MACRO Voices
with hedge fund manager Erik Townsend

Jesse Felder: How Long Can Stock Market Mania Continue?

August 20th 2020

Erik: Joining me now is former hedge fund manager turned *Felder Report* publisher Jesse Felder. Jesse, it's great to have you back on the program. On the day that we are speaking, the global pandemic appears in some ways to be worsening across Europe with case counts on the rise, although we don't yet have death counts on the rise across Europe, a lot of question marks as to whether that's coming. There are a number of experts that are warning that as we get into the fall colder weather in the Northern Hemisphere, we could be looking at a vicious second wave of the pandemic. Stocks, meanwhile, rallied to new all-time highs on the news, Jesse Felder, please explain.

Jesse*:* Well, it's absolutely astounding. I mean, you know, we talked I think last time you had me on the show, Eric, was February right before the decline began. And you and I were both were very bearish thought that that initial 10% decline was going to continue. And you know, I think even at the bottom in March, and a few weeks afterwards, nobody would have guessed that we would see the fastest and a lot of what people are calling 'the shortest bear market in history', which I tend to disagree.

I think there's a good chance we're still in a bear market. But I do think a lot about this quote from George Soros recently where he talked about bubbles, he said 'stock market bubbles don't grow out of thin air. Under normal conditions, misconceptions are self-correcting, and the markets tend towards some kind of equilibrium. Occasionally a misconception is reinforced by a trend prevailing in reality, and that's when a boom bust process gets underway. Eventually, the gap between reality and its false interpretation becomes unsustainable and the bubble burst.'

I think there's just so many misconceptions right now, driving this bubble. And it's also important to distinguish between a bubble and a mania. And I think, you know, the bubble is just price going two standard deviations out of its historical range, all up Jeremy Grantham. We're well beyond that in the stock market, but I think it's more interesting to look today at these narratives or misconceptions that are driving the mania.

Mike Green has done some work on the passive parts of this bubble, and how passive investing is driving. But there's also a mania in day trading that we're witnessing right now, and I think that these two things help to explain what's going on.

Erik: Let's start with the Mike Green perspective. For any listeners who are not familiar, Mike Green has just gone from not a lot of people knew who he was to everybody talking about it. And I think that an interview that he did recently with Bill Fleckenstein, and Grant Williams, probably has led to a lot of that. To all of you guys that are bombarding us with get Mike Green on MacroVoices, we've got it lined up. It's coming guys in September, so standby for that.

But I want to get your perspective on this though Jesse, because Mike laid out a thesis about passive investing and flows, basically saying this has gotten mechanical to the point where it's really not about anybody making some value decision and saying ‘hey, I really think the stock market is undervalued here, and I'm going to buy more.’ It's more of just flows that keep coming into the market through passive investment strategies. Did you hear that interview? And what was your reaction to it? Do you have any disagreement with Mike's perspective on that?

Jesse: Well, I absolutely agree. And I've been writing about passive for a long time, at passive investing is undermined its most basic assumption, which is that the market is efficient. Well, when passive becomes the market, it loses that efficiency by definition.

And so there's a bunch of problems with passive and the fact that so much money is flowing into it is absolutely distorting the markets, but I think it's those misconceptions that are most interesting to me. One of those is the price you pay does not determine your rate of return, people think ‘I can literally pay any price for the broad stock market and I deserve a historical rate of return,’ which is exactly the opposite of what, you know, made Buffett such a successful investor. The belief that the price you pay is what determines your rate of return.

There's also this belief that low interest rates justify higher multiples for valuations for those that are looking at valuation. But I think low interest rates help explain why valuations are extreme, but they don't justify extreme valuations. All you have to do is understand a simple discounted cash flow analysis to understand this. Essentially, what investors are doing when they say low interest rates justify higher valuations is they're lowering the discount rate, but they're not also lowering the growth rate of earnings.

Historically – I mean, this is something Cliff Asness proved a long time ago – the discount rate and the earnings growth rate are essentially locked at the hip. You don't get faster growth without also raising the discount rate. And so, that's just a misconception. Then if you look at markets like Europe and Japan where you have negative interest rates, valuations there are much lower than United States valuations. So, to me that's another clear misconception.

Finally, you have this belief that if your time horizon is long enough as a buy and hold passive investor, you'll always be made whole, that you'll never lose money. And even the history of the US market kind of disproves that. You look at 1929, there was 20 plus years of being in the red from the peak there at 19. In the late 60s, early 70s was another time where nominally you were in the red, and then in real terms you're in the red for 20 plus years. And then just look at the Japanese market, peaked in 1990 and still remains substantially below that peak made 30 years ago. So, these are all misconceptions that are driving people into passive, but they won't be proven to be misconceptions until we come to the other side of this bubble.

Erik: Jesse, there's another aspect of this I know that you're watching which is one of the signs that we're taught to look for at the late stages of a bull market. It's when you tend to get a lot of new novice retail investors coming into the market wanting to get on the coattails of this big move that's already happened, and lot of times that tends to market the top. Now at this point it's a little different this time in the sense that retail mania actually has an elected poster boy named Dave Portnoy, who seems to be the representative of less than completely experienced retail investors entering this marketplace.

Is that part of this? How much of a part of it is it? And what message does that really tell us, because at the same time there's also an argument that the reason it's working, and the reason that a lot of these very inexperienced traders are making money is because there's a macro backdrop with what the feds doing that supports it. And maybe it's smart for these dumb guys that don't really know what they're doing. It's working for them now. Why shouldn't they keep doing it?

Jesse: You're absolutely right to point out Dave. I hate to you know, call him out by name, but he reminds me of another online personality during the late 90s bubble. Tokyo Joe was famous – actually brought up on SCC charges for a pump and dump scheme. But he became so popular for buying up stocks, small little internet names, then promoting them through his huge audience and then selling when the audience started buying. I think it was early 2000 he was actually busted by the SCC, and that kind of was right around the top of that that market.

But we see a very similar kind of retail mania today. I think we talked about it back in February, there was a great piece Luke Kawa wrote for Bloomberg, about the options trading, the retail activity in options, and how they believe that they've found a kind-of perpetual motion machine (I think is the term Luke used). Where if they pull their resources by a bunch of call options, it forces market makers to go essentially sell them the calls. They're short calls, they got to go by underlying. They can actually manifest profits as long as they're there doing that.

But I think there's another Soros quote related to bubbles that I think also helps explain what's really going on with this. Soros said ‘when I see a bubble forming, I rush into by adding fuel to the fire. That's not irrational.’ And I think there are a ton of quantitative hedge funds right now that are piggybacking on top of this retail flow.

I think to me that the greatest signpost in this regard was when Robintrack was shut down because Robin Hood wasn't sharing their data any more publicly. I think last week or the week before Steve Cohen's hedge fund and a couple others came out – mainly quantitative funds – and said ‘we are putting out an urgent request to replace this data that we lost.’ With E trade and all the other types of brokers, they need that to see the order flow for their quant models.

To me that suggests that what a lot of these quant funds are doing is see investors rush into Apple shares and they'll just see the very beginnings of that and know that that's going to carry on for a period of time. So what they're going to do is they're going to rush into apple or whatever it is, and add fuel to the fire, potentially through the options market.

I've been amazed to see days where Apple trades 500,000 call options in a day of at the money strikes that expired that same week, or on that Friday. So to me that's 50 million shares of underlying demand for options that expire in a day or two. We're talking about Wednesday, Thursday demand. So there's this other dynamic where retail investors are pouring into the market, because they believe this is a bite. That the March 2020 crash was a buying opportunity on par with March 2009, even though valuations at the bottom of March 2020 were 100% higher than March 2009.

There's this other belief that you know, Dave Portnoy may be the one really promoting that stocks only go up, and it feels like that since March, but obviously that's patently not true. There are times when they don't.

Finally, there's the belief that fed money printing guarantees profits in the stock market. And I think that's the buy the dip mentality that we've seen for 10 plus years now. And where I think that is going to be proven to be a misconception is something that got a little bit of attention when Stan Druckenmiller brought it up a few months ago, but people have completely forgotten about. It is that it's not just fed liquidity that matters, its net liquidity and what the is Treasury doing. You need to see what is essentially the growth in the Fed balance sheet less growth in the Treasury, because that's what net liquidity looks like. And the Treasury needs to sell $2 trillion of new debt in the second half. If the Fed doesn't monetize that completely, that's all net liquidity for the stock market.

So I do think it's these twin manias and I do think this is where I disagree a little bit with Mike, I think this is where retail is picking up the mantle from passive. I think it's been passive for the past 10 years, but we've seen significant net outflows from domestic equity funds this year and over the past 18 months or so. So when you have net outflows out of the market, how does the market go up? How do we get new highs? I think the only way to explain that is through this retail mania that's being magnified by quantitative hedge funds.

Erik: Jesse, let's talk about a specific situation that to my thinking kind of epitomizes this market. Just looking at my Tesla chart, it's not quite 2000 today, but I mean heck, it was just a month or six weeks ago, that nobody could believe it was already $1,000 a share for Tesla. Now we're looking at $2,000 a share and it seems like one of the most ridiculous things you ever see in any market which is when a stock split, which really doesn't mean anything substantive. It's just a change in the number of shares and it means that the share price changes. The announcement of a stock split appears to have been the catalyst for a big move up in the price of Tesla shares.

That to me suggests a lot of very inexperienced hands in this Tesla market. But as much as it might be tempting to say 'oh its a ripe short', a lot of smart people were saying that at 1000 bucks because it was a crazy valuation at 1000 bucks. That was six weeks ago and the stock has doubled. What do you make of this? And what does it say about the market?

Jesse: Well, a lot of really smart experienced shorts were saying Tesla was a great short at $200 a share.

Erik: I was saying it at $75. And I still think it was right, but it didn't work out.

Jesse: Yeah, no, I absolutely agree, and I think Tesla may be – when this whole mania is kind of in our rearview mirror – we'll look back at Tesla as the poster child of both of these manias, you know that I was talking about. There's another quote that I love from Scott McNealy talking about the .com mania, I won't read the whole thing. But in 2001 or 2, after his stock Sun Microsystems had gone from five bucks a share, to 65 bucks, and back to five, he did an interview with Forbes I think. And he said people were crazy to pay that for his stock price.

It's interesting to me too, because Elon Musk tweeted Tesla stock price is too high a month or two ago. So it kind of reminded me of this. And he said, basically at 10 times sales is what people were paying for Sun, and you'd have to pay out 100% of revenues for 10 years in order to give them a payback. That's really hard for a computer company that makes hardware and has a lot of cost of doing business.

This is even more important for Tesla because they have even greater costs of production, even lower gross margins than a Sun Microsystems, and it trades 14 times sales. So this is even so much more ridiculous than the poster child of the .com mania was, people are going to look back and go, ‘what were you thinking buying Tesla?’ To me it's a testament to this retail mania, right. How do you get a stock like Tesla going through the roof?

And I think it sort of disproves the theory that this is all passive investing too, because Tesla isn't in the index. So how does the stock go up if it's not in the S&P 500 index? Well, it has to have an incredible amount of manic buying. It also doesn't hurt that it has low float, because Elon owns a big chunk of the shares, so it's very low trading float. But then you have to have this retail mania of investors just buying the stock thinking that the price is going to go to the moon forever. Then there's this also this other misconception too, which I think helps prove the passive investing mania also, which is that they're buying it thinking that the price is going to go up when it goes into the index.

And just the fact that the S&P 500 will be forced to pay to make this one of the top 10 holdings in the index, potentially out of $350 to $360 billion valuation and pay 14 times sales for it regardless of the fact that it literally has zero sales growth right now. There's no possible way to justify this multiple. To me it’s just the perfect example of that price insensitive buying that proves passive investing is a mania in itself. That you know, the system is going to force you to pay 1800 dollars a share for Tesla after it's put into the index. So, I think it's a really interesting example of what's going on and will prove to be the poster child of the current bubble that we're living through.

Erik: Jesse I want to come back to ‘stocks always going up’ as our friend Davy day trader likes to say. I was actually surprised in that series that Grant and Bill did, where Mike Green was featured and there were several others in the series. It was a *Dollar Endgame* series, which we did on MacroVoices back in I think 2017 as our year end series, and they did a very similar series. I was surprised actually to hear both Grant and Bill expressed the sentiment of, it has to end badly for the stock market someday. And I certainly agree that there's no free lunch, and the story has to end badly.

But I'm no longer persuaded that the way it goes down is a stock market crash at some point. It seems to me like we're on a path that's pretty darn clear from a social perspective. That we're headed toward a lot more quantitative easing, eventually an MMT model where we're pumping more money into the real economy that leads to inflation. It seems to me like there's plenty of room for a melt up in the stock market where nominal prices just continue to go up, making Davy day trader look as if he knows what he's talking about; when in reality what's really going on is it's the precursor to a currency crash. We can come back, I've got some thoughts on how the currency crash might occur. But what do you think about the possibility that yeah the story ends badly, but it never results in the stock market selling off dramatically in nominal terms.

Jesse: I think that's a very interesting concept, and you know the first person I saw propose that a couple years ago was Luke Goman. And afterwards I reached out to Luke to discuss it with him personally, because I do think it's an interesting idea. Even Warren Buffett has said, if interest rates stay low zero forever, then stocks are incredibly undervalued. He said that a little over a year ago in a CNBC interview. But in that same interview, Charlie Munger said one of the greatest things that he fears is that governments around the world embrace money printing. This was May of last year, and obviously since then the US government and the Federal Reserve have dramatically embraced money printing. And the reason he said he fears that so much is because you inevitably get a Venezuela type situation.

And so this is kind of what I think this idea of the stock market going up in nominal terms, but possibly down in real terms looks like. But before you get to that stage, before you get to hyperinflation, there'd be a lot of other signals to suggest that you're there, and those would be commodity prices rising. We're not seeing that, we would have to see the dollar really tank against other currencies. I am a dollar bear; I think that's probably where we're headed.

But I do think the only way that we're going to see that type of scenario, were you have a hyper inflationary environment that drives the stock market higher as a part of driving everything else higher, is if the Fed is able to get away with monetizing. Essentially right now we're looking at $4 trillion to $5 trillion annualized if they get away with directly monetizing that much fiscal profligacy indefinitely. If they can get away with that without the dollar tanking, then possibly it means the stock market is going to just keep going straight up. Now, I don't think that's possible. But some clearly do.

Erik: Jessie something else that surprised me from that series with Grant and Bill is that Bill's still talking – and this is a tagline that I used to use years ago – 'watch out because the bond markets going to take away the keys to the printing press at some point.' And I was surprised to hear Bill use that expression, because as I think about it now, I was very much of that same mindset for years.

But what I've realized is there's a strong argument that bond vigilantes, people who start selling bonds when they see that the government is being irresponsible, they can take away a government's ability to continue recklessly deficit spending in an environment where there is no central bank balance sheet expansion and no quantitative easing. But it seems to me that it's a completely false premise to say the bond market is going to take away the keys to the printing press, because in reality, it's the printing press, which is the enabler that makes it possible for central banks to essentially, I would say, take away the keys that the bond vigilantes normally have to allow them to keep governments in check, because it doesn't matter if the bond vigilantes are selling bonds, the central bank is going to print up some more money and buy them and support the bond market and support the government's ability to continue to borrow and spend recklessly.

So I just don't buy this argument that the bond market will take away the keys to the printing press. The only way I can see that the keys to the printing press gets taken away, is when you get runaway inflation and that definitely takes the keys away and you got to really serious problem then. We're not there yet, and frankly, we're not close to that yet. Do you see it differently? What am I missing here?

Jesse: I agree with you. And I think Bill's probably revised his view in light of the prospect of yield curve control. I think it's clear that the Fed is looking at yield curve control, they're not going to allow interest rates to go to a level that would be damaging to the economy. What I believe we're in a situation now and I think this is what differentiates this is very important distinction, I think, between the money printing we're seeing today, really since last fall since the repo crisis last fall, there's been a dramatic change in the nature of the money printing, the money printing up until that point was really discretionary, on the part of the Feds try and boost the economy try and lower interest rates encourage people to take on mortgages and people to push them out on the risk curve push up stock prices create a wealth effect. What we saw with the repo crisis last fall, was the demand for treasury bills just wasn't there. We had a trillion dollar fiscal deficit during an economic expansion. I haven't seen anything like that, since anything close, I think we had a two and a half percent deficit during an expansion in the late 60s during the Vietnam War. This was pushing 5% of GDP during an economic expansion, totally unprecedented, and the only way we were financing it was with treasury bills, and the only people buying those treasury bills were leveraged hedge funds putting on the basis trade, borrowing tons of money and repo to buy treasury bills. When repo kind of started buckling, that trade came under pressure in the Fed to say, there's nobody to buy these treasury bills we have to come in and monetize this. And to me, that wasn't a discretionary move apart of the Fed, that was the Fed, being forced to come in and monetize debt that couldn't be bought by normal demand in the markets.

So that to me, is a huge distinction. That to me was the beginning of so called fiscal dominance, where the central bank can no longer decide what they want to do for the economy inflation, there's essentially 100% beholden to whatever the fiscal authorities deem necessary. We saw it again when Congress essentially voted to spend $3 trillion several months ago and the Fed had to come in. And why did the balance sheet go from four to 7 trillion? Because they're forced to monetize that. And so we're now in a situation of fiscal dominance where the Fed is essentially under the under the thumb of fiscal policymakers and that's, like I said, a huge distinction, and I think this is where it's not going to be the bond market, because if they're forced to keep interest rates lower, it's going to be the dollar. Like Robert Kaplan Dallas fed had said a week or two ago, that there's a limit to the money printing we can do and essentially the dollar is going to show us what that limit is, that you know fiscal authorities are going to do X, Y, and Z. We're going to be forced to monetize it. Reading between the lines, the dollar is going to tell us how much we're allowed to monetize without the dollar really tanking. I think this is why we started to see the dollar sell off this year is you know, foreign investors concerned that the amount of money printing is getting out of hand, you look our growth in our monetary base was so much bigger in reaction to the pandemic than any other country on the planet. People wonder why the dollar is going down? To me it's going to be the dollar takes the printing press away. And this is what I don't think a lot of people in the stock market appreciate. Currently they think fed money printing means the stock market goes up. Well, if the Fed doesn't print as much as the federal government issues, then the stock market has negative liquidity situation. If they do print as much or more in order to create a positive liquidity situation for the markets, the dollar could really sell off and I think that's already making the Fed think twice about what they're able to do.

Erik: Well, first of all, I agree with you very strongly that the dollar has the ability to take the keys to the printing press away whereas I would have said the bond market doesn't. Now you Jesse have been expressing a long term secular bearish view on the dollar for I don't know, four or five years now, it seems like for a while, maybe you were making a good argument, it wasn't really happening yet in a big way. And certainly our mutual friend, Luke Gromen, has been expressing this very, very bearish dollar view that, you know I've always been convinced Luke would be proven right in the end game, I just wasn't sure when the end game starts. So are we actually having that Luke Gromen moment where, you know, we saw 92 even on the dollar index on Tuesday of this week? That's a fresh low and we're oversold here is that the bottom and the big bounce starts, you know, markets crash from oversold not from overbought. Is this the beginning of something big do you think are we pretty much done with this move? Because certainly, that's an overcrowded trade at this point to be short, the dollar.

Jesse: Absolutely, and I have been dollar bearish since late 2016, early 2017. Really, the dollar had a nice down move early 2018, in what I viewed as a counter trend rally, and I felt wrong being bearish the dollar for the past couple of years. This renewed sell off is just essentially a renewed down leg in the bear market that started in 2017. Now, it is absolutely a super overcrowded trade, their technical indicators to me that suggested probably should rally in the short run. I think that could coincide with kind of a risk off period for markets. But it's probably another short-term counter trend rally in the dollar. So how I would envision this playing out, and this is not a forecast, this is just you know, how if I had to guess this is how I would see it playing out. We're going to see a dollar rally for the next several weeks coincides with a risk off maybe stocks pull back 10% people are calling for the Fed, you know the balance sheet hasn't expanded for three months, Feds essentially on the sidelines.

So stocks are going to have renewed selloff, the dollar rallies. And that's going to make everybody call for renewed fed money printing, quantitative easing, whatever you want to call it in light of the stock market sell off and in light of dollar strength, and that's when the feds going to have to choose okay, is it time now, to monetize this 2 trillion the Treasury needs to needs to issue by year end and if they do make that decision to monetize the 2 trillion then that's when we probably see the real big move down in the dollar. So I think it's like I said at the beginning of this year, the first market comment I wrote in January this is the year to watch the greenback. It's the most important chart in the market. I still believe that in the next several weeks, months, it's going to be the one to watch. So that's my dollar view in a nutshell. But I'm curious to know your thoughts about the dollar Eric actually.

Erik: Well Jesse, what I thought was actually missing from that conversation that Grant and Bill had is to really ask the question of okay, what does it take in order? They both said it seems like in the end, it's the currency that fails, I just don't know how that comes about. Well, here's how I think that ultimately comes about. Why has the dollar been so strong and lasted so long and surprised so many people? The answer is because it's the global reserve currency. Well, why is the dollar the global reserve currency? I contend it is global reserve currency for one reason and one reason only, which is there is no viable alternative.

So the process of logical deduction leads you to say, okay, if that's the situation, lots of people around the world are frustrated with the dollars hegemony over the global financial system, but we're not going to go to euros and we're not going to go to yen and we're certainly not going to go to Russian rubles or Chinese yuan as the new global reserve currency.

So the question becomes, what could happen to bring about perhaps even suddenly a viable alternative to the US dollar as a global reserve currency. That's the $64 trillion question as far as I'm concerned, or $64 quadrillion question is, where do you get a suitable replacement for the US dollar from to replace the dollar as the global reserve currency and as soon as one emerges, I think the you know, it's game over for the dollar, Luke Gromen gets proven right. The world changes in dramatic ways.

Well, what could bring that about, and I think the big surprise, the fat tail surprise event that nobody's really watching closely enough for is the emergence of a digital currency and I don't mean Bitcoin and Ethereum and the other cryptocurrencies, but a digital currency, which is designed not to appeal to anarchists who are trying to do government proof money, which is what Bitcoin was designed to do, but rather a digital currency which is designed expressly to displace the dollar.

Somebody's saying let's engineer, a digital currency system use a lot of the ideas of distributed ledger and so forth that were invented by the Bitcoin crowd. But let's combine those technologies in a completely different way with almost opposite design goals of what cryptocurrency tries to achieve and let's create something that appeals to the central bankers of the world. And it's easy to say, well there's nothing like that going on. Well, look at how quickly Facebook's Libra came out of nowhere, had a big splash flash in the pan and ended up dying out. Frankly, I think that's because Facebook had no idea what they were trying to do. You're basically trying to propose a new digital currency system, which could eventually compete with government issued money as a preferred medium of exchange and store of value. You can't do that without bribing a few politicians first, I think that Facebook forgot that step. Who knows what Google is working on behind closed doors, who knows what Apple has in mind after Apple Pay.

So where I think the big surprise could come from is what I call an SVDC, Silicon Valley digital currency. Somebody in the valley who's looking at all of this digital currency technology and saying, forget about cryptocurrency that's just a little flash in the pan. Let's use these technologies in a different way to design something that really does provide a viable alternative to the US dollar. And let's sell that to central bankers. So that we, the creators of that digital currency, basically take on godlike status and are in charge of things that we shouldn't be in charge of.

No doubt in my mind that that's what was probably in the back of Mark Zuckerberg head. He did a very incompetent job of trying to promote Libra and it was shut down very quickly. I bet there's other people in the valley that watched that all go down, learn some lessons from it and have plans of their own.

I think it's when they show up with a digital currency system. And by the way, the pandemic, you know, the old expression of never let a crisis go to waste. The pandemic provides a perfect venue for somebody to introduce something they can sell to governments, that provides a way to take MMT helicopter money and digitally distribute it to the populace. Well, we've got to adopt this new money system and give it government endorsement because it gives us the ability to basically achieve UBI and you know, all kinds of entitlement programs, debit cards, for social benefits, and so forth, are all going to be tied into this thing and it's going to be all coolant and technology's great. It's a great smokescreen to introduce a new digital currency whose real goal is to uproot the dollars role at the center of the global financial system. I got to believe there are very powerful well held people in Silicon Valley working very hard on that, and I'm watching to see who's next. Clearly, Facebook's libra was not meant to be okay, what's Google up to in secret? What's Apple up to in secret? What's coming next? That's what's on my mind.

Jesse: That's a really interesting point and I think you're absolutely right. That's how technologies evolve, right? I'm not a Bitcoin believer, just to put that out there. Part of the reason is because you just look at how technologies evolve and there's a lot of benefits to Ethereum. So, why is Ethereum not a better cryptocurrency than Bitcoin? You're right, all of these cryptocurrencies could prove to be the MySpace, of an eventual Facebook that comes around that is the one that's adopted by governments, which I think is the one that the point that you've made in your book, which is without the backing of major governments, none of these cryptocurrencies have a chance in hell usurping the dollar as a reserve currency or even taking off and becoming widely adopted. I think the other point that I would make is that every time the dollar begins a bear market, people start talking about the reserve currency status and it being at risk.

There's been plenty of times where the dollar has sold off 40% over a number of years, and it hasn't lost its reserve currency status. I don't know whether it's going to remain reserve currency or lose that status. I think I agree with Luke over time, that probably loses that status. But it's my belief that the dollar could fall 40% from its highs over the last few years, without it having to lose its reserve currency status for that to happen. Now, if it were to lose 40% again, as it's done in the past, that might be what precipitates this transition away from the dollar and finally creates enough disruption that people look for a useful alternative.

Erik: Jessie let's move on to precious metals, gold market really breaking out to some astronomical highs and then of course, we had a significant correction although frankly it wasn't that significant. We didn't even get back down to the 1800 dollar breakout level that had been the most recent proximal move up in the market. And frankly, we had never had a retracement back down to the prior breakout level before that. So what do you think's going on? Are we seeing a topping process here in gold? Or is this just a little pullback in a buying opportunity?

Jesse: I've been bullish on gold for several years and it's part of my dollar bearish thesis. But a big part of the reason I was so bullish gold, and really took an interest in it back in 2015, was that famous Wall Street Journal piece calling it a ‘pet rock’. When any asset class becomes that out of favor, it's usually a good buying opportunity. But then when you look deeper at what drives gold prices, it's real interest rates, and it's the fiscal situation in the United States and so I think what's been driving gold is that deteriorating fiscal situation and paired with negative real interest rates in the United States.

Those are essentially the ideal backdrop for gold bulls. And I do think this gold bull market probably has a lot longer way to go over the next several years. I think we talked about if the Fed, through this fiscal dominance, is forced into yield curve control and just monetizing a significant amount of debt indefinitely. That is the ultimate bull case for golden and I think in that scenario with yield curve control and the Fed monetizing trillions of dollars of debt every year, those crazy sounding forecasts of $10,000 an ounce or whatever immediately become not very crazy at all, and become very realistic. But I think in the short run, I think we've seen so much bullish sentiment towards gold, it's become a crowded trade, we've seen money pour into ETFs, a lot of retail investors get involved.

I do think real interest rates potentially going forward could become a headwind instead of a tail wind, and by that, I think inflation could disappoint to the downside, with the velocity of money so weak and GDP so weak that tends to lead core CPI by a year to 18 months. So I think inflation over the near term could disappoint to the downside. At the same time, interest rates are starting to pick up and so that's the recipe for rising real interest rates, which would be bearish for gold prices in the short run. So I think the combination of it being overcrowded and the possibility of real interest rates going the wrong direction in the short run makes me more cautious. I think we could have a corrective period that could last. Even in the last gold bull market from 2000 to 2011, you saw 20% pullbacks and a lot of times, that's what it takes in a bull market to shake out the weak holders. I wouldn't be surprised to see that type of a thing over the next several months in the gold market.

Erik: Do you have enough conviction about that to take profits up here and look to buy back in at a lower price? Or is it more of just hold your current position and maybe add to it if there's a really big dip?

Jesse: Yeah, so for me, I like to have a core position. I think Gold's in a bull market. It's so easy in a bull market to just sell out your core position and never get a chance to reenter. So I'm definitely holding on to my core position, but trading around that with it with a more tactical type of position. I'm not tactically bullish on gold right now. So I don't have any tactical positions on in that market right now. That leaves me vulnerable to missing and to be perfectly honest, I've been cautious towards gold over the last several months. So I started buying it at 1050 an ounce and, you know, started turning cautious around 1600. I've missed this last move up from a technical perspective, but I'm fine with that because, to me, it's about putting the product abilities in your favor and I'm happy to just keep that core position on and look for a better opportunity to become tactically bullish over the next few months.

Erik: Jesse, I can't thank you enough for a terrific interview this week, tell our listeners about what they can expect to find at thefelderreport.com and particularly, a lot of people have been a huge fan of your podcast, it's not quite as regular as Macro Voices. What's the strategy there? How often can we look forward to a new episode?

Jesse: Well, yeah, not yet. I think I've recorded one this year.

Erik: They are great when you do them.

Jesse: Yeah, you know, for me I have to be really curious about a certain topic and reach out to somebody to do that. It's probably a huge compliment to you that I think I've done two with you and you know, so you probably represent 10% of my total library.
With the Felder report, I send out a Saturday morning email which has become pretty popular. I usually tweet a lot of the stuff that I'm reading charts and articles, but I kind of curate the five best things that I found during the week and put those into a Saturday morning email and at the Felder report you can sign up for that, goes out Saturday mornings, and it's totally free.

Erik: Jesse, thanks so much for a terrific interview, Patrick's Ceresna and I will be back right after this message from our sponsor.