Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Alasdair McLeod
GoldMoney.com

Date Aired: September 5, 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 Tubergen, glad you decided to listen in today. Joining me in this segment of today's program is returning guest, Mr. Alasdair McCloud. Long-time listeners probably recognize Alasdair as the head of research at Gold Money. You can learn more about gold money at goldmoney.com and Alasdair is also a prolific author. You can check out his articles on the insights section of the Gold Money website. Again, that's goldmoney.com. And Alasdair, welcome back to the program.

Alasdair McLeod:

Thanks very much. My pleasure, Dennis.

Dennis Tubbergen:

So, Alasdair, in the piece that is just recently posted on the insight section of the goldmoney.com website, you mentioned that, remarkably, Mr. Jerome Powell, in his speech following the Jackson Hole symposium, didn't mention money, money supply, M1, or M2. And you said that's quite remarkable. Can you expand a bit on that?

Alasdair McLeod:

Well, it's particularly remarkable because, I mean, this is meant to be a speech on monetary policy. And it's a speech which... on monetary policy, which doesn't mention money. It is quite extraordinary. And not only that, but this comes at a time when money supply has absolutely exploded as a result of the Fed's QE, the Fed cutting interest rates down to the zero bound, and the massive budget deficit of roundabout 3 trillion in the current fiscal year, 3 trillion in the last fiscal year. I mean, there are massive moves going on in the monetary sphere. So, Powell stands up, or rather he appears virtually at Jackson Hole, makes a speech on monetary policy, and fails to mention money.

Alasdair McLeod:

I mean, this is bizarre. It really is. It's beyond bizarre. And it shows, I think, the bankruptcy of thought about what is going on with inflation. We know that everybody in the establishment talks about inflation as being inflation of prices. And they don't seem to, if you like, understand that there is a connection, and it's a vital connection, with the quantity of money. Basically, if you increase the quantity of money, then you're going to see prices rise or, put more accurately, the purchasing power of currency fall. And yet, there was no mention of this in the Jackson Hole speech whatsoever.

Dennis Tubbergen:

So, Alasdair, Mr. Powell did, in that speech, as I recall, acknowledge that inflation running higher than the Fed's 2% target, but he didn't offer any change in the course of the policies that the fed is pursuing, from what I understood. Did I get that right?

Alasdair McLeod:

Yes, you're absolutely right. I mean, basically he said that, "Okay. Headline measures of inflation, which is the CPI, are running at 4.2%, well above our 2% long run objective." Yeah. Well, we know that. In fact, it's closer to 5.4%. I think that's the most recent figure on the CPIU statistic. But it's even worse than that because these are government figures. And we know that from 1980... And I can remember this starting. Governments had a real problem back in 1980, because they started indexing things in the wake of the inflation of the seventies, so things like pensions, and various other... things like rents, and there's a whole range of things, also index linked bonds. They were all tied to the rate of inflation as represented by the CPI. So immediately, what they started doing was, "Well, how can we reduce the impact of a rising CPI on government commitments?"

Alasdair McLeod:

And so, that is basically what's happened ever since then. And the result is that you've got John Williams, who still calculates the rate of price inflation on the original 1980 basis. And he comes up with a figure of over 13%. So, here we are with everybody recognizing that the rate of inflation is more than double the 2% goal source objective. Whereas, in fact, it is considerably higher. This is really important, Dennis, because what it means is that we have now got an extra element of, if you like, stimulus being pushed into the economy, in the sense that the purchasing power of the dollar is going done by around about 5% officially, more than 10% unofficially.

Alasdair McLeod:

And that means that anyone holding dollars is losing purchasing power to that extent. Now, this is, if you'd like, an extra stimulus on... as far as borrowers are concerned. And it is therefore, if you like, almost a repeat, but a more vicious repeat, of what happened back in March 2020, when the fed cut interest rates from one... Well, I think that it was one and three quarter percent. First, they cut it by a half, and then right down to the zero bound, and at the same time, just literally two days later, announced a QE of 120 billion a month.

Alasdair McLeod:

Now, that that was the point where markets turned. It was the point where commodity prices took off. And the commodity index sort of went up something like 80% from there. It was the point where gold took off from around about 14... I think it was 1480 or around about then, and ran up to that peak in August of over 2000. So, that was a major, major event. We now have a situation where, by default, because the purchasing power of the dollar is going down rapidly, that we have negative, real interest rates. I mean, they are very, very negative. And under these circumstances, as soon as people wake up to the fact that a whole lot more money is going to have to be raised by the government in order to spend 6 trillion, if you'd like, which is what president Biden aims to do in the next fiscal year, which starts at the end of this month, you can see that the foreigners, who own an awful lot of dollars, are going to maybe do a double take on it and think, "Do we really want to hold so many dollars?"

Alasdair McLeod:

And that, I think, has the makings of a developing crisis. And it's going to be very difficult for the Fed to actually handle this. Because on the one hand, they've been stimulating financial asset prices with QE. And on the other hand, they have been helping, if you like, the government fund itself by keeping bond deals suppressed. So, they can't do both these beyond a certain point without destroying the dollar. So that, I think, is the dilemma which we actually face in the coming months.

Dennis Tubbergen:

Well, Alasdair, I was going to talk to you about timeframe and you just really answered my question. You think this will be actually an issue in the coming months. And in your recent article, you said that the flight out of dollar assets, which currently, I think you estimated them at over 30 trillion in your article, you state that it's inevitable. And would be putting words in your mouth if you were going to suggest that we saw that happen yet this year?

Alasdair McLeod:

Well, let me just clarify that a little bit. According to the US treasury's tick figures, foreigners own financial assets and dollar cash to the tune of around about $32 trillion. Now, that is one and a half times US GDP, approximately. This is a huge element of foreign ownership of your current currency. The problem is that a lot of that money is there simply because it's been making money. I mean, of that lot, I can't remember the exact figures, but it's something like 12 or 13 trillion is invested in equities. And of course, the equity market has risen. Now, put yourself in the shoes of the foreigner. His mainstream investments were probably back in his home country. I mean, it's safer in German... For a German investment fund, it's obviously going to be German stocks. But you probably have up to 10, 15, maybe 20% invested in international stocks and on foreign stock markets.

Alasdair McLeod:

Now, that would obviously include the US stock market, New York stock exchange, S&P, NASDAQ, whatever. And as you make money in the foreign market, then obviously what you do is you stay with it for the ride and you probably put a bit more money in. But your allegiance to that stock market is only so long as it is continuing to rise. But we now have a situation where it is absolutely certain that interest rates have got to rise in America. Now, when people actually latch onto that, and it starts affecting financial asset prices, and particularly equities, negatively, then the foreigners are not going to hang around with their 12 trillion of equities invested in US equities. They're going to start taking profits. And when the market starts falling, then I think you've got a scenario where these foreigners will probably rush for the gate at the same time.

Alasdair McLeod:

What I didn't mention in my article is that also there is around about 800 billion of leverage in equities. And this is a FINRA's estimate, if you like, of the amount of borrowing in order to invest in US equities. And this is return from FINRA members. So, this is huge. I mean, it is something like two and a half times the level of leverage, in terms of dollars, that existed at the time of the Lehman crisis. So, when the markets were very overbought then, it's a lot more overbought now. So, you can see that, when the tide turns, there is going to be a really catastrophic run for the exits. And this is the danger that we face.

Dennis Tubbergen:

Well, Alasdair, we've got maybe a minute left in this segment. For our listeners that are not familiar with the work that Gold Money does, would you be kind enough to give them an explanation?

Alasdair McLeod:

Yes, Dennis. I'd be very happy to. Basically, our customers store their gold and silver through us, and we offer the facility to be able to buy and sell gold and silver, and the platinum group metals. And the storage options are a number of vaults around the world, so that someone living in America, and maybe concerned that their government might force them, as happened back in 1933, to give up their gold, they might like to store their gold somewhere else. So, this is, if you like, a service which I think is absolutely vital to anyone who wants to protect themselves from the risk of a really nasty smash in financial assets it's, and nasty enough to take down the currency as well.

Alasdair McLeod:

And I think, for those people who read my article, they will hopefully get a pretty good sense of the dangers that they actually face by doing nothing. So, Gold Money can help you if you decide that you do want to protect yourself from the events, which I forecast in that article.

Dennis Tubbergen:

Well, my guest today is Mr. Alasdair McCloud. The website is goldmoney.com, and I'll continue my conversation with Alasdair when RLA radio returns. Stay with us.

Dennis Tubbergen:

Welcome back to RLA radio. I'm your host, Dennis Tubbergen. I have the pleasure of chatting once again today with returning guest, Mr. Alasdair McCloud. If you're just joining us, you can learn more about Alasdair's work and read his writings at goldmoney.com. I'd encourage you to click on the insights link on the goldmoney.com website. And Alasdair, you had mentioned that leverage or margin debt in the market is two and a half times what it was at the time of the financial crisis, when we saw stocks drop 50%. It seems like... With all the foreign ownership in US stocks, it seems, at the level of the leverage associated with the market, that the stars have kind of aligned. And we have the potential here for a perfect storm.

Alasdair McLeod:

Yes, Dennis. I think that's right. The thing that's interesting is that we have, I think for the last 30 years, at least, assumed more and more that markets are controlled by central banks. And it's got to the point where people, I think, don't understand that markets can take away that control from central banks. So, we have a situation now where things are definitely going wrong for the major central banks. Clearly, this rise in the level of price inflation, which, as we discussed in the earlier segment, has been misdiagnosed, and it's allowed a J Powell, for example, to claim that rising prices are just a consequence of the COVID disruption, which will sort itself out, and therefore, we'll be back at 2% inflation, which is the target. And we'll have reasonable employment return with it.

Alasdair McLeod:

I mean, it ignores the fact that they're diluting the purchasing power of currency in order to finance government spending, which has just got completely out of control. And the effect of this is, inevitably, will drive up interest rates. I mean, you cannot have a currency losing purchasing power, say at five, 10, 15% per annum, without interest rates rising to compensate holders of the currency for the loss of purchasing power. Now, it's not going to necessarily compensate them completely, but at least you can see that the path is now there for interest rates to rise to somewhere between five and 10%. Now, what would that do to markets? What would the threat of it do to markets? What would it do to government finances? What would it do to businesses which have far too much unproductive debt on their balance sheets?

Alasdair McLeod:

What would it do to individuals with enormous mortgages and they can't afford to pay enhanced payments? What would it do to property prices? I mean, if people are going to buy new property, or buy property with a new mortgage, and the new mortgage rate is say eight or 9%, then what is that going to do to property prices? I mean, to ignore the fact that markets, at the end of the day, do set the rates, I think is a huge error. We must not just assume that the Fed will always manage to control interest rates. That, I think, would be one of the biggest errors that anyone can make. And that's roughly, I think, what everybody is doing.

Dennis Tubbergen:

So Alasdair, on past appearances here on the program, you've discussed the fact that history teaches us how this will likely end. I think that's a very valuable conversation to have for the listeners. In the past, I think you've compared the current situation to John Law's France in the early 1700s. Could you expand on that a bit for the listeners?

Alasdair McLeod:

Yes. And I think it's worth bearing this one in mind, because it actually shows the dilemma that the fed is going to face. What they have been doing with QE, with quantitative easing, is they have been bolstering asset prices. I mean, the way it works, quite simply, is 120 billion a month is passed through the banking system to pension funds and insurance companies to invest in stocks. Now, in return for that 120 billion a month, what happens is that the insurance companies and pension funds sell low risk assets, in other words, US treasury debt and agency debt, to the Fed. And that ends up on the Fed's balance sheet. And that's why the balance sheet has grown so much. But they end up with 120 billion to invest in other things. So, they will go out and they will buy corporate bonds. And they will buy equities.

Alasdair McLeod:

And that is why the interest rates, if you like, or bond yields, have been suppressed. The margins, if you like, which should reflect risk, are not reflecting risk anymore because the margins are too small for that risk, because of all this extra money flooding in. And equity prices just go up in complete defiance of what was going on in the underlying economy. So, this was exactly the situation 300 years ago, when a man called John Law managed to get into a position where he could basically run the financial affairs of France. He ended up as a prototype central banker and controller of the currency. Now, his first objective was to reduce the King's debts. Now, he did that quite successfully to a degree. But his second objective was he managed to get hold of a monopoly on France's exports and imports, the foreign trade.

Alasdair McLeod:

And this was the Mississippi company. It's known as the Mississippi company. But in fact, it wasn't called that. And he wanted to finance that because he had built ships and an infrastructure and all the rest of it. And it did this basically by encouraging people to buy shares and partly paid for them. And as the payments came due, obviously, people started selling shares in order to take up their rights. And this put stock on the market. What did he do? He printed money in order to buy these extra shares to support the price. What's the fed doing? Printing money to support the shares in the market to give us all a feel good factor. This is exactly what John Law was doing way back in 1720. The outcome of that was not, if you'd like, a German style or Weimar Republic inflation, one which sort of goes, goes on to the point where everybody suddenly realizes that the currency is dead.

Alasdair McLeod:

But by rigging the market in this way, it was the market collapse that precipitated events. And bear in mind that we're going to get a rise in interest rates. That is for absolute certain, and it's going to be a major rise as well. What's going to happen to the market? It's going to do exactly the same as happened in France in 1720. Now, what happened was the Mississippi venture shares peaked out 10,000 Livre, which was the paper currency that he was printing, in February.... end of February, early March 1720. By around about September, the price was down to 4,000 Livre.

Alasdair McLeod:

But the real casualty was the Livre. The Livre went from a value. It more or less held that value through to around about June/July. But in September, there was no quotation on the foreign exchange markets in London and Amsterdam, which were the two main trading centers at that time. Why? Because it was valueless. In other words, there was a policy that collapsed the currency completely. There is this risk that we face today, that modern QE, which is doing exactly the same thing as John Law was doing 300 years ago, is going to collapse the currency.

Alasdair McLeod:

So, what's the fed going to do? Is the fed going to pursue that line, the John Law line? Or is it going to hold back and let everyone who is indebted basically face the music. And that means government as well. Government basically will be, if you like, entrapped in a debt trap and shown to be completely insolvent. Can the Fed do that? This is a very, very difficult position. It's black or white. There's no longer any choice, no longer kicking the can down the road. Why? Because the purchasing power of the dollar is the big risk ahead. And there is nothing they can do to stop it other than stop printing money and let everybody go bust.

Dennis Tubbergen:

Well Alasdair, there has been some talk of tapering. I believe it was Mr. Bullard of the St. Louis Fed who came out and talked about the fact that it was time to do that. Was he just the token spokesman for a taper? Or do you think that, that taper talk maybe more than talk?

Alasdair McLeod:

I think the taper talk is basically talk. Because if markets continue to rise without the necessity for a monthly injection currently at 120 billion a month, and there wasn't the dollar danger, then fine. You could sort of start reducing your taper, but that's not the situation. The situation basically is, the moment the S&P falls 10%, all this talk about reducing taper is going to switch to, "My goodness. We better increase QE to support the market." That basically is what John law was forced to do in early 1720. And the Fed will be forced to do it in this year too.

Alasdair McLeod:

And it's not just the Fed incidentally. I mean, the amount of QE that the Japanese central bank has been doing is just absolutely astronomic. They're further down the road. I mean, they are in there buying ETFs, equity ETFs. The ECB has been doing it as well. They called it something slightly different. And we've been doing it in this country as well. And the Swiss national bank has been doing it, but they've been buying foreign equities as well as their own. So, you can see that governments basically have got into the business of rigging markets. And it's not going to end happily

Dennis Tubbergen:

Alasdair, a quick final question for you. Gold and silver prices don't seem to be responding to the level of QE that's occurring. Prices have pulled back a bit this year, although they've rebounded a bit of late. To what do you attribute that?

Alasdair McLeod:

Well, there are various things happening. I mean, one is that we've had Basel III regulations imposed on the banks in America and also in Europe. And they're going to be imposed in the UK, which is where the main gold paper market exists, with the LBMA. And that's going to come in on January the second, the next year. So, the banks have been trying to keep prices suppressed so that they can close their open positions. Now, they're not going to be able to do that completely, but they've basically got to withdraw from the markets, or substantially reduce their positions in the markets, because it's an inefficient use of balance sheets, of bank balance sheets. And treasury departments and the banks are not going to tolerate that sort of thing. So, there's a big, fundamental change there. There is a battle going on in the market, whereby the banks are basically trying to reduce their positions and get out.

Alasdair McLeod:

And interestingly, I was looking at the delivery position in silver. This week so far, 21 million ounces of silver have been delivered. I mean, this is phenomenal. We've never seen this. I'm talking about Comex, incidentally. 21 million ounces delivered out of Comex, this is really quite, quite extraordinary. The other thing that we've seen is that the exchange for physical, which is the arbitrage rarely between the futures market and the forward market, that seems to have narrowed down hugely, which tells me that the amount of activity that the bullion banks were engaged in is tending to diminish. I think the other thing is that a lot of speculative interest has been siphoned out of gold and silver as hedges against falling purchasing power of fiat currencies into cryptocurrencies, particularly Bitcoin and other currencies like etherum. And that definitely has had an impact, if you like, on overall demand in the markets.

Alasdair McLeod:

The third thing I would say is that these conditions are not understood by the investment community. The investment community now is totally sold on Keynesian economics, which basically dismisses gold, if you like, as a pet rock, or the gold standard as something from the past and all the rest of it. So, in their minds, they've demonetized gold and they don't understand gold. They do begin to understand gold once it really starts running. And they say, "Oh my goodness, why are we missing out on this? Why is this running? We need to understand that." And that's that stage people get serious. So, I think we're in the very, very early stages of gold and silver reflecting what is lining up to be a catastrophe for paper currencies.

Alasdair McLeod:

The idea there is any option other than gold and silver, I think, is a very, very dangerous concept for anyone who's using as an excuse, if you like, not to have gold and silver. So, it's something that, really, I think a lot of your listeners should consider very, very seriously.

Dennis Tubbergen:

My guest today has been Mr. Alasdair McCloud. You can learn more about his work at goldmoney.com. Alasdair, you're always so gracious with your time, and we appreciate your perspective very much, and love to have you back down the road. Thank you for joining us today.

Alasdair McLeod:

It's very much my pleasure, Dennis.

Dennis Tubbergen:

We will return after these words.