Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me on today's program is returning guest Mr. John Rubino. If you're a longtime listener to RLA Radio, you probably recognize John as the co-author of the book, The Money Bubble: What to Do Before It Pops. Terrific book written quite a few years ago, but I would say more applicable and relevant today than probably maybe even at the time it was written. John also has a Substack newsletter I'd encourage you to check out. You can check it out at rubino.substack.com. Rubino is R-U-B-I-N-O, rubino.substack.com. And John, welcome back to the program.

John Rubino:

Hey, Dennis, great to talk to you again.

Dennis Tubbergen:

So, John, you recently on your Substack newsletter, I read a piece that I thought offered a really interesting perspective. I thought we could take a minute in this segment and talk about it. Your piece was titled, A World Priced in Gold, and you went back and said, "Just pretend it's 1971, and President Richard Nixon made a different choice." Can you jump in from there using that as an intro?

John Rubino:

Yeah. One of the really frustrating things about fiat currencies, that is a currency that's not backed by anything and just exists by government decree or fiat, is that governments can create as much of that currency as they want to, and then you get inflation and that distorts everything. Because inflation is changing the measuring stick that you use for stocks and houses and your wages and things like that. And so, it makes it very hard to tell what's really going on. So, one really useful way of getting past the distortions of fiat currencies is to go back and look at the price of everything in gold. In other words, if we'd stayed on a gold standard, like we kind of were on in 1971, what would the price action of these big things that define our financial lives actually look like? And the answer is they'd look completely different.

For instance, taking stocks, the S&P 500 since 1971 when valued in gold is unchanged. It's literally at the same level today as it was in 1971, which means if you'd bought a portfolio of big blue-chip stocks based on their prices, you would have made no profits over the course of the last 50 years.

Now stocks pay dividends, so you would've gotten maybe 2% a year real return on that portfolio, but it's not like if you're looking at it in dollars, you bought stocks back in the 1970s, it looks like you made a ton of money. But what really happened was the dollars you're using to measure your stock portfolio went down in value. So, what looks like a big, long-term profit actually was not anything in real terms.

And let's see, GDP for instance, it looks like the US economy got much bigger since 1971 to the present, but what actually is the case when you value the US economy in gold is that it didn't grow much at all. It actually shrank a little bit from 1971 to the present and all those people who are out there saying, "We're in a depression and the economy is actually shrinking," they are actually correct in real terms. In inflation adjusted terms, the US economy is smaller than it was back when we went off the gold standard.

And then oil, for instance, which defines our economic lives, really. There's a saying that energy is life and life is energy. And it's true. A modern economy can't exist without energy, and oil has gotten more and more expensive since 1971 in dollars. But if you look at it priced in gold, oil is actually down since 1971. Energy is getting cheaper in real terms, and that's part of why it feels like the economy is growing is because that has made life easier for people in one sense, in the sense that in real terms, energy is getting cheaper. But in a dollar sense, energy is getting much more expensive. So, you have two very different views of the energy market.

Now, last but definitely not least, housing. What we pay to live, have a roof over our heads, is a very important determinant of how well we do financially. And houses have gotten much, much, much more expensive, and so have rents. Rents have gone up along with houses, and that's made life much harder for people who are using dollars to try to buy a house or try to pay their rent. But in gold terms, houses have gotten cheaper over time. We've actually had deflation in the housing market.

So anyhow, add it all up. And if we were in a sound money world, if we were using gold as our money, it would feel like we were in a shrinking economy and in a deflationary economy. And that's the reality of the world. The only reason it feels like we're in an inflationary economy where things are getting more expensive is that we have to pay in dollars, which are going down faster than we understand that they are because it looks like the dollar is stable and everything else is going up. But what's really happening is the dollar is losing value while everything else is stable in real terms.

So anyhow, to sum that up, a fiat currency is a tool for governments to fool us into thinking that they're not mismanaging the economy because when our house goes up or when our stock portfolio goes up in dollars, we think we're in a pretty well-managed world, but we're actually not. We're actually in a world where the economy is shrinking and where the value of a lot of other things are actually going down.

So that is one more perceptual change that people have to go through to actually understand what's happening in the world right now. And the more you learn about things like this, the more you realize that we're being lied to on a lot of different levels. And those lies are in the service of the US Empire. A lot of people in charge of the US government right now basically want to rule the world, and they use that fiat currency to lie to us about what their true intentions are. And the amount of wealth that we're accumulating seems big if it's in the stock market, but it is actually not nearly as big as we think it is. So, we're not as rich as we think we are, and the government is not nearly as honest as we think it is, and the fiat currencies of the world are a tool for those governments to lie to us about what's really going on. So, it's interesting and it's very sinister in its conclusions.

Dennis Tubbergen:

So, my guest today is Mr. John Rubino, check out his newsletter at rubino.substack.com. John, as you were chatting, just going back to stocks for a minute, you mentioned that price in gold, we really have seen no movement in stock since 1971 as far as price goes. When you look at the value of the S&P 500, it was around 700 to 750 in 1971. It's now today about 5,600. So that's an increase of about eight-fold. So up about 800% or so. Are you saying the dollar has devalued by that exact percentage?

John Rubino:

In terms of gold, yes. The price of gold, which is real money, has gone up as much as the S&P 500 has. So, you end up with no change in the S&P 500 when it's calculated in gold. So yeah, that's what I'm saying, that the real value of a blue-chip stock portfolio has not changed at all since 1971. So those big profits that we feel like we've made in the stock market have all been illusory because we've actually been changing the unit of measurement in a way that makes it look like stocks are going up, but they actually are not. Of course, if you buy Nvidia stock or something like that only and it goes way up, you did make money. But in the aggregate, if you bought a portfolio of stocks that represent the S&P 500, which represents the biggest companies in the US, you literally made no capital gains in the stock market in the last 50 years.

Dennis Tubbergen:

Very interesting perspective. And John, I at one time did some research. These numbers might not be exactly right, you can correct me if I'm wrong. But I think the median price of a new home in 1971 was just around $25,000 or so. And with gold at $35 an ounce, it took roughly 700 ounces of gold to buy a home. And today with gold at roughly 2,500 plus per ounce, you could buy 3 or 4 new homes priced at the median. So that really means that gold has really outperformed just about any other asset class in terms of wealth preservation, doesn't it?

John Rubino:

Yes. Yeah, gold was a very good thing to own through all this because as real money, it just holds its value. See, gold doesn't actually do anything. It just maintains. It's an inert rock that doesn't deteriorate or anything with time. And because of that, it's a very good tool for the function of money. It's a very good store of value. And through the inflation of the last 50 years, gold has actually gone up as much or more than the dollar has gone down. So, it's protected your purchasing power throughout the time. And now that we're in the blow off stage of the fiat currency experiment where things are just going to get absolutely crazy going forward in the coming decade, gold will probably do even better because it will attract ... It'll not just maintain its value, but it will attract a lot of terrified capital out of other sectors.

And so, we'll see panic buying probably towards the end of this cycle where gold, which once held its value, is now actually going up in terms of everything else. So, it becomes a capital gains play at some point, like it did the last couple of cycles. For instance, in the 1970s, gold just sat there and sat there and sat there and then went straight up towards the end when everybody was panning it. And in the 2000s when the housing bubble burst, same thing. Gold did okay, and then for the last couple of years heading into 2012, it just soared. And that wasn't the maintenance of value, that was a big capital gain because panicked capital was flowing into it. And that's kind of the same thing that will happen ... Well, barring World War III, that's the kind of thing that will happen in the coming, let's say five years when government finances are so over-indebted and the interest costs on their debt are soaring, and governments are having to bail out everybody in sight and print huge amounts of new currency to keep all the bad debt that's out there from blowing up.

It is a pretty safe bet that a lot of people will be traumatized by what they're seeing, and they'll want to go for safety, which will be gold, and that'll push the price of gold way up. So, this is one of those times when something like gold or silver or other kinds of real assets aren't just stores of value, they're actually capital gains plays. So, this is going to be a very different market from what we're used to in the past 10 years, but one that's very favorable for the gold bugs of the world. The people who are stacking gold and silver coins will tend to get much, much richer in what's coming.

Dennis Tubbergen:

Well, my guest today is Mr. John Rubino. He has a Substack newsletter, I'd encourage you to check it out at rubino.substack.com. I'll continue my conversation with Mr. John Rubino when our LA Radio returns. Stay with us.

Welcome back to our LA Radio. I'm your host Dennis Tubbergen. I'm chatting today with Mr. John Rubino. John has a Substack newsletter that must read, you've got to check it out at rubino.substack.com. And we have been chatting a bit about a recent article that John wrote in his newsletter on Substack, A World Priced in Gold. And John, toward the end of last segment, you mentioned that we're entering what you call a blow off stage as far as fiat currencies are concerned. Can you define that term for our listeners that maybe aren't familiar with it? And maybe more importantly, tell us what you think that looks like for our average listener?

John Rubino:

Yeah, the blow off stage term, I was using it to refer to what happens to the finances of the world right now. Everybody's taken on so much debt over the past 50 years, especially governments, but also corporations and individuals that it's becoming unmanageable. And so, because of that, governments are going to be forced to bail out bankrupt people and corporations all around the world, and a lot of governments themselves are going to go bankrupt. And that's going to lead to the governments that remain, it's going to force them to create so much new currency in order to stave off a 1930 style depression that it'll probably be really inflationary. It'll be like, remember 2022 when we had like 8% official inflation in the US, and people's living standards or cost of living just went through the roof? Well, we'll have a bigger, much, much scarier version of that, and that'll lead to a collapse in our faith in a lot of these fiat currencies.

There's a term called the crack-up boom in the Austrian School of Economics that refers to a point at which a critical mass of people figure out that it's the government's policy to devalue the currency going forward at an accelerating rate, and they just bail on the currency as soon. As they get paid, they go buy real stuff like oil stocks or gold and silver or really good quality rental houses, things like that, that governments can't just create out of thin air. And so, the value of those real things go through the roof, but it's not because they've changed in any way or they're producing any more wealth than they did before. It's because people have lost faith in the currency. And I think that's what is coming as all these bad financial policies and huge policy mistakes over the past 50 years come home to roost. And when that happens, panic capital flows into real assets and it makes their prices go way up. And I think that's what is coming.

So, this is going to be a traumatizing time for most people because their cost of living is going to soar. It's going to way outpace their salaries. And so people are going to get, in real terms, much poorer going forward, and that's going to cause all kinds of political instability as it should. But it's also going to enrich the people who are on the right side of this thing. If you own real assets in a crack-up boom, your real assets get more valuable. So there is an investment thesis here, and that's I think the important part of this story is that yeah, this crazy stuff is coming, but it's possible to position yourself so that you at least protect yourself and your family and possibly end up building a lot of new capital through this whole thing.

And then at the bottom of the process when we're trying to rebuild something from the rubble of the fiat currency experiment, you'll be one of the people with capital who can actually make things happen, who can protect their friends and family, and who can build new wealth going forward. So that's the intellectual challenge then. How exactly do you position yourself so that you're not just protected, but you're a beneficiary of all the crazy stuff that's coming? And that's the point of my Substack newsletter. We're looking for actionable ideas to actually build wealth during a time that's going to destroy wealth for most people.

Dennis Tubbergen:

So, there's so many more things I could talk about there, John, but I'm looking at the clock and I want to talk about this other topic as well. So, I want to shift gears here a minute. At the Jackson Hole meeting, we had Fed Chair Jerome Powell come out and say that essentially the time has come for a reversal in policy, signaling interest rate cuts, signaling more easy money policies moving ahead. Given the numbers, given the economic data, what is the motivation for the Fed going there? And you can say it's political if you want.

John Rubino:

Well, this is a really interesting Fed cycle because the Fed has promised to start cutting interest rates in September, but they're doing that with stocks at an all-time high level, houses as expensive as they've ever been, unemployment at a historically pretty low level and inflation still at the upper level of the Fed's target range. And normally all those things I just spelled out would be a signal for the Fed to raise interest rates. But they promised to start cutting interest rates here pretty soon. And I think the motivation for that is possibly threefold.

And one is that behind the scenes, the Fed is seeing much more scary numbers than their reporting to the general populace. So, they're seeing a slowdown build out there. And it could be because commercial real estate is tanking, it could be because consumers are tapped out and they're over-indebted and they can't go on spending like they have been, and the Fed sees that. So, the Fed wants to get out ahead of what they see as an incipient recession. That's possible.

The second thing is that this is an election year and the people in charge are probably really leaning on the Fed to get them reelected. And so, the Fed feels a lot of social pressure from their peers in Washington, DC to keep the economy growing or at least not collapsing until after the election.

And then the third is we're blundering into World War III. We're financing a proxy war on Russia's border and giving the Ukrainians weapons that are capable of hitting 1,000 kilometers into Russia to kill Russian citizens, civilians, not just Russian soldiers. And we're doing similar stuff with China and equally scary stuff in the Middle East, and it's completely possible that geopolitics dominates the next few years where we get ourselves involved in some shooting wars with some people that are capable of shooting back, and things get really crazy there too. And the Fed wants low interest rates and easy money during that period because otherwise it's dangerous enough from a financial standpoint to get into a shooting war with a nuclear power. That'll spook the markets big time. But if interest rates are high when that happens, that just adds to the carnage in the financial markets, and it takes us one step closer to that tip over into the abyss of a 1930s style deflationary depression. So, the Fed wants to kind of preempt that too. So, it's all preemptive.

The Fed is not looking at current data or current headline numbers. They're looking at the behind-the-scenes stuff, and they're obviously afraid of what they're seeing. So that's why the Fed is going to cut interest rates going forward. And it's a dangerous game when you've got a lot of signs that the economy is overheating like stock prices and house prices, and then you ease into that. You throw even more easy money, gasoline onto that fire, you're liable to get rising inflation like we had in 2022. And if we go back there, all bets are off because people know it's possible now. We experienced almost double-digit inflation for a year, so we know that's possible. So the minute there's even a hint of something like that, everybody's going to start acting as if it's a real thing that's going to continue forever and they're going to preemptively start buying every kind of thing they can get their hands on that is not financial. So, we'll go back to hoarding again.

Remember when you couldn't buy toilet paper at Costco, it's going to be that, but on a much bigger scale. And that's debilitating for a financialized economy. If you've got everybody betting on a crisis, you make the crisis a self-fulfilling prophecy, and that's the risk that the Fed takes by easing too much too soon. So I think we should be paying very good attention to that because if some of the things the Fed is worried about don't happen and the Fed is still cutting interest rates really aggressively, then it's possible we go back into that inflationary thing again, but this time with nobody being surprised by it and everybody not going to let it happen again to themselves and everybody acting in ways that destabilize the economy.

So yeah, we're in very tumultuous times when the government has choices, but whatever they choose in order to try to fix something, will make something else even worse. So, there's no actual way out of this. There's only a choice of crises. So, we choose either to have tight money and risk a 1930s style deflationary depression or easy money and risk something like the Weimar Germany hyperinflation of the 1920s. That's basically it until we have a monetary reset where we just close down the current system and replace it with some other system, hopefully one that is sound money in some way. In other words, we take away the power of the government to just print money out of thin air. And we go back to a system where money is a real thing, and if you want to spend more, you have to get more money.

It could be a gold standard, might even be some kind of cryptocurrency standard, we don't know, but that's the end game here. We have this gigantic financial crisis, the government decides to take the least horrible of their options, which is a monetary reset, and we go back to sound money. So the end point of that process is good. We're back to a system where we can trust our money again. But getting from here to there is going to be just brutal for most people. And they're the people who don't deserve it. The people who trust the government are the ones who are going to be hurt most seriously by the process of currency collapse followed by currency reset.

Dennis Tubbergen:

So, John, I have enough time left for maybe just a very quick question. At some point, are debt levels so high, so overwhelming that there's no amount of easy money that will prevent the deflationary collapse? I'm thinking about a statistic that now 3 out of every $4 collected from personal income taxes go to pay interest on the debt. Aren't we close to that reset point? And then can the Fed do this? Will it work, I guess, is my question?

John Rubino:

Yeah, we're in kind of a debt spiral now, and here's how we got there. We, well, let huge amounts of new debt accumulate, and then when the pandemic hit, we created a huge amount of new currency in order to keep people from going bankrupt while they're locked in their houses during the pandemic lockdowns. This led to inflation, which forced us to raise interest rates to combat that inflation. And now all that debt that was taken on over the last 50 years is being reset. It has to be rolled over when, for instance, government bonds mature, the government has to borrow more money to pay off the bonds that mature. But it's all happening at higher interest rates, and that means the government's interest cost has gone parabolic. It went from a few hundred billion dollars a year up to over a trillion dollars a year, and it's still going straight up.

So yeah, that means a growing portion of what the government takes in taxes just goes to pay interest, and that portion is now growing at a parabolic rate. It's going straight up, and that's the death knell for a government when its interest costs are rising faster than its tax revenues or any other source of revenue, and there's nothing they can do about it. So that's one of the reasons that the Fed is cutting interest rates now too, is that they're seeing the interest costs of the government go up to untenable levels, and they want to lower interest rates in order to prevent that from becoming an unmanageable problem. But they can't. There's no fix for any of this. We're in that debt spiral, and it's just going to get worse, although in not necessarily predictable ways, but one way or another, it gets worse from here until it breaks. So that's our next 5 or 10 years.

Dennis Tubbergen:

Well, my guess today has been Mr. John Rubino, check out his Substack newsletter at rubino.substack.com. John, it is always a pleasure to catch up with you. Really appreciate you taking time out to have a chat, and I know the listeners do as well. So, thank you for joining us.

John Rubino:

Thanks Dennis. Talk to you soon.

Dennis Tubbergen:

We will be back after these words.