Lyn Alden: Navigating Headline Driven Markets

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Erik: Joining me now is Lyn Alden, founder of Lyn Alden Investment Strategy. Lyn, it's great to get you back on the show. It's been too long. Let's get into what's on everybody's mind right now, which is, wow, big correction on the S&P, markets generally, as we've seen, what is at least a relief rally, a bounce up to almost the 200-day moving average. The rally stopped right at the volume weighted moving average, or volume weighted average price, as some people call it. We've seen, as we're recording here on Tuesday afternoon, Tuesday was a little bit of a down day. Does that mean the selling is about to resume, and we haven't seen the bottom yet? Are we just stumbling here? What do you think is happening? What's driving this? What's the big picture behind it?

Lyn: Well, thank you for having me back. Always happy to be here. And when I kind of focus on what I think, expectations around the equity market, I focus more on, do I think it's going to have a decent year or a bad year, or even a decent two to three years, or not a very good two to three years. I try not to draw the line on individual levels. I leave that to the professional traders, because that's a hard enough profession, even for those that focus 100% on it. And so, it's nice that there's like, a little bit of a near term bottom here, and we kind of put the end to lower highs. I don't have a conviction of what happens in the next few weeks, I've been making the case we've entered more of a headline driven market. So, the past couple years were more of a mechanical, liquidity driven market, where things tended to trend until they didn't. Whereas the headline driven market, quite big turnarounds can happen pretty quickly. So, I think that, if kind of the current period of policy uncertainty continues, if we don't get more visibility on tariffs, yes or no, and retaliatory tariffs, yes or no, and some of the questions around DOGE and fiscal, then it's certainly possible that this could bleed lower. But I generally have a view that large cap US indices are just not super attractive here on a risk-reward basis. So, I expect chop in general, that could be chopping to slightly lower lows. It could be being range bound for a period of time. Don't really have conviction, but I do find other areas to be more investable and more interesting at the current time.

Erik: I definitely want to come back to those other areas that are more interesting. But first, let's go a little deeper on this headline driven markets. I very much agree with that description. What's your take on why it's headline driven? Is it because of the Trump administration, which, let's face it, some people love him, some people hate him, but he's definitely, no shortage of headlines coming out of President Trump. Is that why you're saying it's a headline driven market? Are you talking about something else?

Lyn: Well, it's obviously, at the moment, yes, it's a Trump driven, headline driven market. But that's different than saying that just because Trump's in office, it's a headline driven market. In one of my recent reports, I highlighted that, in 2018 and 2019, it wasn't really a headline driven market too much, even though Trump was in office. And so, it's not to say that we're necessarily in a headline driven market for the next four years, just to say that in the current part of the Trump administration, because they kind of entered with a shock and awe approach, it is more of a headline driven market for those political reasons. In Trump's first term, his opening cabinet was kind of a mix of establishment and some anti-establishment figures, whereas this one has been more unified around more anti-establishment figures that kind of come in and basically give us more headline volatility risk. And like you said, people could be on either side of that, but it is volatile. And so, because this has been more of a shock and awe starter, we are in more of a headline driven market. But that could be a six-month thing, it could be a 12-month thing. It's not necessarily some four-year thing.

Erik: Let's go a little bit deeper on what's going on here with the Trump driven headline market, particularly around the role of the judicial system, that's starting to intervene the way. I think, as you said, the Trump administration caught everybody by surprise with this shock and awe approach, making huge policy changes, kind of just blew everybody away. I've noticed, just in the last week or so, that we're finally starting to see what seems to me like very organized resistance coming from the judicial branch. First, there was one federal judge who didn't even have anything before his court, but took it upon himself to issue a ruling basically prohibiting the Trump administration from deporting the Tren de Aragua people, the judge actually tried to call for planes that were in flight to be returned to the United States. Trump administration said, that's out of your jurisdiction, those flights are in international airspace, we refuse to do it now. We've got Democrats saying the President should be impeached for that, Republicans saying the judge should be impeached for that. People are talking about impeachments. You know, this is getting bigger. And then I just see, on Tuesday, a different judge, also appointed by President Obama, found that Elon and DOGE violated the Constitution by shutting down USAID, and has basically ordered them to restore access for the remaining employees, let them go back and put it back together. It sounds like, seems like the resistance to Trump shock and awe is starting to get organized. Would you agree with that? And if so, what does that mean to markets and this whole thesis that we're in a headline driven market? Does it mean it's about to get less headline driven as this resistance comes in, or does it get more headline driven as the Trump administration resists the resistance?

Lyn: I wouldn't say it's going to be not a headline driven market. I would either err toward the level of headlines continues roughly as is, including that retaliation or potentially upticks. I don't think we're necessarily close to leaving a headline driven market yet, because should those things go through, I think there will be pushback and trying to find different legal approaches that they have. We can kind of broadly separate this into three different buckets, just because it's a complicated enough question in and of itself. So, one of the buckets is tariff policy. That's one of the big uncertainty points for markets. Both, from a business CapEx standpoint, if you're looking to deploy capital, all else being equal, you might hold off a little bit until you have more clarity. And then, from an investor perspective, if you're kind of trying to judge the future performance of companies, you might be a little more conservative, again, until you have more clarity on margins and things like that. It's also, the tariff policy kind of messes up, like some certain economic data, so as entities front run imports, we can get wonky readings on like the Atlanta Fed or trade balance information and things like that. So that's kind of a noisy headline market there, both for the actual economy as well as for markets.

The second big bucket would be DOGE or anything fiscal related. A big part of my macro thesis long term has been fiscal dominance, the fact that we're kind of structurally running higher fiscal deficits, that doesn't mean that every single year goes up. There could be periods of consolidations or attempts to rein that in. I've made the case that the Gordian knot there is extremely, I guess, tied very in a complex way. And so, including the political pushback, that's part of it, there's a bunch of levers that have to be done in order to meaningfully reduce the deficit. So, one, generally speaking, you have to be able to cut not just these optical things. There are some things that are politically charged, like the stuff we've seen, but it's a small part of the pie chart. The really big chunks of the pie chart, physically speaking, are Social Security, Medicare, defense, interest expense, veterans' benefits, which we could kind of lump in with defense. These are very challenging things to cut, and they represent the vast majority of not only the budget, but that the expected budget growth over the next five years. And so that the big question is, can they actually make a dent in any of those? And for example, on the defense side, I pointed out, every single Congress person who has some sort of defense thing in their jurisdiction, they're going to push back on that specific thing. Because they might say, yeah, we want to trim defense, but not that thing that's in my area. And so that's the kind of the pushback there. And then, like you pointed out, if they try to go around certain things, if they try to push forward with certain things, then you can get legal pushback as well. So, it's not an easy thing to do.

And then the final aspect there, and this is something that I've touched on, and Luke Gromen has touched on, and others, is that the US is more financialized than the average developed market, which is to say that our tax receipts are more correlated with asset prices, and especially equity prices, than many other markets. And that's partially because we have higher wealth concentration, is partially because of the way we structured our tax code, is partially because we have so much global capital kind of stuffed into our markets. But for a bunch of reasons, if you attempt some sort of austerity, even if you're moderately successful on the spending side, and then the result is that, asset prices chop along sideways or go down for a while, then with a lag that can come back and hurt your tax receipts and make it hard to reduce the deficit from that direction. And so that's part of the Gordian knot that's very difficult to untie. So that's kind of that second bucket.

And then the third bucket is immigration, and that has implications for the labor market, I guess out of the three, that'd probably be the area where I expect them to have more success defining that as their objectives, which is to reduce illegal immigration. I'm not so sure how much raw numbers they're going to end up deporting, given the millions we're talking here, but I do think at the very least that the borders will be more tightly secured, and that does have implications for the labor market. So, I tend to take the under on fiscal, I tend to take immigration a little bit more at face value, and the tariff side is still kind of a big wild card.

Erik: Let's come back to, you alluded earlier, you've got other ideas, instead of US equity markets, to maybe step away from all of this volatility into something that might make a little more sense. What are those other assets that might make more sense, and what's the rationale for them?

Lyn: Well, I've been taking the idea of an international rotation pretty seriously, like a US to international performance shift, and I don't take that lightly, because out of the various trends that I've followed, that's the one that I found to be the hardest, personally. And so, for example, I was on the right side of the fiscal dominance trend. I was on the right side of being a structural bond bear and wanting a slice of gold in my portfolio, instead of bonds, right on kind of the Bitcoin area. But the part that I, you know, it's been somewhat of an anchor on my portfolio compared to those other ones, has been either the idea of a growth to value rotation or a US to international rotation. So, these things that have tended to persist longer than I've expected, part of that is that there's certain windows where the rotation can happen because the rotation tends to be self-reinforcing, as you know US does well, it's running kind of hot or fiscal. So, it's kind of stimulating more, that attracts a lot of global capital that wants to come in, the stocks do well, that's beneficial for the wealth effect that dries up the dollar, which then suppresses the kind of liquidity on emerging markets that they run into both financial problems and economic problems, and then investors don't want to be there, so they pop more into US. It kind of is this flywheel that becomes self-reinforcing, and either due to sheer exhaustion and extremes, or due to major policy shifts, that flywheel can go in the other direction. It's still too early to say if that's happening, but the way that I've been describing it is, there are certain windows where that becomes much more probable than other periods of time. And so, the reason I started looking at this window was last year with the rate cuts. When the Fed ended their tightening cycle, they were flat for a while, and then around the margins, they were starting a little bit more of a dovish approach, that I described as the first window since 2019 that we have a rate cutting cycle. And that doesn't mean that there's going to be follow through, but it's basically an opening where other markets do have an opportunity, especially given valuation differentials and that whole kind of recursive flywheel effect to start doing well in 2019, and this is where I say I was premature on it. I did expect that rotation to be a little bit more meaningful after the 2019 rate cutting cycle. And one of the things that really short circuited that whole concept was the lockdowns, COVID and everything, because going into that whole mess, it's better to be the reserve currency. And also, the US did a lot more fiscal, and so it kind of came out hotter compared to places like China. They were more focused on, you know, kind of right sizing some of their like housing market balance sheet stuff and things like that, as well as Europe.

And so, this is like the first window, so there's certainly curve balls that could prevent that rotation. But I am taking a rotation concept pretty meaningfully, especially given some of the prior points that, if around the margins, if the US does kind of consolidate on the fiscal at least a little bit, while at the same time, you have Europe opening up fiscally, not necessarily for good reasons, but still opening up fiscally. And then you have China, where, since last year, I've been kind of pointing out that while I don't expect any sort of hyper stimulus from them, their policy maker, risk-reward assessment has certainly shifted. Last year, there was, there is noise on social media about like in China, about it being garbage time. So, in sports, if one side wins, is like winning so thoroughly, both sides will generally take out their best players to avoid injury, because if you're winning so bad, you don't care about winning more, and if you're losing so bad, you know you're not going to win. And so, your main thing is just, okay, we don't want our key players to risk getting injured in a meaningless game. So, they take out their best players, and then it's a garbage game now. And so, there was Chinese social media chatter calling the economy Garbage Time. And that reached a little bit of a fervor, and we started to see a policy shift, basically, when Chinese equities were considered so uninvestable, you know, the Chinese policymakers started to say, well, we actually want these stocks to go up again. Maybe want to stop going after them and start stimulating them a little bit. Same thing with households. China got really imbalanced toward the export and industrial side, really weak on the consumption side and around the margins, they keep providing a little bit of stimulus here and there, which, again, it's nothing really to write home about. But when you see things change on the margin, at such cheap levels, my view has been that that China has some legs to it. Obviously, it's run a little bit, but I do think that there are pockets of international investment out there, and I do think that this flywheel could change. And I say that kind of fully knowing that this has been somewhat of a widow maker for like, 10 years, so it's something I'm watching pretty humbly.

Erik: Let's go a little deeper on that subject. I certainly understand and appreciate your arguments for why an international rotation. The problem I'm having is that my concept of international markets is changing day by day, because, well, you've got the countries that are well developed nations that the United States has a very strong geopolitical alliance with, such as Western Europe. Oh, wait a minute, no, I just read the headline. We're in a big spat with Western Europe. Maybe we don't want to be friends again. How do I analyze Western Europe? Well, they don't really have a defense industry, because they don't need one. Oh, wait a minute, maybe they do need one because the US might not be supporting them. Except maybe that's a bluff, and maybe it's all about to change. How do I think about that? And when you say International, do you mean things like European markets? Or do you mean emerging markets, places like Vietnam and Malaysia and so forth? As I think about the world landscape, it's all changing so quickly. Alliances between nations are changing so quickly. Which international markets do I want to invest in?

Lyn: Yeah, it's a good question. I mean, so back in 2020, I started writing more about that. I think the world is moving in a multi-polar direction, and that's only been accelerated by Russia's invasion of Ukraine and then the current administration's approach, even with its own allies. And so, I think that, basically, there's a handful of big blocks in the world that the world's kind of gradually separating into, and they can be kind of analyzed on their own merits. Before recently, I kind of was broadly internationally bullish, but less so on Europe, because I think they have more structural issues. So, I was increasingly optimistic on China, at their kind of uninvestible low points. I do like certain other emerging markets, Brazil is always tough, but I've been less bearish on Brazil than probably the average consensus is. There are certain parts of the market that I don't mind playing in, despite numerous risks there you mentioned Malaysian and

Vietnam, I do like Southeast Asia in general. So those are some of the markets that I've tended to like. I've also been somewhat of a bull on Japan for years now, that's been doing okay, and so pretty broad swaths of the market. Europe, I was more reticent on for quite a while. The recent defense shift could address that, could change that, but it's still not a part of the market that super excites me, although I do have exposure, so I would like to see it turn less into an anchor and more of a booster. But I would say that broad international interests me, but with certain areas that maybe more so than others.

Erik: Let's talk a little bit more about Bitcoin and its role in the global monetary system. You know, my argument always used to be, look, there's just no way that major existing governments are going to cede their stranglehold or their monopoly over control of the world's money systems. They get a lot of power from being in charge of money. They're never going to give it up. Well, I definitely did not foresee this populist movement starting with the Trump administration, but I don't think it stops there. I think the UK Reform Party is now in the lead in the UK. Meloni's party in Italy, it seems like there's a big populist movement to where more and more governments might actually support the way the Trump administration is supporting this idea of making Bitcoins the favored central bank reserve asset at some point. Is that where you see this headed? Is that a reason for a new wave of optimism around Bitcoin? What do you think?

Lyn: I suddenly think that contributed to the recent rally where it jumped from the ~70,000 to briefly over 100k and now it's corrected. So, I think that that has been relevant. One of my theses for a while is, that the network effects here are relevant, because the government is not a monolith government, as you point out. I mean, there are judges contesting the existing administration. Government has multiple parts, multiple different perspectives in Congress, multiple different perspectives in any given part of the government. And so, I've been of the view that, while government is probably not going to roll over and to say, yeah, we're going to make it legal tender and everything’s Kumbaya, that there are political realities when you reach a certain scale. And certainly, I think we've seen in this election cycle, there's almost nothing to be gained for an elected official at being anti-Bitcoin or anti-crypto, or whatever. There are very few votes that they were not going to get, that they're going to get because they took that position, whereas there are plenty of people that are either single issue voters or they were on the fence that when someone comes out and is in favor of the space, they will go out of the way to vote for them. Or, give them a lot of capital, lobby with them for almost just saying, we don't even want anything from you. Just leave us alone. And also, if you want to do a couple of nice things, that'd be good too. And so, it is a pretty big political force, both in the US and globally, when we're talking about a $1.5 to $2 trillion Bitcoin network, and then stablecoins and everything else as well. And so, I think that's been relevant. I think it shows some of the game theory here, and I think that it is probably healthy that it corrected off some of the euphoria that we were seeing a few months ago.

But I'm still structurally Boltzmann in space. When we look globally, it's interesting, because, for a long time, you've been hearing about all the BRICS nations want, like non-dollar payment systems. Then they quibble about how they're going to build it, you know, they're trying to build this closed thing. There are all sorts of imbalances. So, for example, if India buys arms from Russia in rupees, then what happens is, Russia ends up with more rupees than they know what to do with, and they don't necessarily want to invest that all back into India, doesn't really have the depth of capital markets that, say, the dollar has. And so, there's this kind of piecemeal solution out there. And what's interesting is that, all along, there's this open source settlement network that's out there, there have been kind of these entities debating, well, we want to do this, but I don't know if we should have Russia in it, because the sanctions and is there way to exclude them? And then, does that defeat the purpose of the whole project to begin with? Meanwhile, Bitcoin is open-source network that's pretty large in the 16 years of functionality, and it didn't really, it couldn't really be on the radar until it went to like a trillion dollar market cap, more or less. Or you can measure it other ways, like daily liquidity and things like that. But now, it's at the scale that it's at least at the margins relevant. There was a recent Reuters headline that sources say that Russia is using some of these things for like oil settlements with China and elsewhere. Who knows how true that is? We have a lot of occasional reports like that. But basically, given the slow movement of other alternatives, and given the existing existence of an open-source one, not just as an investment asset, but as an actual payment network for like, large international payments, it's not irrelevant. And then, especially if it continues to solidify and kind of get a little bit bigger from here and a little bit more liquid from here, it is a non-trivial thing for global trade or global settlement, especially for countries that are on the wrong side of dollar hegemony. So, combination of bilateral trade agreements and then the existence of these things is pretty relevant.

Erik: Lyn, let's talk about gold, which you mentioned earlier, that you've advocated for some time that people have some gold in their portfolio. I couldn't agree more, but boy, nothing ever goes in a straight line in markets, and gold has been going in a straight line up for quite a while now, I'm starting to get a little bit worried about it. It’s feeling kind of top heavy. What do you think?

Lyn: I agree with you. You know, I've been a five-year structural bond bear, and at certain levels, I just can't help be less bearish than I was before. So, I'm less bearish on bonds at 4%, 4.5%, or 5%, than I would be, you know, back when they were gilding almost nothing, after such a terrible period of underperformance on them. And at the same time, as bullish as I am on gold, I'm less bullish to some extent on 3000 than I was at 1500. And so, I'm still structurally bullish on gold. I'm kind of mindful of the fact that, for example, during the 2010s tech run, even when, back before they called it the Mag 7, the popular name back then was the FAANG stocks. And the FAANG stocks kept running longer and higher than any of the most people thought, including myself for a while. So, I try not to cut myself short by saying, okay, I'm structurally bullish on something, but I'm going to be jittery too often, I tend to let things run. But for me, it's more about setting expectations that, when someone comes to me and says, should I buy gold? I say, well, I mean, it's up 40% year over year, so I would only buy it if I'm willing to accept that it could go nowhere for two years. It could have a 20% correction, it could give up half of its recent run. And so, I'm less bullish on it than I was when it was less overbought. But I'm not, as a slice of my portfolio. I don't really lose sleep over still holding gold.

Erik: Lyn, I've been saving energy because I know that's one of your most passionate subjects, kind of interesting market here. We've got crude oil structurally selling off. It's unclear, it seems like it maybe hit at least a 52-week bottom. I don't know if that's going to be the bottom, but the question there is, can it go lower? Meanwhile, natural gas seems to be in the opposite direction, surprising everybody with its upside strength. What's going on with energy?

Lyn: A lot of the price action makes sense, even though it can be somewhat disappointing, especially for oil bulls. This is a reason I prefer to play my long-term energy bullishness with the producers and the pipelines, because, even in a range bound market, many of them have good balance sheets, are profitable, are spitting off cash flows. And I kind of view them as positive carry options on eventual energy breakout, whereas I've generally not preferred to hold the underlying oil. There's obviously a geopolitical component. There's a slowing economy component. And so, as there's maybe less risk of military escalation, it takes some of the oil premium off. In addition, supply is not super tight at the moment. Natural gas, there was a period of time, and it's still the case where you can get more joules of energy for the same for like, less price of natural gas than you could with oil. And so, there's arbitrage opportunities there, and that's obviously different. Depending on where you are in the world, oil is more fungible on average, so transportation costs are less of an issue for it compared to natural gas that generally either needs pipelines or LNG. There's been a case where North American natural gas has kind of been artificially cheap for a long time because we haven't always had enough export capacity and things like that to close the arbitrage gaps. And over time, in a very long time, that should even out. In general, I think that there's kind of rational moderation there, where oil kind of chills out for a little while, and natural gas gets a little bit of a bid. There are also all sorts of tactical things, weather things that I don't really closely follow, as not an energy trader, per se. And you know, it's interesting, when you look at some of the pipeline stocks, like Enterprise Products Partners, was stuck under $30 for a while. That was like, it's a resistance level, and it finally broke out of that, while going on to continue paying very high distributions. So, I think there are still ways to play the energy market, and I think the overall energy markets in a pretty healthy space, and it's certainly still an aspect that I like having in my portfolio.

Erik: Lyn, while we're on energy, let's talk a little bit about energy secretary Chris Wright taking office. Wow. Talk about a difference between Jennifer Granholm, Grandma Granholm, and Chris Wright. One of the first things that he did was take a tour of the national laboratories that do the most important research on nuclear energy, using that as an opportunity to get on the public stage, grandstand a little bit and just say, okay, folks, United States of America is about to mount a nuclear renaissance like nobody's ever seen before. I happen to be a huge fan of that. I couldn't be more excited that we have Chris Wright in charge of energy. What's your take on this? Is this real? Is it really happening, and what is its consequence and meaning longer term?

Lyn: I do think it's real. I think, basically, it's a number of reasons. So, there's political shifts, there was European energy crises, and then the kind of the observation that AI is going to be more energy intensive than, say, that the social media tech wave of the prior decade. And so all of those, kind of increases the odds that this is real, I think that the CapEx is speaking for itself as well as the narratives. And so, I'm long term bullish on the proliferation of SMRs, long term bullish on uranium. And I think it's a key energy source that really matters. One of the examples I like to use is, in Egypt, where I spend part of each year, they're bringing online very large nuclear facility. And one of my only criticisms of it is, I wish that they started it earlier, because it's something that they sorely need. So, when you look at something like Egypt's energy situation, they kind of shifted from structural natural gas exporter to importer. They have a big seasonality component. So, for example, in the summer, everybody's got their air condition cranked up, and they have these kind of deficits. They have rolling brown outs, and which, of course, makes it very hard to do business, to keep yourself cool, all sorts of issues, and there's only so many things that they can really pull the lever on. I mean, trying to build LNG infrastructure would be expensive, and they already have structural trade deficits, and so that'd be expensive solar panels and wind. I mean, when I drive down the Red Sea coast from, say, Cairo down to the various resorts there, I do pass certain wind facilities and solar facilities, and you know, that's nice around the margins, but that's not base load power. And so, nuclear is one of the low hanging fruits that they can turn to solve their kind of recurring energy brown out situation. That's one example, but there's a lot of countries in a similar boat where they only have so many levers they can pull on trying to get more energy, trying to increase their per capita energy consumption, to increase quality of life, to make it a desirable place to live and do business. And I think that, as there are increasing frictions around how much more hydrocarbons can we get out of the ground per year, and how much other kind of issues or frictions you run into. I mean, you're just in a region where you don't have a lot of coal or natural gas, oil, and nuclear is something where you can stockpile that for decades. And the nuclear fuel itself is such a small percentage of the overall expense, the biggest expense is kind of the overall CapEx of building these, what has historically been very complex structures and components. And as you've pointed out, I mean, by modularizing the process, by standardizing it, instead of having every nuclear site being its own special snowflake that needs all of its on-site nuances, by being able to standardize and modularize as much as possible, it can, in theory, bring down the cost pretty significantly, which, combined with reasonable fuel cost, is one of the few lifelines that a lot of these countries really need. So, I'm a long-term bull on nuclear, both hopefully with an American Renaissance in nuclear, but then also globally, it's already kind of slowly trending in that direction, and I think it's going to continue.

Erik: Lyn, you make an excellent point that as much as nuclear energy is a fantastic source of clean, responsible, long term solution energy, let's face it, it costs too much and it takes too long to build it. Which one of those do you think is more important? In other words, if you could solve only one of those problems, either get the cost of it down to the point where it's competitive with coal and gas, but it still takes 10 years to build one of these plants. Or, if you could keep it more expensive, but find a way technologically to build a new nuclear plant, a gigawatt size nuclear power plant, in two or three years, instead of seven to ten years. Which do you think is more important in terms of adoption and actually solving the economic problem?

Lyn: It might be a cop out to avoid the question, because I think that the fact that it takes so long contributes to why it's so expensive, there's regulation delays, and then there's like the actual, just engineering complexity of doing it. And I don't think that that's highly correlated.

Now, speed matters more for developing countries than developed ones. For example, if you're running a fairly mature country where you already have a lot of per capita energy expenditure around the margins, you want more and you also want to replace aging infrastructure, then you have more liberty to say we can spend five or ten years on a big project, as long as the overall economics end up being cheap and clean, then that's pretty fine for those countries. If you're a country like India, where you're trying to bring on basically energy as fast as possible from a very low base, speed matters a lot more, and so different variables were mattered for different types of markets. But I think those two problems are highly correlated. In Egypt's case, it's partially the fact that it takes so long, but it's also just because when their government has different kind of things that they could spend on, one of the big things that's been controversial is, they're building a new capital, and that's a very expensive thing, and it's not really having rapid economic impacts. And they started that before they started nuclear. In a perfect world, you would have done it in reverse, where you start nuclear earlier. So, some of it is just policy decisions, but that's on a country by country basis, and I think that those two problems are just highly correlated. If you can make it quicker, you also, in most cases, make it cheaper.

Erik: I couldn't agree more. And something I find fascinating, I wonder if you have any comments on, is a new business model that a few companies are looking at. I guess Oklo has probably been in the lead on it to say, look, here's the strategy, we've got to accept that nuclear is the right long-term solution. We've also got to accept that it just takes too long. So, let's have a new business model where what we do is we build gas fired power plants that are purpose-built and designed for drop-in replacement of the gas fired part with a nuclear stuff once the nuclear technology is ready and can be deployed quickly. But we're going to start with gas and transition it to nuclear. What do you think of that business model? It seems to me like that's the way to solve this problem.

Lyn: I think it's clever because it jumps on two trends. One is that natural gas is still a long-term trend. It's still one of the less expensive, abundant, quick and fairly clean ways to produce energy. And then a nuclear renaissance is another trend, and the SMR breakthroughs and kind of focus there. So, I think combining those two trends together is powerful. And then mainly just from an engineering standpoint, anytime you can modularize something, anytime you can standardize something, that can make huge gains, because a lot of the critics of nuclear will point to these big cost overruns and things like that. Sometimes that's self-imposed. So sometimes the government itself is getting in the way. And it’s kind of, you get in the way, you make it overrun and get super expensive, then you say it doesn't work and that's why we got in the way. Whereas even without a government being an issue, like in Egypt’s case, where they're fully endorsing and kind of strategically involved in the production of nuclear, it still just is a very hard engineering problem to solve. And then there's, of course, safety concerns. And one of the challenges, of course, is you need cooling. So, I see a lot of people say, well, why did Japan build their nuclear facilities on the coast when they know they get tsunamis, without realizing that nuclear facilities need a lot of cooling, and there's only so many ways to do that. And so, there are all these various constraints. And so, any engineering projects that can turn weaknesses into strengths, or they can modularize things, or they can combine two trends together, I'm bullish on. So, I'm bullish on natural gas long term, and I'm bullish on uranium, and I'm bullish on kind of the long term energy mix that involves nuclear.

Erik: Now, as you said a few minutes ago, artificial intelligence is one of the reasons that we need more energy in the first place. Let's talk about the AI trend. I don't know if you use AI yourself day to day. I used to look at it as, okay, well, it's great that my friend Matt Berry is staying on top of this. It's a novelty in my mind, someday it'll get to the point where it's useful enough that I'm going to use it myself. But, you know, it's when we had ChatGPT 3, I got it for a month. I toyed with it. I said, yeah, this thing's not ready yet. I'm not going to spend my time on this. Lyn, I've gotten to the point where I literally cannot get through a day without using GPT 4.5, I can't imagine what life was like just a month ago before it was released, and I had to go back and forth between the 4.0 model and the 01-pro model. All of a sudden, people like myself, who were maybe a little bit slow adopters, have crossed the chasm, we're on top of this, I think it's really going to take off. I'm curious, do you use AI yourself in your day-to-day research work? What is your take on how quickly the adoption of AI is going to increase? And as it does, what's it going to do, not just for energy markets, but for markets generally?

Lyn: I do use it regularly. The early use case was basically certain types of search results that AI can just kind of answer questions I have, better than Google can in many cases, or Google uses it and integrates it, and so at the top of the search result is AI. There's also content generation. I was an early user of AI art generation, and I still use that for a variety of kind of hobby projects, and then some of my colleagues at Ego Death Capital, so that's the Bitcoin venture fund that I'm a general partner at, some of them use AI more extensively than I do, like having multiple AI assistants running. A big topic our focus is on is how to make AI more private, because obviously they're big data risks with some of these companies, or questions around who controls the algorithm. I've looked into, say, AI startups that try to ensure that AI is private, or that ensure that AI is, you can kind of have input on the algorithms that you use. And so, some of that open-source stuff, while not as cutting edge as some of the proprietary stuff, it's generally not that far behind. It actually is pretty promising that a lot of the stuff that comes out with these spearhead, big capital companies, tends to find itself in quality improvements in the open-source space as well. So, I think that that trend has long legs to it. I think the comparison size to consider for this industry is that much like how automation has been very impactful for blue collar work by automating a lot of the processes, and just changing the nature of work in that space and adding a lot of disinflationary aspects to manufacturing, I think that this can have a similar impact for white collar work. So, a lot of tedious labor, a lot of things can be simplified, so that every white collar professional, in addition to somewhat changing the nature of the work they do, they can get a lot more done because they have energy and computation which extends their ability and extend the scale that they can do things with.

Erik: Let's talk about investing around AI. I find this very frustrating for the same reasons I'm frustrated with nuclear energy investing, which is, you end up having to invest in uranium, the fuel, because the most exciting companies are not public yet, and there really isn't so much of an investment market for advanced nuclear technology. Seems like the same thing is true in AI, although some of these companies are publicly traded. For the most part, it's Nvidia, which really just makes the hardware. They're not innovating anything around AI. They're just innovating the chips that AI runs on. Is that where the investment market is going to be for AI for the foreseeable future? Or are we going to have a transition at some point where everybody, similar to what happened in the internet hardware space, you know, at the beginning, it was Cisco, it was the routers, it was the physical plumbing of the internet. And then we got more into, okay, it's the Facebook and later Meta and the other tech companies that were developing the software systems. Are we going to have a transition at some point where it's not just about Nvidia and chips, and it starts to be about the companies that are innovating the best AI models?

Lyn: I think that there will be somewhat of a transition, but I expect it to be more muted than the example you gave. And I could be wrong on that, but that's kind of my initial read on it, because the rise of the really big internet company we saw throughout the 2010s, they strongly benefit from network effects, and their operations are pretty high margin. Social media, in particular, is really benefiting from network effects. So, Google, like Alphabet owning YouTube, Facebook, Meta and the Instagram and kind of the rise of these network effects are really powerful. And so they tend to be the winner-take-most market and that's how you reach kind of multi trillion dollar sustainable market caps with high profitability. I think that AI is going to have a tougher time with sort of durable network effects. And in addition, it's more hardware intensive which affects the margins. I think it's certainly not really a healthy space where, like Nvidia, is printing money hand over fist and all their customers are losing money. That's generally not a long-term place you want to be in. So, I think that there will be somewhat of a shift there. But if I were to estimate, at least from the information I have available to me, I do think that this could be a tech trend that is just more beneficial to consumers than investors, which is to say that it can make a lot of things way more economical without necessarily making as many trillion dollar companies as the prior kind of social media trend did. Maybe there are facts on the ground that end up changing my perception of that. So, while I do think that there will be somewhat of a shift, I would not necessarily take the template of the, say, the build out of the internet, so hardware and then software. I wouldn't necessarily take that apples to apples in AI.

Erik: Lyn, I can't thank you enough for another terrific interview. But before I let you go, tell our listeners a little bit more about what you do at Lyn Alden Investment Strategy, what services are on offer and what they can expect to find at lynalden.com.

Lyn: Thank you for having me. At lynalden.com, I provide public research, so a free newsletter as well as public articles, and I have a low cost research service that is read by both sophisticated retail investors as well as institutional investors. People can also check out ***Broken Money***, my book on the monetary system as well as I'm a general partner at Ego Death Capital. So, any one of those things people could check out.

Erik: Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.