Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: David Skarica
Addicted to Profits

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Dennis Tubbergen:

I'm Dennis Tubbergen. You are listening to RLA - Radio. I'm joined again, on today's program by Mr. David Skarica. David is the publisher of the Addicted to Profits newsletter. You can learn more at his website, addictedtoprofits.net. The website again is addictedtoprofits.net. So David, welcome back to the program.

David Skarica:

Yeah, thanks for having me. Yeah, it's good to be here again.

Dennis Tubbergen:

So David, let's just jump right in. We have had here in the United States a couple of years with just record money creation, it appears that we're starting to see some inflation. What's your take on that?

David Skarica:

Yeah, I think they want inflation, the Fed. First of all, I'm one of these people, I think those inflation numbers are pretty Orwellian in and pretty much B.S. There's actually a cost of living index they have, but just before we get into this, to talk about having inflation that shows what the cost of living is like in cities. And if you go look at this index, it's like most cities, the cost of living is going up and this includes everything, housing, from meds to the food, et cetera, is going at 10% to 11% a year. So even as that's maybe a little over the top, I think we're definitely more in the 5% to 10% range than we are the 2% to 3% range, so I think that's an issue.

David Skarica:

But on their inflation numbers, the Fed has basically said they're willing to go well above the 2% target, the 3% so they want inflation. And partly because all the debt that individuals, corporations, the governments have all taken on and these bailouts of the economy during COVID, I think the only way to get out of this is really to inflate it away. So they essentially want inflation at this point and we're seeing it looks like we're maybe starting another major bull market here in commodities. Because during the 2010s, we saw the markets go up and asset prices go up, we didn't really see commodities go up. They peak mostly in 2011 and after a strong 10-year bull market and now we're seeing oil and gas is back up over $60, agricultural commodities are rallying in price like lumber's been rallying, a lot of rare earth because of the push towards electric vehicles are rallying.

David Skarica:

Even looks like today, the day we're talking, gold is getting right to its resistance level of $1,750. And if that goes up, it looks like gold might now resume its rally that began last year and we've been in this seven, eight month consolidation. And silver's back North of $25. So maybe those are finally starting to move too. So I think, we're seeing this push for inflation. I think ultimately or probably lead to some stagflationary trade. And of course, one thing that we don't know is that right now we're on the cusp in terms of when higher rates become problematic, as now this push back and then tenured to 170, that's not totally hurtful, the government can still even with these high debt levels support that. I think once you get into $2.25 to $2.50 range in tenure, the debt is so high, they're going to run into some fiscal problems in terms of the interest expense and of course that pushes up rates for everything like corporate bonds, junk bonds, et cetera. So I think that's when the debt levels could be problematic.

David Skarica:

And by the way, that's when we could see massive inflation because I mean, once the rates get to a certain level on the long end, the Fed will do, what's called yield control and will start buying the long end to keep... Because one thing about these... To keep the long end down. It is really, really inflationary, because one thing about the long end going higher is that if you go look at, for example, the three month T bill, it actually in March when negative for a few days, the yield, so the short end rates aren't really being pushed up, but it's just the long end that is. And one thing about the government debt, a lot of the government debt is two, three, five year maturities.

David Skarica:

So really push back on the long end hasn't affected it as much as I think, I think what the problem is going to become is that one thing that surprised me last year when they issued a lot of debt for the first stimulus, they did it in a load of two years, Treasury. Well, probably those are going to roll over in 2022. And with the even more spending that Biden is doing via stimulus and Green New Deal and infrastructure projects, you're going to see even more debt issues over the next year. So then you're going to have to roll over those trillions in 2022. So I would think at some point they're going to want to roll over this debt into longer maturities because every year, they're going to have so many one, two, three year maturities rolling over. Again that could put pressure on rates at some point.

David Skarica:

What's scary about the economy as a whole, like I said, at consumer, corporate, and government levels is that we can handle these. Even in this last cycle, the top end rates was 3.5% or so on the 10 year bond. We can't handle that now. I'd say over 2% is when we're going to start running into problems. And then of course, this is at a time when debt is completely out of... I think we're in a debt bubble too, because now when I started in the markets, the thing that got me interested and one reason I became a gold, hard metal, hard asset guy is because, in the early '90s, people were getting worried about the debts, one of the things Ross Perot ran on and talked about the debt maybe getting out of control. And now no one cares about that, even the debt is seven or eight times higher than it was in the early '90s.

David Skarica:

And so now it's just like another $2 trillion here, another $2 trillion there. And the US economy is about $20 trillion in size and the national debt is going to get above $30 trillion, that's 150% of GDP. We're talking of banana republic fiscal basket case levels.

Dennis Tubbergen:

Yeah. And David, when you look at debt levels, when you look at deficits over the past couple of years, and you look at this blatant disregard for fiscal responsibility, among all this, we have these theories emerging, like modern monetary theory where, "Hey, it doesn't matter how much money the government really spends because they can just create it. And if they create too much and there's too much inflation, they can just raise taxes and suck the money back out of the system." What's your take, I mean, it's my view that these theories arise because there's no other way to explain it away.

David Skarica:

Yeah. Well, I think that it's just like... I mean, one reason these theories have arise. Maybe it's an offshoot of the fact that debt levels are already so high. Like for example, if you wanted to become more socialistic post-World War II or in the '50s and '60s, when the economy was really booming. And I know debt level was high after World War II, but we all know that was a one-time expense to pay for the war, and gradually came down. I think in the mid- '70s, that's when it reached the post-war bottom and it was 33%, 34% of GDP. You could actually say, "Oh, we want to become more socialistic."

David Skarica:

And actually a lot of Western European countries and Canada took this route back in the '70s and they did it mostly by actually raising taxes, or having higher taxes at lower income levels, they basically paid for through taxation. They're like, "Well, you want universal health care, we're going to pay it through taxation." Well, now the debt level is so high, taking an off shoot of that becomes well, taxation, isn't going to pay for it because, we have some ridiculous $4, $5, $6 trillion deficit. So the way you can explain it away is, "Oh, why don't we just print the money?" And because they did print so much money after the financial crisis, even the last year and the currency has not fallen apart, they can say, "See, it won't cause hyper inflation." And it is true because of the dynamics of the US economy is still going to be the reserve currency for a little while longer. You probably won't get Venezuelan stagflation.

David Skarica:

And by the way, there's a very unique one-off in Venezuela that has caused that inflation. Partly because the economy was so dependent just on oil which the United States does not have that issue, so it's got a much more diversified economy. So you're not going to get that but I think at some point reality has to take hold and you're going to get this massive inflation. Remember one thing that we don't talk about, we just talk about stimulus and this maybe is one reason that what modern monetary theory too, is that the baby boomers are all about to retire. So that means more social security, more Medicaid expenses, Medicare, et cetera, et cetera, more outlays. And that's on top of what all of these short-term things are doing because of COVID.

David Skarica:

And the thing about these stimulus checks, or actually what's bigger than the stimulus checks I think is the inflated unemployment checks where people are getting inflated state unemployment more than they usually would then for longer than they usually would. It's like income tax in 1913 when a government program like that gets instituted, usually it's just temporary, as they say it's temporary, but then it becomes longer term. So I think that's going to happen with a lot, you're talking about M & T and universal basic income, that's essentially what these inflated, more again than even the stimulus checks. The inflated unemployment benefits are really a form of a UBI.

David Skarica:

And if that becomes permanent, then you're just going to have to essentially print money for that because for example, if you give everyone a $1,000, adult age people, $1,000 a month stimulus check, I think that costs about $4 trillion a year. Ray Dalio did a study showing that unfortunately in a year is essentially what the government budget was pre-COVID. The pre-COVID, the government was spending about $4 trillion and collecting about $3 trillion in taxes and so you're essentially doubling the government budget, like I said in normal times. So where's that money going to come from? And it's not like it's going to do some additional tax, but really if you're going to double the government budget from $4 trillion to $8 trillion, you're probably just going to have to print a lot of that money. I do think at some point it does matter. You can't have your 1,000% of GDP debt, that's just not going to work. At some point the bonds vigilantes come back, rates go higher and actually forces some kind of austerity in the country, but probably you have some kind of inflation before that occurs.

David Skarica:

Remember too, like there's also other dynamics. A lot of people will say, "Well, look at Japan, they have all this debt, they printed all this money in the last 30 years and they got problems with deflation." But an issue with Japan is two things, it's a lot different in the United States. Number one, their debt is almost all domestically owned, so they don't have to worry about foreigners dumping their debt. And then number two, Japan subsidized their budget deficits by running huge trade and current account surpluses. The United States does not do that, so that's another factor as well. That's one reason because Japan makes a lot of stuff even with China coming on and replacing them for a lot of exports or imports, exports to the States, imports from there, Japan still makes a lot of cars and electronics and other things as well.

David Skarica:

So I think we're somewhere in between Venezuela and Japan, we're not going to get a deflationary burst and we're not going to get that super, super-duper hyperinflation, but we could definitely see a form of stagflation with the real inflation rate being higher than probably those inflation rates of the '70s. And part of it too will be not just against stimulus and green new deals, the infrastructure, part of it will be because you'll have a bigger structural deficit because of the baby boomers are going to retire and all the money that's going to spend. We know that a lot of those pension plans and whatnot are unfunded liabilities.

Dennis Tubbergen:

Well, my guest today is Mr. David Skarica. He is the publisher of the Addicted to Profits newsletter. You can learn more at addictedtoprofits.net. I'll continue my conversation with Dave when RLA - Radio returns. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen, you are listening to RLA - Radio. I'm chatting today with returning guest, Mr. David Skarica. If you're just joining us, David is the publisher of the Addicted to Profits newsletter. You can learn more at his website, addictedtoprofits.net. And David, you used the term stagflation a couple of times in the last segment, and there may be some listeners out there in our audience that maybe are not familiar with what that looks like and how they might be affected. Can you dig down on that a little bit?

David Skarica:

Yeah. The basic, the normal economic theory before the 1970s was inflation actually what happened during booms. What happened was there just be a lot of demands for say goods and services, and that would cause their prices to go up because let's say, yeah, the economy is booming. Everyone's got jobs or wages are going up. Then everyone wants to buy a new car, everyone wants to buy a nice new house and they would push the prices of those things higher because of demand. So they really thought inflation was a demand problem.

David Skarica:

But what happened in the '70s was you had supply shocks, with the OPEC crisis in both '73, '74 and in '79, '80, and then so that means less oil was on the market. And then also you had all this monetary printing of money to pay for the new society by Lyndon Johnson and then for the Vietnam Wars, et cetera, the deficits were increased for a while there. So then you had this, what's called stagflation where because of monetary measures and supply stocks, you had inflation going higher at a time when the economy was doing poorly, in a recession, unemployment going higher, which showed that inflation actually... Milton Freeman said that inflation is, and always has been a monetary phenomenon, meaning they're printing too much money for whatever reason and that money sloshes around the economy. So stagflation would be after I think we see this initial bump in the economy because things are opening up. There is a lot of pent up demand because people haven't been going anywhere or doing anything, the people with money have savings.

David Skarica:

So I think after that initial little mini boom, and then the government's basically maxed out its credit card, that's the one problem with the stimulus is they're doing it during this little recovery, we're having. And then if we dropped back into recession, well, what are they going to do? So I think that once you get through this little mini boom, you will see maybe another, I don't know if it will be a W or at least a slow down in the economy again. And then again, when market goes down, if prices start to go down, if whatever, maybe they're going to have to print more money to try to prop everything up again. So then you can see the prices go right back up but the economy not recover and that would be stagflation that, inflation is going higher, but the economy is still weak. I think we're seeing a form of it now because we all know that an unemployment rate of 6% is phony. The participation rate is at multi-decade lows, the real unemployment rate is probably in the 10% to 15% range.

David Skarica:

So we're seeing a stagflation now where prices of homes have gone up a lot because of the geographic shifts going on, people want to get out of the cities and they want to get into suburbs or just get out of states and move to certain states. Move from California or New York or Michigan to Florida or Arizona or something like that. So we're seeing this shortage of goods in some areas and prices go higher, but at a time when the economy really isn't that great. So that's really what stagflation is in a nutshell it's prices going higher, but the economy is still weak or in recession.

Dennis Tubbergen:

So David, let me shift gears a minute, because you mentioned that in the last segment, I think your comment was the US dollar will be the reserve currency for a while longer, but there was some reports out this past week that the US dollar as a share of foreign reserves is actually declining. Part of that is due to the fact that dollar relative to the Yen and other currencies, it doesn't by what it did even three months ago. But part of it is that there's foreign governments dumping US dollar denominated holding. So well, how long do you see the US dollar remaining a reserve currency and what reasonable alternative might there be in your view?

David Skarica:

I don't think they're dumping so much and most of the stats are showing that they're actually just not buying. They're just like... If you look at Japan and China's foreign holdings, clearly they're not going down a great deal, but with all the money being created all over the place, if you don't buy anything and the money supply is up 20%, well then US of the total say global money supply is down 20%. So it's really, I think because of the measures that are being taken with these, the excessive debts. And the US has been by the way, way more aggressive on a per capita front than most countries. We tend to think Europe is more socialistic, but if you go look at a lot of the European countries in terms of bailouts, like stimulus's, et cetera. Virtually no one's going to do an infrastructure thing the way the US is, or it's going to be much smaller as a percentage, as a GDP.

David Skarica:

Anyhow, so I think that's part of the... I don't know, I can't see the Yuan just taking over, it's still a linked currency, it's not liquid, most of us don't believe the numbers out of China. So I could see a basket, a currency that is with the US dollar, even being part of that, or maybe you've got the Yuan, the Euro, the US dollar, even a couple of the big emerging markets, countries which are growing quicker like the Rupee and Brazilian real, things like that, maybe mixed in with some gold and precious metals. I could see that sort of thing taking over more like a basket then than just a one reserve currency. Because we have to understand too it's globally.

David Skarica:

I don't know if people want the Yuan to be the reserve currency, because if you go look at the reserve currency for the last 400 or 500 years, it's gone from really Western Europe to the US. We had just for a while, Portugal, the Holland, France, Spain, UK, they were all the super powers of the world essentially had reserved currency for a time. And then it moved to the American dollar after World War II. So I don't know if people really want an Asian superpower, especially that Yuan is not a democratic nation. And could it potentially use that reserve currency status to spend money to build up a military that could be not so friendly. So I think that it's really going to be a mixed basket of these currencies. I know a lot of people think crypto will replace it. I think what's actually the move in crypto is going to be more to these government backed cryptos that are going to be used for payment systems and the whatnot, rather than these little private exchange, actually the private ones might get regulated and crack down on.

David Skarica:

So I think that more likely it's going to be a mixture of that. And maybe we'll see a new agreement like a Bretton Woods type thing where gold is getting frozen. Gold is frozen at a certain price, maybe a much higher price here with all the money in circulation around the world. But I could definitely see a mixed basket of currencies. And maybe because US has been so reckless fiscally right now, and really taking advantage of its reserve currency status, and that happens to a lot of these countries. But if you go look at the UK, the UK never went crazy spending on domestic programs or, they more had the empire and World War I and World War II that essentially bankrupted them.

David Skarica:

So I think that now when they've got a bunch of woke political correct programs that's being paid for by cheap money that can be issued on a reserve currency status, I think that a lot of foreign investors won't go for that. And I think when they get together and they might say, "Well, let's do something to prevent this. Let's prevent this from a reserve currency being dependent on one country if they become fiscally reckless," and maybe a basket of currencies mixed in with precious metals will be a way to do that. And I don't know, some people wouldn't like that because they might think that's a one world currency, but I'm thinking more of it's just like a basket where a government might have 20% of their money in the US dollar or 20% in the Euro, 20% in the Yuan, 20% in gold, et cetera.

Dennis Tubbergen:

Well, David, we've got about one and a half minutes left in this segment. Assuming something like that happens, what do you think that does to gold prices or gold and silver prices and that aside, what's your forecast for precious metals moving ahead?

David Skarica:

I really think what we need in gold and silver is what I talked about earlier in the show is the yield control. I think right now, again, with this rebounding economy and in then these booms and other asset markets, stock market's done great, collectibles are booming, cryptos are booming, that has taken away from the "fear trade", where people move into gold when they're worried about things going bad. And like I said, we are going to do this mini blip or recovery in the economy, or boom in the economy for the next whatever, three to six months, that sort of thing. So a longer term, a very bad bullish on gold because of all the printed money. But I think what needs to happen is I think before we go into some really aggressive inflation or hyperinflation style or stagflation talking really, I mean, stagflation with the economy going down and prices going up rather than this little recovery, I think we'll need a burst in the stock market and we're most overvalued we've ever been in the market by almost every historical measure.

David Skarica:

So I wouldn't be surprised if we see a 1987 or '29 type shock at some point. You can never time those things to come possible because of the massive overvaluation. I think the response to that will be even greater money printing, probably even buying ETFs to try to prop up the market, et cetera. So I really think that is what's needed for gold to really significantly move higher. And I don't know if you did, but the Dow to gold ratio, which usually meets at one-to-one in the 30s, and then basically like 35, 40, one-to-one, because I think the Dow went to 48 and gold went to 35 and in 1980, they met at around 800.

David Skarica:

I don't know, I would think that after initial bust, the stock market will rally because they'll be printing so much money, inflation, everything go higher. So I don't know, they can meet at $20,000, $25,000, but that would be my ultimate thing. But as a warning, when that happens, if you go look at a gold chart from '79 or 80', it will probably be a last parabolic move, gold probably slowly move higher, to whatever, $5,000, $6,000, $7,000 something like that over a few years, and then do that final blow off at that point as well. But yeah, I would definitely think, I know that sounds crazy, but if you go look at all the printed money, the fact that there will be more printed money after the next burst. Yeah, I'm more interested in the Dow to gold ratio then actually predicting a gold price, I do believe in that, that one-to-one essentially at a top for gold and bottom for the Dow.

David Skarica:

So the question is if the bust is a little more deflationary, it would probably be $5,000 or $10,000, which would still be a great move for gold plus the cost of all the miners and production would be going lower. So their margins would be great. And if it's more inflationary, which I would lean towards, who knows it could be $20,000 $25,000, $30,000, it could be a million if they print enough money. But yeah, that's what I'm looking at, basically significantly higher. And I do believe that in 2016, we hit a low for gold in the cycle. And then we based for a few years in really 2019 to 2020, we saw the first move up. So, only I would say what we were saying out in 2002 and the last bull market, which lasted basically from '99 to 2011. So we're probably only in like, I'm going to use football analogies, I'm more football guy to baseball guy. Well, probably somewhere in the mid to late of the first quarter, we're pretty early on here.

Dennis Tubbergen:

Yeah. All right. Well, we're going to have to leave it there. My guest today has been Mr. David Skarica. His website is addictedtoprofits.net. I'd encourage you to check it out. And David, thanks for joining us today.

David Skarica:

Yeah, thanks for having me.

Dennis Tubbergen:

I will be back after these words.