Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Michael Pento
Pento Portfolio Strategies (Pentoport.com)

Date Aired: June 27, 2021

Produced by:

Retirement Lifestyle Advocates
961 Four Mile Road, NW
Grand Rapids, MI 49544

Phone: (866) 921-3613
Email: info@plplanners.com
Website: www.RetirementLifestyleAdvocates.com

Dennis Tubbergen:

Welcome back to RLA radio. I'm your host, Dennis Tubbergen. Joining me once again on today's program is returning guest, Mr. Michael Pento. Undoubtedly, you probably recognize Michael as a frequent commentator on many radio and television programs. His website is Pentoport.com and I would encourage you to check out his podcast, the Mid-Week Reality Check. Again the website, Pentoport.com. And Michael, welcome back to the program.

Michael Pento:

Thanks for having me on Dennis. And believe me, we have a lot to talk about.

Dennis Tubbergen:

Boy, do we? So Michael, Jerome Powell says inflation is transitory. They've got it completely under control. Do you believe them?

Michael Pento:

Well, I mean, even Bloomberg now is saying that Mr. Powell is making stuff up. The man has no idea. And I'm not blaming him. And I'm not even just blaming the FLMC. Listen, you can't put 15 people together in a room, men and women, human beings, that aren't God and have them determine what the price of money should be, and how much money they should counterfeit every month. It just deforms and morphs and distorts every single price on the planet, especially here in the United States. So when Mr. Powell says we want stable prices, no, no, no, we don't want stable prices, we want 2% inflation. No, we don't want 2% inflation. We want 2.5% inflation for the same duration that it was above 2%.

Michael Pento:

Then he engenders 5% CPI inflation, 6% producer price inflation, double-digit inflation. If you measure it in the real world before hedonics and substitutions and the Boskin Commission. And then he panics and said, oh, well, it's going to be transitory. And we're going to start reducing our asset purchase program pretty quickly. And then the stock market drops 2.5% surrounding those comments. And then he comes out and again, says, oh no, maybe we'll take our time raising rates. I mean, if anybody is placing confidence in our central bank, they're in for a rude and very costly awakening.

Dennis Tubbergen:

Michael, don't you think when you go back and just take a look at what the real inflation rate is, you mentioned some of the manipulations that have been applied to them, calculated inflation rate, the CPI. Don't you think we have at this point 70's style inflation?

Michael Pento:

We certainly do. I mean, John Williams says it's at 12% inflation. But here's the thing. Dennis, why do we have inflation, consumer price inflation today? Whereas pre pandemic, it was around 2%. Again, I understand, the way they measure it. Why is it 5 now and 2 pre-pandemic? Well, because we paid $50,000 of money. Paid American families $50,000 in various forms of cash between March of 2020 and March of 2021. That's why. You paid people to stay home and not work in enhanced unemployment. You paid people thousands of dollars in checks to stay home and not produce goods and services. That created bottlenecks. It created supply shortages. So of course we have inflation right now. But here's the question. And this is something I think Jerome Powell and the FLMC completely missed. They don't know what causes inflation. They think inflation is caused by too many people working. Dennis, when of the last two times, these are two times in the United States of America, post World War 2, when we've had a big problem with inflation.

Michael Pento:

One was the 70's and one was right after the pandemic. The unemployment rate surged in both those occasions. Inflation doesn't come from people working. It comes from exactly what I said, debotching your currency, and people losing faith in the purchasing power of the dollar. And if you add onto that, shortages. You get skyrocketing inflation, which is exactly what we have right now. And I think Powell misses the whole thing. Powell is going to try to crush inflation or at least cap it in 2022. He's going to stop printing $120 billion of QE every month. $1.44 trillion a year in confetti, in counterfeit money, which is what it is. It's not backed by anything. It's complete fiat. It doesn't represent goods or services that have been produced. It doesn't represent gold mined from the ground. Silver mined from the ground, represents nothing. It's a keystroke. A $1.44 trillion per annum.

Michael Pento:

The Fed's balance sheet now Dennis is over $8 trillion. It was 800 billion prior to the great recession of December 2007. So this is why we have inflation out. Powell is going to crush, try to cap inflation in 2022, but inflation is going to die on its own because guess what? We're no longer sending helicopter money to people. People will be getting back in the workforce. Bottlenecks will ease. And the money supply growth rate will plunge in 2022 because of a fiscal and monetary cliff. And that's the real problem. I think the next real problem, even though I completely predicted and acknowledged that inflation is running hot, white hot right now. The next issue is going to be disinflation and then deflation in 2022 and 23, that's when the bad stuff really happens, deflation.

Dennis Tubbergen:

So describe that fiscal and monetary cliff. So are you saying really then that inflation becomes the pin that somehow sadistically pops the bubble, and deflation kicks in as a result?

Michael Pento:

So first we're going to have a period of disinflation. I don't know if it's going to be six months or a year. I have a model that measures it, but it predicted the inflation. And now it's predicting disinflation. I know I'm correct because of what I just explained, the fiscal cliff. You're no longer going to be paying people $300 a week in enhanced unemployment. You're no longer sending out helicopter money to people. Thousands of dollars, $50,000 for a family. You are now telling them, 41 million people have to start paying their student loans. $1.7 trillion of student loan debt, twice the amount that exists in credit card debt.

Michael Pento:

You have to start paying your mortgage in the fall of this year. The child tax credit expires at the end of this year. So there's a big fiscal cliff coming. And even this infrastructure package, if it's passed, it's a trillion dollars spread out over 10 years. It's nothing. It's nothing compared to $6 trillion in 12 months. So you have a fiscal cliff coming. You have a monetary cliff coming because, the fed is not going to be raising rates til 2023, perhaps. I agree with that. But they will be ceasing printing $1.44 trillion per annum. It's going to go from that figure to zero in 2022. So you are susceptible to morphing from disinflation to deflation sometime in that duration.

Dennis Tubbergen:

So Michael, don't you think that if we see this deflationary period kick in, won't the Fed's response be that, Hey, we need to fix this? I mean, stocks don't like disinflation. They don't like deflation. And the feds had a stated objective of wanting to keep the stock market up there.

Michael Pento:

So I agree 100% with you Dennis, but that's why I have an actively managed strategy. I mean, I can't sit here and tell you, well, eventually gold's going to $10,000 an ounce. Eventually we're going to hyper-inflate into oblivion. So just buy a lot of gold and short the dollar. Well, that's probably great advice, but what do you do between then and now? Gold and the dollar, gold seems to go down in liquidity crises like a deflationary environment. You know what else really seems to do really well when you hit deflation? The dollar, the dollar seems to go up. Short-term treasuries really benefit when we have a deflationary crisis. So I just try to get the timing, right. But you're correct. We're still going to end up in a big inflationary environment, but after the next collapse. What is the history of the fed Dennis? Let's look at 2000 to 2021.

Michael Pento:

What does the fed always do? They create this massive bubble. Then they start to prick it by raising interest rates, reducing the money supply, tightening financial conditions. That's what they always do. Then they pop the bubble. Then in arrears, ex-post they try to fix it by doing what? Lowering interest rates and printing money. Well, look at 2008, we had 1% fed funds rate from 2003 to 2004. We gradually raise rates to 5.25%. And then the bottom fell out of the housing market. Then they came in and reduced rates to 0% and every iteration of this cycle, what happens? Debt levels explode, asset prices get bigger and bigger. And the threshold for which triggers the collapse gets lower and lower. Now, it's 2.5%. And in 2019, the fed was lowering interest rates three times from 2.5% to 1.75% before there was any COVID-19 crisis. Because the amount of debt and asset bubbles that have been created just prohibit any severe or trenchant or significant tightening in monetary policy, it doesn't happen.

Michael Pento:

So I would imagine that the fed is going to tighten monetary policy in 2022. They'll do it until we hit a deflationary crash where the credit markets freeze up. The stock market will plunge 30 to 50% in a matter of few weeks. And then Jerome Powell will say, oh, I'm sorry. I didn't mean that. I didn't mean that, we're going to cut interest rates. But cut, Dennis, cut interest rates from where? They'll still be at 0. This is the first time. This will be the first time in history that the fed is going to have a deflationary crisis and economic crisis on their hands with no room whatsoever to lower interest rates.

Dennis Tubbergen:

Well Michael, we have one minute left in this segment. Tell the folks about your Mid-Week Reality Check podcast.

Michael Pento:

So I put it out once a week, every Wednesday, you're correct. It's called the Midweek Reality Check. You get thoughts like this that you won't find in the mainstream financial media. You'll get data that you won't find in the mainstream financial media, because they tend to hide it and bury it because they're both mostly cheerleaders. They're appologists for the stock market. I'm not. I have a long short strategy. And the long short strategy goes long and short stocks when the time is appropriate. So the website is Pentoport.com, and on that you'll find access to the podcast.

Dennis Tubbergen:

Well, we're going to have to leave it there. My guest today is Mr. Michael Pento. I'll be back and continue my conversation with Michael when RLA radio returns. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen, you're listening to RLA Radio. I'm chatting today with Michael Pento. Michael's website is Pentoport.com and his podcast released every Wednesday is the Midweek Reality Check. I'd encourage you to check it out. So Michael, going into the end of this year, how do you see inflation playing out and how do you see it affecting the stock market?

Michael Pento:

Well, I see a period of disinflation before we perhaps jumped the shark into deflation. And disinflation doesn't mean panic. It doesn't mean the stock market can't continue to rise. It just means you want to know what sectors to own in disinflation. So clearly in disinflation, which is a period of time where nominal rates will fall and perhaps real interest rates will fall as well. You want to own bond and bond proxies. You want to own gold because gold loves disinflation. Get that. It doesn't like periods of excess growth and strong inflation because real interest rates rise. So I told my investors last year in the fall of 2020 to get out of gold because I saw what was going to happen in 2021. I called it the vaccine dead zone. Its a period of time where the economy reopens, growth is going to be rip-roaring.

Michael Pento:

Dennis, we have 15% nominal GDP growth. That's not going to last. That's not sustainable. Inflation at 5% isn't sustainable unless you're going to tell me that the Congress of the United States is going to pass another round of massive, multiple trillion dollars in helicopter money. They'll do it. They just won't do it in 2021. They'll do it in response to the deflationary crash of 2022/2023. So bond and bond proxies. You want to buy growth instead of deep cyclicals. And you want to be on guard and aware, have a model that understands when the next crisis comes. So here's an example, triple C debt, which is just one notch above default. So think of it as the junkiest of junk bonds is junk bonds that are almost in default, that yield is 7%. The average is 14%. in the year 2000 before the fed, really usurped the entire free market and killed it.

Michael Pento:

Murder one, mass murder of markets I call it. The triple C corporate debt yield was 20%. And if you just want to look at regular junk debt, that has a three handle, Dennis, three. You people are paying just below 4% for junk bonds, which is below the interest rate you used to get on fed funds rate, Dennis. So here's what I'm saying. The fed isn't going to be able to tighten monetary policy very far before the deflation starts to appear, becomes manifest. And then, and in that condition, there's I call it the four horsemen of the apocalypse that you want to own. You want to own a lot of cash. You want to be long the dollar, you want to be able to short stocks and you have to go long, short-term treasuries. Those are the four.

Michael Pento:

If you can do that, if you can identify when the next credit crisis comes, because it's going to come from the corporate debt market. The repo markets going to freeze. The corporate debt market is going to shut down. That's my opinion. And when that happens, you're going to have a massive liquidity crisis where the stock market hits a vacuum. And what are the four things you're going to want to own, are the four things I... Those are the only four things that will work in that situation. Long the dollar, long short term treasuries, cash, and short-term treasuries. That's it.

Dennis Tubbergen:

So Michael, when you take a look at, you mentioned gold and silver tend to perform well in a disinflationary environment. How do you read the recent pullback in gold and silver? Do you see that as a price manipulation? Do you see it as short covering? What's your opinion?

Michael Pento:

No, I think it's predictable. I predicted it. Its very predictable. Listen, the last taper tantrum occurred in 2013, May of 2013. And gold didn't like that. Gold does not like the threat of higher interest rates. Because gold, it's an asset that doesn't pay any dividends. There's no cashflow associated with it. So when you have a zero interest rate environment or an environment where the second derivative of growth and inflation is falling, you expect nominal rates to contract and real interest rates to fall. Gold loves that. That occurs in disinflation. So that's one of the best environments for gold is a period of disinflation. And that's where we're headed, in my opinion, in the latter portion of 2021 and into 2022. Now the only issue with gold is it is liquid and will be sold by the hedge funds and the shadow banking system during a liquidity crisis, which I see coming.

Michael Pento:

And that's deeply, that's a deep deflation. So gold likes disinflation. It likes a mild deflation. It likes stagflation. But what it cannot occupy, which is untenable for gold is that period of rising periods of growth and periods of rising inflation. Because real interest rates will rise, especially if growth is accelerating faster than inflation. And that's when you want to avoid gold, which is what I've done. But I'm now back into the gold market because I'm trying to get a position ready for the latter portion of 2021, which is just a few months away.

Dennis Tubbergen:

So Michael, I've interviewed a number of respected analysts who expect a hyper-inflationary outcome. We mentioned John Williams, I've interviewed Allister McCloud. What would your opinion be as far as a hyper-inflationary outcome? It sounds like you're not in that camp.

Michael Pento:

Well listen. Dennis, I have an STC registered RIA here. I mean, I'm just trying to make my client's money in all situations. So it doesn't behoove me or my clients to say we're going into hyperinflation and invest like that always. I do believe that the US economy could, and most probably will enter a hyper-inflationary scenario. But that's going to be a reaction after the next deflationary crisis. So let's just play this out. If in 2022 or maybe 2023, we have this big vacuum in stocks, real estate prices crash, stock market crashes. And in response to that, you get some kind of permanent form of helicopter money, MMT. And so interest rates will be at 0. You'll get a permanent form of helicopter money, which is money directly sent to people. Not just the inflation you get on Wall Street, which is what happened in 2008.

Michael Pento:

We bailed out Goldman Sachs and all the shadow banking system. We bailed everybody out, but those people were bailed out and they just bought more stocks and more bonds. They didn't make loans to the average person on Main Street because they were debt saturated. So I believe the next time we have a crisis, we already have the playbook. The playbook is already out there. They've already done it. They'll do more and more helicopter money that will create intractable inflation. And then you might have a problem with hyperinflation where you'll have the bond market, the whatever's left of the free market in bonds. They'll short the bond market, sell what they have and short it. And yields will go inexorably higher. That's the real risk. That's the real danger in the longer run.

Michael Pento:

Because that's the problem, see Dennis, the fed can always save us. They'll save Wall Street from a problem caused by deflation. It's easy. They've done it many times before. You have a intractable inflation and assets, either NASDAQ stocks or the housing market, then that results in a deflationary bust. And the fed comes and rides to the rescue. But what are they going to do when the problem is when the market crashes, because of inflation. In other words, people lose faith in the sovereign bond market and in the US dollar. That's the problem.

Dennis Tubbergen:

So do you see that as a... Am I hearing you correctly? You do see that as a potential outcome. But we're going to see a deflationary period first. And then that may come about as a reaction or as a response to that deflationary period.

Michael Pento:

It's exactly what I'm saying. And I don't know if it's going to take two more iterations, two more turns of intractable inflation and then deflation, and then intractable inflation and then deflation again? I don't know if it's one more or two more iterations of this cycle, but that's eventually where we're headed. We're eventually headed to the point where investors completely eschew sovereign debt because they know that the US is insolvent. By the way, that's not just a US phenomenon, the same can be said for Japan and Europe. So I'm not looking for the dollar to crash against other Fiat currencies. I'm looking for to crash against hard assets.

Dennis Tubbergen:

Michael, I'd love in the time we have left to get your opinion on the future of digital currencies. Do you see that ever becoming a reality?

Michael Pento:

How much time do we have left Dennis?

Dennis Tubbergen:

Well, you've got about three and a half minutes.

Michael Pento:

Okay. I'll try my best. Cut me off, okay? So, and here comes the hate mail. Crypto assets are glorified, I call them glorified barcodes. They're horrible currencies, and they are not stores of value. Their utility is almost zero. Listen, think about gold. What makes gold so precious is that it's extremely rare. It's virtually indestructible and very beautiful. Crypto currencies are not rare. There's an unlimited... mark this. There's 21 million Bitcoin in existence. So people say, oh, that's better than gold. No, there might be 21 million Bitcoin units out there that can be mined, but there's an unlimited number of crypto currencies and blockchains that you can create. So they're not a store of value at all. And you think about currencies. Well, what currency have you ever heard of that can drop 50% in one week. I don't even think the Hungarian pengo dropped 50% in one week.

Michael Pento:

So how in the world can a currency drop 50% in a week? But that's what Bitcoin did. That's what Ethereum did. So if it takes a tremendous amount of energy to do a transaction, you can only do five transactions a minute. Maybe that goes away. Maybe they fixed that. But listen, the big thing about Bitcoin that I don't understand is that this is supposed to be a decentralized ledger, correct? Decentralized ledger. This was the big thing. But then they found the people who stole the Bitcoin and the FBI found them and took it back because their wallet wasn't cold stored. It was online. And they found out that it could, because this ledger is so easy to trace. They found the stolen Bitcoin and took it from them.

Michael Pento:

So what do you really own when you own Bitcoin? What do you really own? And what in God's name makes it $35,000 per unit? I'll never understand. And no one can explain it to me. And I've debated many people and they always lose a debate because they can never explain to me how something could be a store value that has unlimited supply. Because every cryptocurrency performs the same thing. It's a decentralized ledger that's supposed to be anonymous and indestructible, immutable. But all those things turn out to be false because how did they, how did the FBI find out where these Bitcoins were that were used for ransom? That's what happened. And if you have an unlimited supply of cryptocurrencies and blockchains, they cannot be a store of value and they make horrific currencies.

Dennis Tubbergen:

Well, that's always been my perspective. And the clock tells me we have to leave it there. It's always a pleasure to talk with you. My guest today has been Mr. Michael Pento. The website is Pentoport.com. Check out his podcast, the Mid-Week Reality Check. Michael, thanks for joining us today and love to catch up with you again down the road.

Michael Pento:

Look forward to it Dennis.

Dennis Tubbergen:

We will return after these words.