Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Michael Pento
Pento Portfolio Strategies

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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. I am chatting today with returning guest, Mr. Michael Pento. Michael is a prolific commentator. He has the website pentoport.com, and you can go there to get a free trial for his podcast, Mid-Week Reality Check, and Michael can be reached by email at mpento, that's M-P-E-N-T-O, @pentoport.com. Michael, welcome back to the program.

Michael Pento:

Always a pleasure to be on with you, Dennis.

Dennis Tubbergen:

So Michael, given just some recent analysis that I have read, it seems like we may be in an everything bubble. We've got bonds, stocks, cryptocurrencies, real estate. Everything's going through the roof. What's going on?

Michael Pento:

Well I mean, you don't have to look any further than the Federal Reserve, the disgusting institution that used to be in the business of bailing out banks on the margins if they had some bad debt they had to bring to the discount window. Now the Fed controls everything. They're even vanquishing viruses. They're trying to bring about some kind of equanimity in the economy. Nothing wrong with, of course, trying to make an economy fair for everybody, but I don't think you can eradicate years or decades of prejudice by destroying a currency. And the Fed, of course, right now is printing $120 billion each and every month to try to keep asset bubbles from bursting, let's be honest. And the other mandates, besides an emergency lender of last resort, they're trying to make sure the stock market never has a downtick ever again. It's really disgusting.

Michael Pento:

But you look at Bitcoin, which is really 64... If you have a private key, it's 64 letters and numbers that sit on your hard drive, unless you put the private key in cold storage, that code that you have. There's nothing really unique about letters and numbers electronically speaking, but it's $50,000 per unit. Okay, think about that. Gold is sitting there at $1,800, an ounce. $50,000. This is all manifestations of the massive bubbles created by the Federal Reserve. We have a gigantic bond bubble. Okay, it's been building now for 40 years. Of course, when the bond market topped in 1980, it started to form a bubble after Alan Greenspan came and massively cut interest rates and printed money. And that was carried on, of course, through Bernanke and Yellen and now Powell.

Michael Pento:

You now have about $20 trillion worth of negative-yielding sovereign debt around the planet. This is something never before even dreamed of, but you have a massive bubble in bonds, record low yields, record low spreads between Treasuries and junk bonds. 3.3%, Dennis, spread? A nominal yield of under 4% for a junk bond? And of course you also have the triumvirate of bubbles rounding it out. You have real estate bubbles all over the place, where home-price-to-income ratios are again approaching record highs in some areas of the country.

Michael Pento:

So when your market cap to GDP is 197%, almost two times the underlying market, the total market cap of equities, the normal ratio is around 0.65, .7, you know you're in the everything bubble. And it is going to break with absolutely devastating consequences. And I'm speaking to all of you buy-and-holders out there. I am speaking to all of you people listening to Dennis. And there might not be many because you're one of the people that are aware, Dennis, and hopefully your audience is too. I'm speaking to all the people in the sound of my voice who believe you can buy and hold stocks at any level. You are wrong, and your retirement is in grave danger.

Dennis Tubbergen:

So Michael, when you look at what's going on right now... There was an article published, I believe it was on MSNBC so maybe we can believe it, but a $2.3 trillion operating deficit for this year before additional stimulus. It looks like there's another $1.9 trillion, so we're looking at a $4.2 trillion deficit this year at a minimum. We all know how that's going to get funded. How much longer can this money creation at these insane levels continue in your view?

Michael Pento:

Well, look what's happening with the long end of the bond market right now. I mean, the stock market is doing okay. Why? Because of the massive quantitative easing program that we have, and we have the Fed pinned at zero for years. But Dennis, what about the long end of the bond market? Okay, so we just had in 2020 $4 trillion of fiscal, and I'll put that in quotes, stimulus passed. $4 trillion, okay? The last $900 billion was passed in late December. Now we're going to have $1.9 trillion. Okay, half that amount in the first couple of months of 2021. And on the heels of that, you're going to have probably an infrastructure package because both the Democrats and Republicans love infrastructure. We have to rebuild every bridge and tunnel and road on the planet, in the United States and all over the world apparently, especially here in the United States.

Michael Pento:

So you're putting a lot of pressure, upward pressure, on bond yields. And you went from about half-percent at the nadir for the benchmark, which was around April of 2020, and now you're at 1.26/1.27, and you're on your way back up pretty abruptly to 2%. And the question I have to ask myself for my investors is how will the market withstand all of this upward pressure on yields? The discount of future earnings is predicated upon that benchmark Treasury yield. And if that's rising, it's going to have consequences for the stock market. You just can't borrow trillions upon trillions upon trillions of dollars. I mean, we have deficits in this country of 15% of GDP. It's banana republic style, and we're the world's reserve currency.

Michael Pento:

So you have a lot of debt. You have massive deficits. You have record amounts of QE. And then you add into that very toxic cocktail, inflation. We are going to have inflation well above the Fed's preferred 2% target on the core PCE come April/May just because of the base effects caused by the COVID-19. So then you think then you think... Dennis, what happens if the vaccines start to work a little bit. I'm not a big vaccine believer, especially one that's developed at warp speed, and God willing it works very well without any long-term effects, which we don't know yet because this was rushed through. But what if the vaccines cause the economies to start reopening and you have massive hirings on the nonfarm payroll report in the leisure and hospitality sector?

Michael Pento:

Well, what do you think that's going to make Jerome Powell do? He's going to want to taper that. He's going to have to be forced to at least think about tapering it. And if he doesn't taper that quantitative easing program, then inflation is going to send these yields past 2% on the way to 3%. And I don't think the equity market, where it's priced today, can withstand the rate of change of bond yield surging. It's not going to last. The stock market will not survive that kind of rate of change in bond yield.

Dennis Tubbergen:

So Michael, as I see it, the Fed is really painted into a corner, and I'd like your opinion on this. I mean, if the Fed continues creating money through quantitative easing, we will have potentially this destruction of a currency that you alluded to when we started this segment. And if they taper or stop, which seems unlikely, then this everything bubble has to come crashing down. But doesn't it all come crashing down anyway? The question is whether or not we're going to destroy a currency in the process.

Michael Pento:

Well listen, Dennis. Look what's going on in Europe. The dollar is not going to crash against the euro. It's not going to crash against yen. I'm much more worried about a bond market crash than I am a currency crash. I mean yes, the dollar could lose some of its purchasing power of course. When we have major liquidity crises in this world, people flock to the dollar. That's been the case. But you made a great point. You said, "Well, won't it crash anyway?" So the Federal Reserve can reinflate bubbles with alacrity and ease if they are caused by deflation, but can the Fed save us from an equity market collapse and a bond market collapse that's occurring precisely because of inflation? I have my doubts.

Michael Pento:

Let's just say that Mr. Powell, come May or June when he sees these huge increases in year-over-year inflation and the CPI and core PCE deflator, and he sees that the economy is opening up and the market sees all this happening too. And then the market also sees this never-ending trillions upon trillions of dollars in fiscal stimulus. And then the market says, "Hey, inflation's rising. It's going to continue to rise." There's no way on God's good earth that any central banker has any experience demonstrating that they can pinpoint an inflation rate.

Michael Pento:

Do you think inflation is going to go to the Fed's preferred two-and-a-half percent and stop? This is ridiculous. I mean, inflation went from 4% to almost 20% in the late '70s/early '80s. The Fed didn't want that to happen, it happened. And it took a 20% Fed funds rate under Paul Volcker to vanquish inflation. And counter factually, I mean let's look at what happened in the wake of the Great Recession. The Fed wanted 2%, and it barely ever got 2% inflation. When they finally get to 2%, it's going to run right through that most likely and continue higher. That's a real risk.

Michael Pento:

And then you say okay, well the market's going to look at this in two ways. One, the Fed is going to have to stop buying bonds and maybe even sell some, and what's that going to do to the front runners? The front runners on Wall Street are going to sell every bond that they ever heard of when they think the Fed's going to start removing their massive and indiscriminate bid. Well, what if the Fed doesn't do that? Well if the Fed continues QE, that's going to only exacerbate the inflationary environment, and bond yields and Wall Street equities will have to react to that. So can the Fed protect us from an inflationary collapse of equities and bonds? An inflationary and insolvency implosion of bonds? I don't think they can, and that's the real danger.

Dennis Tubbergen:

Well, the clock says we're going to have to leave it there for this segment. My guest today is Mr. Michael Pento. The website is pentoport.com. Michael can be reached via email at mpento@pentoport.com. And at his website, pentoport.com, you can get a free trial for his podcast named the Mid-Week Reality Check, and I'd encourage you to check that out at pentoport.com. I'll continue my conversation with Michael Pento when we return, stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen. You're listening to RLA radio. My guest today is Mr. Michael Pento. Michael's website is pentoport.com. And at the website, you can sign up for a free trial for his podcast, the Mid-Week Reality Check. Michael's email is mpento@pentoport.com if you want to reach out. So Michael, in the last segment we were talking about your view, can the Fed save us from an inflationary crash? And isn't the Fed kind of greasing the skids, so to speak, to prepare us for that? I mean, last year they said, "We're not going to really look at a 2% hard inflation target. We're going to do average inflation targeting, so if inflation runs a little bit hot for a while, as long as that's countered by it not running so hot for a while, based on our calculations we're okay with that." So isn't that kind of greasing the skids for what they see is going to be inevitable anyway?

Michael Pento:

Well, that's precisely my point, Dennis. So they can grease the skids all they want, and they can grease the skids right past two, three, four, five percent inflation. But where will the 10-year note trade? If you have nominal GDP, let's just say you have two-and-a-half percent GDP growth, and it will be higher based on the base effects I just talked about, and then you throw in two-and-a-half percent inflation. You'll have nominal GDP real, plus inflation, five/six percent. I mean, where the hell do you think the 10-year note is going to trade? It's not going to have a one handle in front of it.

Michael Pento:

So let's just look what's going to happen. The Fed is going to be charged with tapering, and they're going to be tapering like they did in 2013 when the long-term bond yields completely blew up and the bond market was a sale. So let's just look at the tapering between the two times. In 2013, there was $85 billion per month of QE. Now we have $120 billion a month of QE. Okay, almost a 50% increase. The market is much more expensive today.

Michael Pento:

If you look at the best metric to find the value of the stock market, it isn't PE ratios because PE ratios are manipulated. The E, the denominator, is massively manipulated by companies issuing debt to buy back their shares. So if you look at price-to-sales or Total Market Cap of equities to GDP, we are two times higher now than we were just prior to the taper tantrum in 2013. If you look at corporate debt, total nonfinancial corporate debt, as a percentage of GDP, it was 42% in 2013. Today it's 83%, Dennis. So the Fed is not going to be able to gracefully exit this latest round of market manipulation, and it's going to blow up the bond market in an even bigger way. And that, of course, is going to bring down the stock market.

Michael Pento:

And that's why I manage money based on the Inflation, Deflation, and Economic Cycle Model that I created, okay? It tells me when to overweight gold and when to sell my gold. What does gold like? Gold likes when you have disinflation, deflation, or inflation without growth. Gold almost likes every environment except for one, when growth and inflation are accelerating. I learned this the hard way, okay? So when do you want to overweight gold? You want to overweight gold when growth and inflation are not accelerating in tandem like they are today. So you'd be better off for now having a very low percentage of portfolio in gold, if you have any. But there's going to be a great buying opportunity later this year, when growth and inflation are decelerating. So if you have around a $100,000 to invest, and you're not a buy-and-hold deep state of Wall Street kind of guy, Pento Portfolio Strategies is the place for you.

Dennis Tubbergen:

So Michael, let me ask you your opinion. Why do you think that we've got this everything bubble, but it doesn't seem to include gold and silver? What's holding the price back at this point in your view?

Michael Pento:

So if you would have asked me that question about two minutes ago, just juxtapose my answer with the question. So this is exactly what I just said. So I sold most of the gold I had in the fall of 2020. By the way, I'm a gold bug though, so just bear this in mind. I love gold. You should always have about 5% of your net worth in physical gold. That's how I start the conversation with precious metal. But I sold the gold in late 2020 because of what I called the vaccine dead zone. And that meant that at that moment, the zeitgeist of Wall Street was going to be one of optimism towards reopening the economy, and it was going to last all the way through till the late spring, early summer of 2021. That's when the peak optimism about the vaccines is going to kick in. That's when the peak of year-over-year growth and inflation will start to attenuate. So that is when you want to start buying gold and the miners at that time.

Michael Pento:

But gold doesn't like rising real interest rates, Dennis. This is very simple. When real interest rates are rising, you have to sell gold. When real interest rates are falling, you want to buy gold. It's all about the rate of change of that dynamic. And when does real interest rates rise? When both inflation and growth are accelerating. I mean, like we had in the '70s, you could have inflation, but without the growth. If you have static inflation, gold is a wonderful thing to own because at that point yields aren't going to be rising faster than inflation, nominal yields. So that's the answer in a nutshell. Like it or not, hate me or not, we want to understand when it's best to underweight and overweight precious metal.

Michael Pento:

By the way, I just want to wrap this with a little ribbon. If you look at the trajectory of debt and deficits, not only in this country but around the world, the end of the fiat currency regime is in sight. Just look at the lunacies happening in the cryptocurrency, in Bitcoin. So it's coming to an end and that you have to believe is massively bullish longterm for gold, but what I do as a money manager is just toggle that waiting.

Dennis Tubbergen:

So Michael, let's focus a bit on what you're doing now with clients' money. Are you short bonds at this point? Short stocks? What are you doing right now?

Michael Pento:

So you asked a great question. So I am not technically short bonds strictly. So I have a quadratic ETF that I use called IVOL, I-V-O-L. Again I'm not recommending this for anybody because I haven't done due diligence, but it's basically an investment that makes money when the yield curve expands. So since the two-year note and the Fed funds rate is pegged pretty much around zero, but then you have inflation and mounting debt and deficits eroding bond prices on the long end, you're going to see that yield curve widen. That's my prediction. It's why we own the quadratic fund and it's working very, very well for us.

Dennis Tubbergen:

What's your take on stocks? I mean, if the Fed continues this massive program of quantitative easing, could that be bullish for stocks for a while longer?

Michael Pento:

Yeah. Again, so right now we have no shorts in the portfolio. And when I say that, I'm biting my knuckles because when your Market Cap to GDP is almost 200% of the economy, you know that you're going to have a crash and it's going to be a crash landing, and it's going to leave a lot of people insolvent, bankrupt when it happens. So I have a 20-point model, again called the Inflation, Deflation, and Economic Cycle Model. So I look at things like LIBOR-OIS spreads, junk credit spreads, the MOVE index, breakeven spreads. I can go on and on, but there's 20 points to the model, 20 components, and I try to time when I exit this market. Dennis, you could have interviewed me last year and I would have told you, "Listen, the market is very expensive and we need to stay out of it." And then we wouldn't have enjoyed the nice returns we had in 2020. And likewise this year, even more to the case, we wouldn't have had a good January or so far a good February, if I was just all in cash.

Michael Pento:

I'm trying to find a smarter way to ride these bubbles and be able to extricate me and my clients at the right time. And using these various internal measurements of the market, like the ones I just mentioned, the credit spreads and the health of the MOVE index and junk bonds, I can hopefully, God willing, get my clients out because there's not going to be a lot of time or a lot of seats left when the wipe out occurs. However, counter factually, if you just sit out and say, "The market is very expensive, and I don't want to participate in it," Dennis, you're in cash, which is being debouched on a daily basis, and you're losing money. That's your decision to lose money each and every day due to inflation. And the way most people calculate it in a realistic sense, its mid to high single digits now that you're losing your purchasing power every year. And on top of that, you're missing out on the gains that Mr. Powell is providing for you at this current moment.

Dennis Tubbergen:

So Michael, we've got just a couple of minutes left. Have an opinion on real estate, both commercial and residential?

Michael Pento:

Commercial I absolutely hate and I said this for years, even before the pandemic broke out. When you combine the Amazonization... Is that a word? Can you say Amazonization?

Dennis Tubbergen:

I'm going to check it out. I think that is in Merriam Webster though. I think you're good.

Michael Pento:

All right. There's Japanization. There might be an Amazonization of the world. You can combine that with... Hey listen, because we have such great advances in technology, I don't need to have this expensive office that I have. I can meet clients via Zoom. People don't want to go out anymore if they don't have to. You have weather to contend with. You have COVID. By the way, I just want to, as an aside, tell you, in my belief I think we're going to be living with COVID-19 like we live with the influenza virus. It's going to be a yearly vaccine that you have to change using the mRNA technologies. And so there's going to be a lot of impetus and a lot of momentum behind the "I don't want to shop or expose myself in environments where mass people gather if I don't have to." So if you combine that with what's going on with Amazon, you don't want to own commercial real estate.

Michael Pento:

And on top of that, you asked me about residential real estate. Make no mistake about it, we are in an ecobubble. You've priced out the first time home buyer, again even with record low interest rates. So what does real estate not like? Even worse than gold, rising rates. So you'll get a better opportunity to buy a house. If you're a seller, sell it right now. If you're a buyer, hold off until this summer. I think you'll have a better opportunity is my opinion.

Dennis Tubbergen:

Well, we're going to have to leave it there. Our guest today has been Mr. Michael Pento. I would encourage you to visit his website and sign up for his free trial for his podcast, the Mid-Week Reality Check. That's at pentoport.com. And you can reach Michael at mpento@pentoport.com. Michael, always a pleasure to chat with you and love to have you back down the road. Thanks for joining us today.

Michael Pento:

Thank you so much, Dennis.

Dennis Tubbergen:

We will return after these words.