Barry Ritholtz: Quantitative tightening is not a good reason to be bearish

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Erik: Joining me now as this week's feature interview guest is Barry Ritholtz who is Chairman and CIO of Ritholtz Wealth Management and host of Bloomberg's podcast "Masters in Business".

Barry, thanks so much for joining us this week. We really appreciate having you on the show.

Barry: Oh, my pleasure. Thanks for having me.

Erik: It's great to have you on.

I want to start with the big question on everybody's mind, which is: I've had a whole lot of smart people tell me, look, this bull market is over, the top is in, the bear market has begun, and what we're seeing since Christmas is nothing more than a bear market rally. Well, if it's a bear market rally, it's an awfully exuberant one.

So how do you see this? Do you think that this equity market still has higher to go? Has the bear market really begun? And what do you see on the horizon?

Barry: I always hate the bull/bear market debates because I think most people misunderstand what a bull and a bear market is, and they have a really grossly oversimplified definition of when a bull market or bear market is over. So let me unpack three things on this, because I find this area to be absolutely fascinating.

I define a bull market as a secular move in markets, economies, and societies that are long-lasting and sustainable, typically running a decade or two. And I'll give you two really obvious examples.

World War II in the mid-1940s, and then from 1946 to 1966 the Dow just continues and the overall equity markets continue to power higher.

And why are they powered higher? Well, you have 40 + million GIs returning home from war. They have the advantage of the GI Bill. Lots of these folks go to college and come out and get good jobs; massive expansion of the middle class; the buildout of the interstate highway system; suburbia; the modern version of passenger air travel; the electronics industry. It goes on and on and on.

You have this 20-year move in the US economy following World War II that just, ultimately, finds its way to corporate revenues and profits. And the reason we buy equities is because we're looking for earnings and a future discounted cash flow. And that ran until it got so far ahead of itself, until the Nifty Fifty came along: Hey, you don't have to think about valuation, just buy these fifty stocks.

At the end of that 20-year period, an era of inflation and a secular bear market began that lasted 16 years. The Dow kissed the 1,000 in 1966. And it wasn't until 16 years later, 1982, it finally got over 1,000 on a permanent basis. The S&P was similar.

So, think about what took place over that 20-year expansion from '46 to '66. You had all these different industries all in sync, all expanding. You had a massive economic boom. And, at the same time, you had these short-term recessions, you had these short-term slowdowns, you had these temporary cyclical bear markets.

I find it's very helpful to think of bull and bear markets in those two terms. A secular, society-wide decade-plus-long secular bull market or bear market, with shorter-term, counter-term rallies that, basically, are temporary.

Now, if you speak to most people and they give you that nonsensical 20% – I hate that definition because (A) who the hell said 20%? Where does this number come from? Yes, we have 10 fingers and 10 toes, so there's 20%. But why is 10% a correction and 20% a bear market? Where the hell did that number come from?

And notice how many times there is 20% intra-day high-to-low rally, which, apparently, people in the media don't like. They decided it's based on closing prices. These are silly, arbitrary definitions that should be thrown away.

Look at the broad societal trend. In fact, I mentioned the Dow got back over 1,000 in 1982. Think about 1982 to 2000. Think about how many temporary pullbacks there were, including '87.

But if you look at it from the 30,000-foot view, that 18-year period where the Dow gained over a 1,000%, think about what took place: The rise of semi-conductors and computing and mobile. Think about the birth of the Internet. You just have all these things going on that are just tremendous societal secular moves with a series of cyclical pullbacks.

That long, windy introduction is part of the reason I answer your question as to whether or not the bull market is over – I look at the changes that have come about following the Great Financial Crisis in '08–'09.

We've had a massive buildout in not just broadband web technology, but look at how mobile and app technology has expanded. Look at the rise of material science and what's taking place in that space. Genomics is just another tremendous area. There are five or six fields that are all just doing tremendously: Automation, self-driving vehicles, robotics.

This, to me, looks and feels more like that ‘82 to 2000 secular expansion than it does that 1966 to 1982 bear market where we can’t get out of our own way.

So, to conclude, I don’t see any indications that the economic machinery that has been driving the United States and the rest of the world forward is coming to any sort of serious stop any time soon.

Erik: Now, just to play devil’s advocate, by your own definition a real bull market has to be driven by real economic drivers. And the counter-argument, although it sounds like you don’t agree with it, some people would say, look, Barry, since 2009, this tripling of stock prices has occurred in the face of the first-and-only-in-recorded-history experience of coordinated central bank easing by all of the central banks around the world.

This whole thing has been driven, in the eyes of some people, by central bank largesse. And now that we’re moving into quantitative tightening, if quantitative easing drove us up, surely (they would reason) quantitative tightening has to bring us back down.

How do you respond to that? Are they just missing what the real drivers are of the market? Or how do you see that?

Barry: Well, let me start with an ad homonym attack. Every person I hear making that argument has missed most of this rally off the lows. So they’re sort of nursing a wound and they’re very unhappy. Start with that unfair attack. Now let me move to a fair attack.

First, a factual correction: This has not been a coordinated central bank operation. Let’s clarify how this worked. The US in ‘08 began taking rates down to zero and then began quantitative easing six months or eight months later.

Remember, the rest of the world thought we were crazy. Hey! You’re going to cause hyperinflation over there in the US. What are you doing? It was only a couple of years later where Japan said, maybe those Americans are on to something. And then a couple of years after that that the Europeans started doing it.

It’s not a coincidence that the US economy and stock market bottomed first, followed by Japan and then Europe. The markets rallied first and the economies came around first. It hasn’t been synchronized; it’s been sequential. And that’s unusual. Usually, it’s coordinated. So one small factual correction.

Secondly, I suggest people who believe that do a little homework and go back through history and look at what happens when major stock market indices are cut in half. How often is that a good time to make an investment?

And I think they'll find that, hey, if you like stocks that are inexpensive and if you like buying on a contrarian basis when everybody else is selling, I think you – as you would expect – buying markets when stocks have been cut in half, it doesn't always work immediately. But it tends to be a pretty decent response. So that's Number two.

Number three – and this has nothing to do with central banks, but it's important – there is an awful lot of capital sloshing around global markets looking for a home. This isn't due to central banks. This is due to a massive amount of wealth creation over the past 30–40 years. Whether it's real estate or energy or manufacturing or technology, there is a ton of money out there.

And it's astonishing. Maybe it would have been better off if this money had been put to work in more productive methods than buying $100 million penthouses, but there is a ton of money around and it's looking for a home.

Some of that has to do with the Fed, because the Fed has made more traditional safe assets far less productive than they used to be. But I think when people turn around and say, this entire rally is due to the Fed, really don't understand how economic cycles work. They don't know what recoveries from a credit freeze look like. And they maybe are a little too skeptical about the general nature of global economies.

Sitting on the credenza behind my desk is the book *Triumph of the Optimists: 101 Years of Global Investment Returns*. And, as much as the negativity sounds genius so often, remember, most of the time markets tend to go upwards. Most of the time human ingenuity is creating new technologies, new products, new services – and that's what drives the economy.

Erik: Let's move on to the US dollar. There are so many people that are calling for, okay, this is it, we're about to have the dollar crash, the world is coming to an end. Yet it seems like, in many ways, even in the face of the Fed making an announcement that ought to have been dollar-bearish, we're still seeing the dollar very resilient.

What's going on here? What's driving the dollar? And how much higher could it potentially have to go?

Barry: Let me answer your second question first. I haven't the slightest idea.

Now, let me answer the first question: The reason the dollar is resilient is twofold.

(A) Our economy is doing pretty well. It's not on fire. What are we, 1.5–2%? There was a slowdown in retail sales. And, certainly, the trade war ain't helping anything – not that it's all that fatal so far, but it's a mild headwind. If you want to find things, you can poke about. The government closure certainly didn't help.

But, on the other hand, look around. What are your other choices? Are you going to go buy the pound in the face of a deal-less Brexit? Or the Chinese yuan? Or the yen? Or the euro? There's no place to go.

Someone once said *In the land of the blind, the one-eyed man is king*. And the dollar is the one-eyed man.

Erik: Let's talk about bond yields, and US Treasury bond yields in particular. You know, there were so many really smart people – whether it be Jeff Gundlach or whoever – saying, look, this crazy move in interest rates super-low was driven by central bank policy. The central bank has been very clear that policy is ending. That means that the low in yields is in and it's all uphill from here (obviously with cycles in between and bumps in the road in yields).

And a lot of them even really put their neck out on the line and said, if we break 3.10 on that 10-year yield, baby, it's all over after that. And we broke it. It was a false breakout. And now we're back down to 2.70.

So what is this telling us? Is it a recession signal? Is it just a pullback? Which way do you think we're ultimately headed with bond yields? And do you agree with Jeff Gundlach's view that the bottom is in for yields?

Barry: I love Jeff. I am happy that someone like him is out making interest rate forecasts – it spares me the indignity of doing so and being wrong half the time. So that's Number 1.

Number 2 – and I think this is very much overlooked by a lot of people – there has been for the past decade or so, maybe even 20 years, a shortage of high-quality sovereign debt issuance. Which is kind of shocking when you look around the world and you see the amount of deficits that places like the US and elsewhere are running. Look at Japan, look at the US – that's before we get to any of the mayhem in South America.

But, again, there is so much wealth and so much capital sloshing around that if you want high-quality debt there just isn't enough of it to go around. How else can you explain people paying the Japanese – here is $100 million and here is my fee for you to hold this money – the negative yields that we've seen over the past 10 years make no sense. There is no other rational explanation I've come across other than there's just not enough bonds to go around.

Now, some of it might have to do with the balance sheet of the Fed expanding to over $4 trillion. And other central banks. The Japanese are basically buying everything from lawn furniture – not just bonds, it's stocks, it's like old lawn furniture. If you put that out on your yard in Japan, the Japanese central bank will buy it. They're buying everything.

So when you have three giant consumers of fixed income products, especially as in the US high-quality fixed income products, there's just not enough to go around. And that means that prices up, yields down. It's really an amazing underestimation by the entire fixed-income world. It's a change.

Remember – What was it? 2010? The letter went to Bernanke and the rest of the Fed warning of hyperinflation and uber-high yields? Yeah, that didn't happen.

So there is something wrong with that formula. There is something wrong with the way people are conceiving this. The only explanation that I've come across that makes any sense is shortage of paper.

Erik: Now that shortage of paper, of high-quality bonds, has a number of knock-on effects. And one of them is that it has resulted in there being a really strong bid for not-so-high-quality bonds. Junk bonds. To the point where we've got this just massive, massive amount of BBB-rated, just barely investment-grade as well as junk-rated debt in the United States. A lot of it came out of the shale patch. In Europe, we've actually reached the point where there's junk-rated European corporate debt that's yielding less than US 10-year Treasuries.

It seems to me like – I understand, for all the reasons you just described, why that bid is there, why this is happening. So I get it. But it seems to me like a setup that, when the economy turns, boy, there could be a real problem with this junk-rated debt.

Do you agree? And how do you think this plays out?

Barry: You know, the whole concept of return is a function of how much risk you're willing to assume. Right? So when I go out and I buy an equity index or a specific company, I'm assuming certain risks. What future profits are going to be like, how the market is going do, etc. etc. And I have an expected return based on that risk.

When someone is buying BBB or worse, something that's really junk – the near-junk is dubious in and of itself – and is willing to accept a 2–2.5–3% return, that just doesn't make a whole lot of sense to me. So, either the market is wrong – And, by the way, I don't say that sarcastically. The market is frequently wrong, especially at major turning points. Remember in '99 everybody was convinced trees grew out of the sky, and in 2009 everyone was convinced that equities had no value. So, when everyone is on the same side of the boat, they collectively tend to be wrong.

I can't really wrap my head around bond yields that low for credit quality that bad. I don't know how it ends poorly. It seems too obvious to say, hey, this is going to roll over and die tomorrow. And, remember, the famous irrational exuberance speech was – was that 1996? So things could look terrible and keep going on for three to four years before they actually manifest itself as a market turn.

I remember – personal war story – I remember doing a refinance on my house. The first house I bought was in '01 or '02, something like that – it was '01 – we moved in before 9/11. And we did a refi in something like '04 or '05.

And I'll never forget: This guy literally pulls up into the driveway, flings the door open, leaves the engine running, runs into the house, sits down at the – my wife and I were sitting at the dining room table.

He's standing over us: Sign, sign, initial, initial, sign, sign, here's the check (because we did a $25,000 cash-out refi to redo the kitchen). And he apologized: I'm sorry, I'm so busy. I have a closing around the corner that they double-scheduled. I have to be there in three minutes. And he runs out the door.

He was there a grand total of four minutes and we finished by not only lowering our interest rate by 300 basis points, but I think we ended up with $25,000 or $30,000 in the check. I remember looking at my wife and saying, "Something is very, very wrong here. I have to figure this out." And it still took years and years before the whole thing blew up.

So, very often, things can look ridiculous and not make any sense whatsoever. But, before it reaches that tipping point, a whole lot of other things have to come to pass.

Erik: Speaking of things that can go on for longer than a lot of people thought possible, quite a few really smart people in the industry have opined that China's credit expansion since 2009 is a ticking time bomb and it could potentially send a deflationary wave around the world when it pops.

Kyle Bass has been making that bet for – I've lost track of how many years now. He's obviously a very, very smart guy. But it hasn't come true yet.

Do you think that China's debt bubble is a risk to the global economy? And, if yes or no, why?

Barry: There's a million things that are a risk to the global economy. The problem is China has its own currency. They're not borrowing from outside lenders like we are. And, if they want to keep printing money and building infrastructure, who knows how long this could go on for?

I'll quote Oaktree Capital's Howard Marks by saying *in this business there is an enormous difference between being right and being early and it's indistinguishable if you're early enough from being wrong*.

If you make a certain bet and it turns out not to come true, year after year, you're not early, you're wrong. The old joke is always give a price or a date, but never both at the same time. So people have been warning about these things for a while.

Maybe one day the China debt bubble comes home to roost. But they have their own currency. They are essentially a planned economy. They have a million various corporate and sovereign entities all competing to give them more and more business and have them become the manufacturing heart of the world. Of all the things I worry about, the debt bubble in China doesn't make the Top 10 list.

Erik: Another trend that we're seeing is a global rise in populism – certainly, the yellow-vest movement in Europe has gotten a lot of attention – as more and more workers around the world are getting fed up and feel frustrated that it feels to them like the rich get richer and the poor get poorer. And in many parts of the world they're really responding with violent protests.

In the United States, we have a different flavor of that where the Democratic Party has almost transitioned itself (or parts of it have) into the Democratic Socialist Party. And things that would have gotten you arrested during the McCarthyism years in the United States are now becoming the official campaign platform of presidential candidates.

So what is going on here? We try not to take sides in political issues, but it seems like there is a trend toward both populism and, among younger generations, an affection toward more socialist and less capitalist ideology. What would that mean for markets if that trend continues?

Barry: Wow, there is a lot to unpack in that. Let's start with the 30,000-foot view and drill down. Old economies versus new economies.

If you read books like Steven Pinker's *The Better Angels of our Nature* and other such works – Hans Rosling is another one – hey, the data is pretty clear. Things have been getting better for much of the world and, in many cases, much better.

Literacy rates are up, criminality rates are down, the median income has gone up and up and up for people, especially in emerging markets or frontier markets. India, China, Vietnam, Turkey – go down the list. Those folks are all doing much better than they had been doing previously. So, when we're talking about the globe as a whole, income rates are going up.

Now, the global economy is a closed system, and sometimes you end up with an expanding pie where everyone wins. But sometimes it looks more like a zero-sum game and for some winners there are losers.

So let's talk a little bit about that.

When we look at the older world economies, especially those of nations that were once great financial or military powers: The UK and Brexit, the yellow vests in France, here in the United States, southern Europe such as Italy and Portugal and Spain and Greece –

There are a lot of economic problems, some of which are not being handled well internally. And I'm not living in a glass house and throwing stones; I'm talking about US and the UK and France and elsewhere.

Part of the problem is that the economy is very dynamic and it's always changing. And the nature of innovation and changing economic job options and technology and the creative destruction that goes with it is very problematic, depending on who you are and what you do.

I actually just posted a chart today on ritholtz.com that shows 150 years of US employment history. You go back a century, over 50% of the US economy was agriculture. Half the jobs were agriculture. That, now, is less than 4%. Construction didn't exist as a job 100 years ago. Transportation didn't exist as a job 150 years ago. And that's before we get into things like financial services, health care, telecom, etc. So you have a very dynamic, creatively destructive economy that leaves a lot of people behind.

I have been fond of saying since 2010, the recovery is here. It's just not evenly distributed.

And if you want to know how well you are doing in the United States, there are three questions you have to answer: What's your education level? Where do you live? And what's your career choice? And, for some people, the economy has been pretty robust, and they've seen health care and wage increases, and their jobs are pretty secure.

For a lot of folks, especially if they're working in older-line industries, their recovery is barely here or not here at all.

We see that in the UK, we see that in the US, we see that elsewhere. And that has led to some degree of populism. And there's been a pushback, in general, to capitalism.

But here's the problem – and I think this is really important: People are unaware of the difference, not between capitalism and socialism, but they are unaware of this mutant virulent strain of capitalism, the nexus between the business community and the political class, where very, very unique carve-outs are created for a tiny percentage of the population. And that is the definition of crony capitalism.

Look at the pushback here in New York City to the Amazon headquarters. I'm a giant Amazon fan. I've been a client of theirs since I got a gift certificate from my college roommate in 1998. And yet there was a lot of pushback to all of these incentives and tax cuts and what was seen as a bunch of cronyism.

Hey, why does the wealthiest man in the world, running the third most valuable company in the world, need incentives to open a headquarters? Dude, here's a crazy idea: Build your own headquarters on your own dime. Stop being a socialist.

You want to talk about socialist? The NFL team owners, who squeeze towns for every last penny they can get to build a stadium – last I checked, that's your private company that's operated for profit. Why does the local state or city have to subsidize your for-profit business? Stop being a socialist and pay for you own stadium.

I could give you a million examples. By the way, General Motors was notorious for being really rapacious in extracting deals that never worked. These things never worked to the advantage of the municipalities. It's always a huge advantage to the company.

Look at what just happened in Wisconsin with Foxconn. They basically promised all this stuff, they wrung all these future favors. Meanwhile, that LCD factory is not going to be built, we're not going to see 10,000 new jobs – the whole thing was just, as all these crony capitalist nonsense things are – they're always a giant fraud.

There was a fantastic Bloomberg article earlier this week about this new carve-out in the 2017 tax reform bill that gives people on Wall Street special incentives and tax benefits to buy private jets. I mean, if you want to know why people today, why the millennials today and the young people today are enamored of socialism, look no further than this sort of bull shit.

This is just a complete corruption of capitalism as Adam Smith envisioned it. It's corrupting, it's corrosive. Of course young people look at it and say, wait a minute, I don't have health care, I can't afford to buy a house, but these guys are getting subsidized private jets. F.U. I'm going to join the Socialist Party.

And if capitalists want to protect their own butts and save the system, they have to come out and say, hey, this is bull shit. Everybody has to follow the same rules.

Here in New York, Google has just doubled the size of its workforce and they're adding another 7,000 jobs – without asking for tax breaks, without asking for special dispensations. They basically said: We understand the rules of the game and we want to be here because this is where there's talent. And they're doing it very quietly.

Apple is doing the same thing. Apple has a really substantial workforce in New York City, without asking for handouts. When you're one of the three wealthiest companies in the world, hey, it's really bad optics to say, *grease our palms or we'll go somewhere else*.

I could give you hundreds and hundreds of other examples like that.

I remember when McDonald's set up a Mc-helpline so that, instead of paying their workers a certain amount, they were moving some of their salaries off onto the social safety net. So you would call up your Mc-helpline and they would walk you through how to get food stamps and welfare.

And it's like, hey, you're a private, for-profit company. Don't ask me, as the taxpayer, to subsidize your labor costs. And if you have to make your crappy hamburgers cost 50 cents more, then go do that. But it's not my responsibility as a taxpayer to subsidize that guy's football tickets or that person's hamburgers.

This is capitalism 101. And we have forgotten this. We have gotten far, far off our path on where we're supposed to be.

I'm sorry to have gone off on a rant, but I have to tell you. I find these NFL owners to be a bunch of cowards. Do we want to start talking about the Great Financial Crisis? Hey, you see that building downtown with the nice columns on it? It's called a bankruptcy court. And if you're too incompetent to manage your own risk, then walk your dumb little bank over there and declare bankruptcy. That's what it's there for. Don't come to the government and ask for a handout. Don't come to the Federal Reserve and say "Rescue us." F.U., you're out of business.

And, not to get all crazy on you, but I wish more people understood what real capitalism is supposed to be like. It's supposed to be about risking your own capital, being creative, and innovating. Not, hey, I know a guy at the Treasury who will bail us out if this doesn't work. This sort of privatized gains but socialized risk: That's nonsense. That's not what capitalism is.

A guy named Nick Hanauer was one of the first Amazon investors, outside of the family, in Amazon.com 25 years ago. And he wrote a big piece a couple of years ago saying, hey, I'm a plutocrat and I'm concerned that the pitchforks are coming for us.

And it turned out he was very prescient. First it was populism. And next it's going to be socialism. The capitalists in this country have to stand up to the cronyism. To the absolutely corrupt system that Adam Smith would not recognize, the economic system in the United States.

We replaced a meritocracy with something that is just a corrosive, negative grift. And we can't be surprised when people get elected and are promising guaranteed incomes or health care for everybody or free college for everybody.

Hey, if you are going to just give yourself tax breaks for private jets, why shouldn't I have health care? It's inevitable. It's not a threat. Here's the road we're going to go down unless the real capitalists step up and say, hey, carry interest? This is B.S. Let's get rid of it.

And they've been warned. When it all collapses, don't say you weren't warned. Because it's coming. And, until you cronies stop dealing with this, stop begging for handouts and begging for special tax cuts, this is not –

When you asked before about a debt bubble in China, I'm not worried about that. I'm worried about a bunch of pigs stealing so much in terms of crony tax cuts that eventually it all comes down.

The one silver lining in this that makes me happy is one of the biggest group of cronies were the medallion cab owners who created an artificial monopoly restricting the number of medallions around – and they did it because it was regulatory capture instead of the Taxi and Limousine commission here in New York and in other cities operating to protect the actual using public, the passengers.

Suddenly these owners had a valuable asset that was going up in price. And so they didn't want more cabs to be issued, more medallions to be issued, because they were afraid the value of the medallion would fall.

You know, when Uber came to New York in 2010 or 2011, there were actually less hailing medallions on the streets than there were when they first were created in 1938. That's an astonishing statistic. The city grew immensely, and there were less cars that could pick you up on a hail.

So I'm thrilled that technology came in and broke up that monopoly. And Uber just destroyed the value of the medallion. It went from $1.3 million to $250,000 over eight years.

And that's what happens when technology breaks a monopoly, breaks crony capitalism. But I don't know if technology can do that across the board everywhere else. That's one of my big concerns. It's not socialism; it's crony capitalism.

Erik: Well, Barry, I could not possibly agree more. It's no surprise that younger generations think the current system needs to be thrown out. They're right. It does need to be thrown out. And the sad part is how few people are able to see that capitalism is not what we need to throw out. It's what we need to go back to after we throw out the system of corruption and cronyism, which has been mistaken for capitalism for far too long.

But I want to go a little bit deeper on this issue, because the generation that is starting to, I think, be lured to socialism because they are so appalled by the cronyism that you've just described – they're really getting behind this idea of Modern Monetary Theory (MMT) – the concept that, supposedly, there is no downside for countries like the United States that are able to borrow in their own currency.

Basically, the argument is deficits don't matter as long as they're not causing inflation. As long as there is no inflation, we can monetize the federal deficit to our heart's content. There is no problem. And this, I think, potentially leads to a whole lot of additional expectations of entitlements and so forth.

What could go wrong in this story?

Barry: Well, here's the question. And I don't know the answer to this. It's pretty clear that the deficit hawks have gone away. And all of the warnings that they made over the past, I don't know, 40 years – hey, if we run a deficit, it's really going to be problematic, it will cause inflation. Then it will cause hyperinflation and the dollar will become worthless and blah, blah, blah.

Well, so far, they have been completely wrong. And not just a little wrong for a couple of weeks or months. They have been completely and totally wrong for half a century.

Deficits, apparently, don't matter. But here's the kicker. They don't matter until they do.

And there will, again, come a tipping point where deficits do matter.

Now here is the problem with modern monetary theory. On the left, you have MMT – which is going to be used as the basis for things like guaranteed basic income and college for everybody and Medicaid for all and go down the list.

But, on the right, you have an equally dubious economic faith called supply-side tax cuts. And maybe it's even worse than that. Because we know, as we've seen over the years, that supply-side is not a viable form of economics. If you're cutting taxes but you're not offsetting those losses of revenues with cuts in spending, then you're going to create deficits. If you're going to have a war of choice, that's going to cost a few trillion dollars and not raise taxes to pay for it – you're going to create giant deficits.

On the one hand, we have a theory that has yet to be disproven but certainly looks suspect to me – Modern Monetary Theory – that really says tax cuts don't make a difference, from the left.

And from the right, we have a disproven theory that's similarly used as the basis for deficit spending on both the tax cut and the military spending side.

So far, they've been right. Deficits haven't mattered.

Remember the famous Dick Cheney quote: *Ronald Reagan proved that deficits don't matter*. I wouldn't quite go that far. I'd say that moderate deficits don't matter. But, at a certain point, you can't just print and spend forever. At a certain point the chickens come home to roost.

The problem is we have no idea where that line in the sand is. A lot of people said Japan at 200+ deficit to GDP ratio should have been there – it hasn't happened yet. So I don't know where that line is in the United States. But so far it's $21 trillion – doesn't seem to be the problem. Maybe $25 trillion or $30 trillion or $50 trillion is.

I just can't guess how many trillions of dollars becomes problematic.

Erik: There's another aspect to this that I think quite a bit about. Let's assume that at some point, despite your bullish view on the economy and stock markets, we always eventually get into downturns where the Fed has to take action to ease in order to react to worsening economic conditions. Next time this happens, if they were to propose another round of quantitative easing – I think the political left, maybe, in 2008–2009 didn't really know what quantitative easing was. But they've done their homework. They know exactly what's going on.

I would predict that, if that comes about, that the really strong pushback is going to be, look, no more bailouts for Wall Street. If we're going to do quantitative easing, fine. Helicopter money. Give it to the working class American people, support the economy by giving it to the people in need, not to Wall Street rich guys. It seems almost inevitable to me that they're going to win that political argument.

First of all, do you agree that that's probably coming at some point? And then, secondarily, would you agree with me that that has to be inflationary when it does?

Barry: I don't know if that's coming. I think the public has a notoriously short memory. It's really quite shocking how easy it is to hornswoggle the public by telling them what they want to hear, even if it's obviously bull shit. If you haven't learned that in 2016, 2012, 2000, 1996 – go back every four years – the public has a really short memory and tend to believe what they want to believe.

There is an entire field of behavioral finance and cognitive analysis that says people believe what they want to believe. And there is even a boomerang effect: Give them evidence of the opposite and their cognitive dissonance rears its head and they believe their original false thesis even stronger, despite being confronted with facts.

So I'm not concerned that the public is going to suddenly going to wake up and find reality – Number one.

Number two: I don't know.

I've been waiting for inflation and hyperinflation for years and years and years. Maybe one day there'll be hyperinflation. But, so far, it doesn't seem to be the issue. You almost need to be a pariah nation with no outside countries willing to give you goods, services, or capital in order for hyperinflation to come about. If we look at South America, if we look at the Weimar Republic, it's not easy to generate hyperinflation. And I think people may have misunderstood the lesson of that way back when.

Deficits are going to have a drag on the ability for risk capital, for money to be borrowed elsewhere, is what we learned originally – all the crowding out is going to take place. It hasn't happened. So we're sort of stuck with a theory that works great in academia but the real world hasn't confirmed.

Erik: Well, Barry, I can't thank you enough for a fantastic interview. Before we let you go, tell us a little bit about what you do at Ritholtz Wealth Management, as well as the podcast that you host, "Masters in Business."

Barry: Ritholtz Wealth Management is a traditional form of wealth management and financial planning firm. We run 900 and something million dollars. Basically, we integrate financial planning with a broad global asset allocation model. All the usual fund stuff: municipal bonds, equity asset allocations. We stay away from the expensive alternatives like private equity, venture capital, and hedge funds – because (A) we think they're too expensive and (B) we have no expertise in it.

And pretty much it's just plain vanilla boring investing. I like my investing boring. It works out well.

And then, second, "Masters in Business" podcast, basically we'll be celebrating our fifth year this July and our 250th episode. It kind of came about because I was frustrated with what I was watching on financial television.

I actually just told this story the other day: I'm changing planes in Chicago coming back from Vancouver, seven or eight years ago, and I'm sitting in the bar waiting for my plane to be called. And on financial television there is Bill Ackman. And I'm intrigued by Bill Ackman. Fascinating guy, runs a hedge fund, very insightful, has had a couple of great trades and a couple of really good calls – again, I don't know if I want to pay him 2 and 20 – but anytime I see a person who's really interesting and insightful, I want to learn more about them and find out what they have to say.

And, instead of asking those questions, the anchor just kept asking a slew of questions that were going absolutely be stale 30 seconds after Ackman walked out the building. He runs Pershing Square Hedge Fund, which is about three blocks from here.

And they asked him questions like, What's your top holding? What's your favorite stock? Where do you think the Dow finishes the year? What's the Fed going to do. It was just one nonsensical question after another.

And I think, when you have a person like Bill Ackman in front of you, I want to know who are you and how did you get that way? Hey, who are your mentors? Who influenced the way you think about markets? What were the seminal moments in your career? What books do you read? What are your favorite authors?

Like, you have a person like that in front of you, ask them real questions. And, instead, these just dumb softball questions that are just going to be stale 30 seconds later. So that was the burr under my skin for a while.

When the opportunity came to talk to Bloomberg, when I started writing for them, they said, hey, we have these great facilities. Is there anything you'd like to do? I said, yeah, there's what I'd want to do. I want to sit down with these people for 90 minutes to two hours and find out who they are. And, to my surprise and delight, they said, all right, try not to hurt yourself. And that's been going on now for about five years.

On this conversation, I'm yammering a thousand words a minute. On those conversations I get to ask a question and then step back and shut up and let those people speak. And we've had a really interesting run of people; Ray Dalio, Howard Marks, Jeff Gundlach, Dick Thaler, Danny Kahneman, Bob Shiller, Marc Andreessen.

It's really been a fascinating education for me – and I think people who listen to the show have said something similar, that they learn something new each time they hear these, really, masters discuss their careers and how they got to be the masters they are. I love to say it's the most fun I have each week.

Erik: Well, I certainly can relate to that. We do a lot of the same things here at MacroVoices. Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.