forget about the fact that we just ended the taper, we're going to go back into QE. Now if he does that, I'll just throw a couple of things at you. Number one is, what does that do to the dollar? What does that do to the confidence that investors have of our sovereign bond market? I mean, our sovereign bond market, if you look at the 10-year treasury, it's yielding 1.4%. In a world where inflation is running, as we just mentioned above six.

Michael Pento
Now if Jerome Powell comes and says, Guess what? But sovereign bond market investors internationally, we are going to destroy our currency at the same time, I'm telling you that the rate of inflation, which was headed from the perhaps six and a truncated basis down to zero, we're going to go back to six, and then we're going to keep on going higher from there. So how in the world can you maintain a one and a half percent 10-year Treasury in that environment when there's no faith in the currency and there's no faith in the bond market?

Michael Pento
Here's the other thing. Just because the Fed goes back into money printing, that's no guarantee that your stock market is going to rebound right away. I mean, look what's going on in Japan, they're still not back to the level that was in 1989. And China's Shanghai Composite is still way below where it was in 2007. So, I'm not going to take a lot of solace in the fact Well, hey, well, the Fed will just come back and print a lot of money and everybody's going to be happy. Well know what happens if interest rates start to skyrocket because people lose faith, international and face investors lose

faith in the credibility of our central bank to support our dollar and our bond market.

Dennis Tubbergen
Well, I'm chatting today with Mr. Michael Pento. He is the host of the Mid-Week Reality Check podcast. You can learn more at pentoport.com. I'll continue my conversation with Michael when RLA radio returns. Stay with us.

Dennis Tubbergen
I'm Dennis Tubbergen, you are listening to the Retirement Lifestyle Advocates radio program. I am chatting today with the president and founder of Pento Portfolio Strategies, and the host of the Mid-Week Reality Check podcast, Mr. Michael Pento.

Dennis Tubbergen
And, Michael, let's just jump back in where we left off in the last segment. I've interviewed a number of folks that, you know, as you're talking about, what does it do to the dollar when the Fed starts currency creation again, or QE again, and I've got a number of guests that have the perspective that this boom-and-bust cycle ends at some point with a hyper inflationary outcome. Would you agree with that? Or would you have a different perspective?

Michael Pento
When you say end? I mean, the again, the predicate of the Idec portfolio is to identify these massive swings between inflation and deflation. We've had many of them over the past couple of dozen years, so I predict more and more of that. So again, we were geared towards rising inflation earlier this year. And now we're switching more towards a disinflationary hedge in the in the portfolio.

Michael Pento
I think that disinflation becomes deflationary next year, like we just talked about. And then in response to that, if we are correct, and that Jerome Powell has no choice, but to say, hey, the credit markets are frozen stock market is in freefall, real estate prices are in freefall. We have by the way; I just want to mention that there's $6 trillion in additional business debt. In the last 10 years, you know, it took from World War II all the way to 2010, to get the first 6 trillion that was 65 years. In the last 10 years, we've added another 6 trillion. And it's the worst kind of debt, Denis, it's mostly barely investment grade or junk bond debt.

Michael Pento
So, the economy will be in freefall, if this happens, if the credit markets freeze again, in the junk market, you know, the junk bond market shuts down. So, the Fed is going to have no choice. But to go back into massive money printing in, and this is the key in conjunction with the Treasury, the Treasury and the Fed will work once again hand in hand, it's called helicopter money. It's called universal basic income. And if we have some kind of perpetual, protracted, ubi, in the trillions of dollars per annum, you're going to get your hyperinflation.

Michael Pento
But look at history. That's not the end of the story after hyperinflation, which requires a totally different regime of investing into how to profit from it. You buy your base metals, you buy your energy, you buy your yield curve expanders, on the other side of that is a possible complete reset of the currency and of the debt structure. So that's deflationary. So again, it's all about knowing what's happening in these inflation and deflation cycles, which by the way, are becoming much more intense and are happening with more frequent duration, more intensity, and with less duration between the two cycles.

Dennis Tubbergen
So, Michael, you in the first segment mentioned, you shared with us the valuation of stocks comparing the market cap to gross domestic product, and you mentioned that we are now as if I did the math correctly, about 50% higher than we were at the tech stock bubble peak and that's at the present time. So, what are you telling your investors and your podcast listeners as to your forecast for stocks?

Michael Pento
Well, we're getting more defensive. I mean, we have a couple of things that are happening. You know, next week, as I mentioned, we have the FOMC meeting, when they double the pace of the tapering, we have this huge second derivative crash in inflation and growth coming by the second quarter of next year. So, when you when you just mentioned the valuation of equities, which is into the thermosphere, you look at price to sales things that you can't fudge as easy as just as be ratios, which are already in of themselves very, very elevated, you have to get defensive. And that's what I do here.

Michael Pento
I mean, I run a long, short strategy. So, we have taken on two short positions as a hedge going into the new year where I think there'll be a ton of deferred tax law selling. You know, since the nadir of the march low and

2020, the stock market is up a significant amount. And that's been deferred. Now, don't you believe it's very possible that people understand that we have the most hawkish Central Bank, as far as monetary policy is concerned. In this in a very truncated period between say, January and April, you can have a very aggressive fed that's winding down the taper to zero from 120 billion and setting the table for interest rate hikes. In fact, if you listened to the members of the FOMC, they're talking about two and a half percent, on the overnight lending rate, the Fed funds rate by the start of 2024. They're looking for two or three rate hikes in 2022. And the balance in 2023, I don't think they'll ever get there.

Michael Pento
Again, my prediction is that the credit markets and the junk bond markets freeze before then, which causes this reversal. But that's why you don't just have a set it and forget it portfolio. You know, I hear people on CNBC Bloomberg all the time, say, Listen, this is what you need to do. You maybe, you know, you overweight, some Chinese stocks instead of domestic stocks, or, you know, perhaps we just go small caps and mid-caps instead of us large caps, like I heard today on Bloomberg.

Michael Pento
This is just tinkering around the edges, you know, when you enter into what I call sector, one of my inflation, deflation and economic cycle spectrum of investing, which is one of deflation, and recession slash depression, everything, Dennis, everything goes to a correlation of one. Everything goes down, except for cash, shorts, short term treasuries. And, so, it's cash, shorts, short term treasuries and the US dollar. Those are the only four things that work when you have a sector one condition.

Dennis Tubbergen
So, Michael, let me shift gears for a moment here. You know, as we've seen, the CPI, you know, reach 6% plus year over year, John Williams, who's been a frequent guest here on the program, as well, says that if we calculate the inflation rate that way, they did pre-1980, we're pushing 15% Why, in your view, have golden silver not reacted? As you know, many people would have expected them to we haven't seen gold and silver prices, you know, rocket to the same level as maybe oil and energy? Well, what's the explanation in your view?

Michael Pento
Well, there's two but the lesser of the explanations is that I think a lot of cryptocurrencies has drained some energy away from gold. But that's just a, you know, an ancillary effect. The main reason why gold has not responded is because gold does not do well, in inflation, when growth is also

accelerating. And if you look what happened this year, we had the reopening of the economy, you had inflation rising to levels that we haven't seen since the 1980s. But you also had because of the supposing optimism about the ending of the pandemic, the reopening of the global economy, you had accelerating growth, which causes what Dennis, it causes bond yields to rise faster than inflation. And that is a rise in real interest rates. And that is always been the bane of gold.

Michael Pento
Now, I think this turns around next year. And to surprise maybe to your ears or your listeners ears, gold might have a spectacular 2022. And you'll say well, why is that? Why you say that? When you think disinflation will be the predominant factor this inflation and deflation because gold loves that gold loves falling real interest rates. So, if economic growth is falling faster than inflation falls, you're going to get falling real interest rates. So, you're going to have a, an occurrence where even though you think Well, wait, let me let me think that intuitively. Inflation is falling. Let me sell my gold, that's going to be the exact bottom of gold. Because again, real interest rates, the direction of real interest rates is the primary driver of precious metals.

Dennis Tubbergen
Well, I want to follow up on something you said that you thought maybe cryptocurrencies were taking a little bit of the attention of gold just to paraphrase. What's your forecast for Bitcoin? for Ethereum? For Cryptos? In general, they seem to be, you know, that they're under attack by governments, China just cracked down again. And, you know, I guess, in my mind, there, it's a digital unit of air, there's nothing tangible. But what's your take?

Michael Pento
Well, first of all, I'm the last person you should ask about this direction. Because, I mean, unlike most people, I can admit, when I'm wrong, I've been dead wrong about the direction. But the, the ideas that I have, as far as there being almost zero worth to them, will be eventually borne out. So I mean, let's just, let's just spend a couple of minutes on them, since you brought up you brought it up. See, I know, it takes about $1,500 An ounce of $1,500, to pull an ounce of gold from the ground, I know that takes energy, capital, human, you know, human energy, physical energy, precious carbon energy to take an ounce of gold from the ground. And it takes about the same maybe about the same to mine a new unit of Bitcoin.

Michael Pento
So, you know, I know that I have a floor under Gold of about $1,500 an ounce. But $1,500, a unit on Bitcoin is much lower than its current price per token, which is about I guess this recording about 4045 $46,000. That's number one. So, you have a lot of air underneath Bitcoin. But when you think about Bitcoin, and at all, what is it really, it's 64 alphanumeric characters, which are electrons that sit on your hard drive, or you can cold store you can cold store them too. So, there's nothing really a value in electron that sits on your hard drive. That's alphanumeric, your private key.

Michael Pento
But the only thing that gives it value, Dennis is the fact Well, hey, I can use this to move a token across a blockchain. And there's a virtually unlimited number of blockchains that can be created, by the way, so is a virtual unlimited number of cryptocurrencies that could be created. But what gives it value is that it's decentralized. That's the main value, I could move my coin. You can't do anything about it. Governments can't take it from me. And it's an immutable transaction. It's anonymous. It's immutable. And it's decentralized.

Michael Pento
But wait a second, in order to get their value of $60,000, a unit $65,000 A unit in the case of Bitcoin at the high, these decentralized anonymous, you know, tokens want to become a need to become centralized by Wall Street. And when they become centralized, and as they lose the only thing that gives them any value. So, it's one or the other. It's either a decentralized, anonymous immutable transaction, which has some value in illicit transactions, or to move your money out of a country that's going into hyperinflation. And that case is probably worth a few $100, a unit maybe more in a case of hyperinflation. Or it's, it's all a facade.

Michael Pento
I mean, I can’t, if the government can take away my bitcoin, at will, and they have confiscated Bitcoins. Numerous times, the FBI has come and said, hey, you've held this person ransom. And I know who you are, because I could see you on the blockchain, because you're now, you're now become centralized, because Wall Street will have it no other way, they know exactly who you are what you own, right, they think about it, and then it loses all of its value. So be careful when you buy a unit of cryptocurrencies, when they're so far elevated in price above their intrinsic value, which is in the case of Bitcoin about maybe $1,000 per unit.

Dennis Tubbergen
Well, we're going to have to leave it there. My guest There has been Mr. Michael Pento. He's the president and founder of Pento Portfolio Strategies, and I'd encourage you to check out his podcast and Mid-Week Reality Check as well. You can learn more at pentoport.com. And Michael, always a pleasure to have you on the program enjoyed catching up with you today and hopefully we can chat again down the road.

Michael Pento
Always a pleasure, Dennis, thank you again.

Dennis Tubbergen
We will return after these words.