Rodrigo:	**00:01:48**	All right, all right, all right.
Adam:	**00:01:50**	Holy shit, is that ever timely.
Mike:	**00:01:53**	Yes, it is.
Adam:	**00:01:54**	It was seriously timely.
Rodrigo:	**00:01:55**	No, you just get on screen right now.
Adam:	**00:01:58**	No, I mean…
Rodrigo:	**00:01:59**	Oh, you mean timely the message. The message is timely.
Adam:	**00:02:02**	Yeah, yeah the messaging was timely. Yeah.
Rodrigo:	**00:02:04**	100%.
Adam:	**00:02:05**	We've been running that same ad for like a year and, you know, what if inflation takes hold, or what if you know, US markets start to underperform and…
Jeff:	**00:02:15**	How about the dollar collapse part?
Rodrigo:	**00:02:17**	All part and parcel, man. All part and parcel. What's everybody drinking today?
Jeff:	**00:02:24**	I heard dollar collapse and I started thinking to myself, okay, I gotta start prepping and see what curveballs these guys are going to throw me. We'll see. Go on, guys.
Adam:	**00:02:33**	That's right.
Rodrigo:	**00:02:34**	First of all, happy new year. This is our first podcast in the year. We've been slacking, gents. Too many quarantines. Adam, you have to tell us your story. But I'm doing a little kombucha in the new year trying to cleanse my system. A little local raised kombucha.
Mike:	**00:02:51**	Nice.
Rodrigo:	**00:02:52**	A little shout out to Saucha Conscious Living of Cayman.
Mike:	**00:02:58**	All right. You're so nice, in balance.
Rodrigo:	**00:03:03**	I know. I know. I'm going to crush it today.

Mike:	**00:03:06**	Yeah. And just before we start, remember that none of this is financial advice as we welcome Jeff Weniger to the stage of the Resolve Riffs --
Adam:	**00:03:15**	Oh. Hi, Jeff. I thought it was Steve Jobs.
Mike:	**00:03:21**	Oh my God. No, with the black turtleneck, think Saturday Night Live …
Jeff:	**00:03:26**	You know what, you guys, it's all so silly. You know, I'm operating out of the house. I'm usually putting on a blazer as if I'm making like I'm out in society. So, you get a turtleneck today. That's what you get.
Adam:	**00:03:41**	I like it. I like it. I can't wait to see the boxers that are underneath.
Jeff:	**00:03:45**	Yes. Isn't that the truth.
Adam:	**00:03:47**	That's the post show. You guys don't get to see that.
Mike:	**00:03:51**	That's the Green Room cut.
Rodrigo:	**00:03:54**	So, Adam, your family finally out of quarantine today? Is that the plan?
Adam:	**00:03:59**	Yeah, we spent almost a month trying to see family in Florida, traveling from Cayman to Florida trying to see them, having various family members either testing positive in Canada and being unable to travel. Or testing positive in Florida and then not being able to get together with family because of that. And then spending two weeks isolating in various Airbnb's in Florida waiting to get back to Cayman when all of us would be confidently negative for testing to get on the flight. So, yeah, a bit of a busted vacation. I'm sure there's lots of stories like that over the holiday season.
Rodrigo:	**00:04:41**	Not from your group. The rest of us made the right decision and not leave the island. I don't know what the hell you were thinking.
Adam:	**00:04:49**	That's true.
Rodrigo:	**00:04:50**	I was close to going out to Canada and being stuck there forever. Came out unscathed.
Mike:	**00:04:59**	Well, it's not like we have much to talk about too. Like markets are pretty much normal, everything's rolling along. I mean, it's a pretty typical year, several commodity indexes up 100%, 150%. The S&P still…
Rodrigo:	**00:05:16**	Did we miss…
Jeff:	**00:05:20**	I don't know, I think we might have just lost Mike. He's muted…

Rodrigo: **00:05:21**

I think we lost Mike. He's muted. But to continue on to Mike's… Yeah. So, what's happening in the markets this year, I think is, as you said, the commercial there was about, talking about inflation for that fund. Now, why is that? Why is it an important month? It's because we finally get to see a little bit of the value that people don't see in risk parity, or in CTAs, or global macro. It's moments like this where you're kind of reminded, huh, okay, there's a third leg to this portfolio construction that we may be missing, right. And so I think I'll put some shorts up right now, but I think while I do this, if anybody else has some thoughts on the current year.

Adam: **00:06:13**

Yeah. I just love that we've gone from… It's amazing how quickly this happens. We go from a FOMO market to a JOMO market, right? *Fear Of Missing Out* turns into the *Joy Of Missing Out* and for a few short weeks, at least, some of the responsible prudent investors who've prioritized diversification and appropriate risk calibration for strategic portfolios get to be rewarded, while the speculators are experiencing the risk side of the equation.

And it's at times like these where we get to highlight some of the maybe misunderstandings that often propagate during the FOMO periods, and then somehow get propagated on to these sell off periods. But they don't connect the dots between what they thought should happen to some of these diversified strategies versus how these strategies actually fare in these kinds of markets. Turns out they do exactly what you would expect diversification to do. And when they're properly calibrated.

Rodrigo: **00:07:30**

Yeah. Well, I think this is a nice defense of things like risk parity, right. In the last couple of weeks. I've heard, I've been involved in webinars and listened to videos just railing against this concept of risk parity and the periods where we're going to see equities and bonds correlate and people forget about the 70's when bonds and equities lost the same amount at the same time. And therefore, conclusion, things like risk parity, levered risk parity are going to suffer. I think the first misconception as a lot of our audience members will know is the fact that for some reason, and I'm still yet to understand why, but for some reason, risk parity has been co-opted by managers that are levering up bonds and stocks exclusively.

I have heard a few people and portfolio managers just lever up bonds and equities. And those portfolios are going to struggle. What I'm showing -- can you guys see the screen? Yeah, so what I'm showing here is year-to-date, right? This is exactly what everybody's been clamoring about would happen, correlation between bonds and equities. Bonds are down 5.9%. This is a long term 20-30 year treasury ticker TLT. And then the SPY is down 4.2 as of yesterday.

Adam: **00:08:52** Flip it but yes, the yellow is SPY, you're right.

Rodrigo: **00:08:55** The yellow is SPY, you're right, and then treasuries. So, it happened, it finally happened right? Even in this microcosm of those two things falling at the same time. And yet risk parity mandates depending on which one you're sourcing, I just grabbed the S&P Risk Parity Index here is flat, it's down 80 basis points. Why? Because risk parity also includes that third leg of the stool. That inflation protection through a wide variety of commodity complexes and year to date, not surprisingly, commodities are up 5.8% according to the Deutsche Bank Commodity Index, right. So, it is that third leg that creates that balance that will give this view that risk parity is an all-weather, right. The Ray Dalio approach to this, the reason he calls it all-weather is it can weather storms fairly well. So, I thought that was interesting. The other side of this… Do you want to add to that, Adam?

Adam: **00:09:51** Yeah, I think it's worth sort of pausing here for a second because I took a few minutes to look at some of the more popular risk parity funds and ETFs out there and see how they have been performing. And I think there is some dispersion. And the dispersion comes from a few pieces. One is that most of the risk parity funds over the last decade have migrated from equal risk in equities rates and inflation assets to about 80% of the risk allocated between stocks and bonds and only 20% allocated to inflation assets. So, there's been a lot more sort of equity rate risk just embedded in these strategies over time, probably due to investor demand. The other component is that there is an ETF that, I think is, they do attempt to have 1/3 of the risk in each of the different legs of the stool, but they get their inflation leg through exposure to commodity equities. And …

Rodrigo: **00:11:05** Right. Because that's a structure restriction. That's because of regulatory requirement, yeah.

Adam: **00:11:11** If you wanted an ETF and these are the compromises that you need to make, right? And oftentimes that's okay, the commodity equities will generally track commodities. But when the commodity equities are a combination of commodity exposure and equity exposure, and at times like these, sometimes the equity exposure swamps the commodity exposure, and you don't get that inflation component exposure that you want, right?

Rodrigo: **00:11:39** Yeah. When you think about the shocks that are involved in the concept of risk parity, we've talked about positive growth shocks, negative growth shocks, positive inflation shocks, negative inflation shocks. And the problem with commodity sensitive stocks is that it's 50/50. Or it's a bit of both, right? So, you get both the, in this case, the negative growth shock, and the positive inflation shock, which sometimes doesn't work out. Whereas if you're doing pure commodities, you're getting that positive inflation shock. And then the full blast of it, right. So, yeah, that's the risk parity side. Love to talk about the long-short side too. Mike, you're still muted. We lost him.

Adam: **00:12:20** Mike, we can't hear you, man. You're not muted but we can't hear you.

Rodrigo: **00:12:24** I'll continue sharing the screen here.

Jeff: **00:12:29** Maybe muting Mike is for everybody's best interests.

Rodrigo: **00:12:35** Sorry, Jeff. We're going to get through this and then we'll get to the chat, but pipe in if you have any thoughts on this. So, what we talked about is a passive risk parity index, right. And so it's kind of flat line. But what about those alternative strategies that promised to do a better job during inflation. This happens to be the CTA space, the global macro space, being able to take directional positions and commodities both long and short. Well, year-to-date, because of the ability to go long commodities and short other things, short bonds and equities and the like; those strategies we're highlighting here the multi-alternative risk premia. So, this is like global macro multi-factor, as well in purple here is just straight up trend, right.

So, both of them doing a great job of offsetting, doing their job in an inflationary regime. My personal view is that if you're going to be -- if you need to protect against inflation, and you have the choice between TIPS or just TIPS or just gold or just a commodity passive commodity index, passive commodity index; you're still better off with an active manager that can go long and short because this inflationary regime it's going to be hectic, it's going to be inflationary, deflationary, inflationary, deflationary.

Adam: **00:13:53** To your point, right, it's about inflation volatility. Like a lot of advisors and investors, I think, feel like they need to build a portfolio or be able to tactically shift using some sort of macro discretionary framework between, should I emphasize inflationary assets or should I emphasize growth assets, etc. And so there's inflation scare, they feel like they've got to go get long commodities. And in reality, maybe just strategic long commodities is not the optimal way to manage this risk, because we don't have 100% confidence in an inflationary regime.

What we have a lot more confidence in is that we're going to see much higher inflation volatility going forward. And so you want a strategy that has a demonstrable capacity to do well as inflation expectations shift between positive inflation shocks and negative inflation shocks, which I think as you're going to show we've observed in other inflationary periods. They work just like a decade long positive inflation shock. You get these positive and negative surprises along the way.

Rodrigo: **00:15:08** Yeah, this is …

Mike: **00:15:09** You guys can hear me?

Rodrigo: **00:15:10** I can hear you now, Mike. I think this is a perfect chart. This is the 70's. You just talked about inflation volatility. Just to make it clear here, what we have in yellow are passive commodities from global financial markets, I think is the database. But what you see is a period from point to point where commodities returned around 650%. The problem is between '74 and '77, there was a three-year just drag and 37% drawdown there. In contrast, when you look at AQR's Diverse Trend Index, it's nice and smooth, doesn't suffer that drawdown in the middle of the decade. And risk parity similarly, just kind of nice optionality there for -- something to offset inflation, right? And the last slide that I want to show before we get into the topics at hand is…

Jeff: **00:16:05** Maybe stick with this slide for a second here, because if you think about the concept is we had an oil crisis there in '73. And if you think about, okay, so what was going to be my risk to capital markets in 2012 or 2013? It was going to be that Greece was going to step out of the Eurozone, right? What was my risk to capital markets that Italy goes under and it pulls B of A with it, right, as opposed to just kind of everybody gets the bailout, AIG inclusive, right? What's my risk to capital markets in 2000? It's that my Cisco and my Oracle is going to come tumbling down.

But what's my risk to capital markets in 2022 or 2023? The risk is 1973-74 perhaps, or at least that would be seemingly where the market's mind is right now, right? In that, okay, we've got a seven handle on US CPI. We had 48 hours ago German PPI. You know, you're talking the world's third largest exporter on that, German PPI broke to all time levels above the 1951 peak on month over months in Germany. You know, you talk about inflation volatility, Adam. There you go, right?

Adam: **00:17:21** Oh, yeah, I hadn't seen that.

Jeff: **00:17:23** Right. And so even if you retrace the US CPI from seven to four, that's a notable inflation fall. And where are we in terms of a steady state for our central bankers, right? So, the base case on 2022 is that Jay Powell will gives us three to four hikes. But how much variability do we have on that? So, to the extent that Butler's talking about inflation vol, it filters into everything else in society. It filters into equity vol and as you can see here from this chart, not to belabor the point it is that yellow line spiking there in the early 70s that causes that dark blue line to go tumbling down, and maybe that's why you are diversified. I mean, it's -- we look at the micro term here the last two or three weeks at WisdomTree, it's our commodity fund is the only thing that's really behaving. The value stuff is doing okay, much better than anything NASDAQ field. But yeah, you got volatility all over the place, Adam. I mean, just look at lumber. Lumber is ripping back right now.

Adam: **00:18:30** Oh, and talk about volatility, you get this sort of 400% rise, you get an 80% retracement and then you get another retracement back near the highs in lumber, right? This kind of volatility, imagine being a builder and needing to navigate this kind of volatility in the prices of the inputs to the products that you're building, and this is happening all over. I just spoke to a good friend of mine who is in electrical distributing. He said he had a fully 1/3 of his gross margin last year came just from a rise in the inventory cost of copper wiring.

Jeff: **00:19:11** Yeah. We haven't gotten to the point now where the thieves are stealing the copper like they did in the commodity boom a few years ago. But I'll tell you, one of the risks is I mean, if you think about okay, everybody's money good on their credit card right now in the US. So, we only have 1.5% credit card delinquencies. And you think about when Greenspan started hiking, we had 4% delinquent. So, everybody took the $1,400 and they're cashed up. But now that the long end has sold off, the conforming mortgage in the United States is now north of 3.5. It was three in what, 90 days ago, it was three. And now what happens when that builder needs to go get their hands on some lumber? So, there is a lot of this in the background. Was the inflation in 2021 a nuisance? Is it in 2022 a headache? You know, and that presupposes it was only a nuisance last year. And I beg to differ.

Adam: **00:20:05** Yeah. No …

Mike: **00:20:07** I think one of the key points from the risk parity perspective, and also constructing a thoughtful exposure to inflation type assets, is the idea of preparation versus prediction. If we go back a year, and think about how many people were ready, or anticipating the type of increase that we've had in both the rate of inflation across the board plus the volatility around that, it's not very many. And it's likely that that's a persistent type of situation. So, if you are not exposed from the perspective of preparation, rather than trying to, oh, I'll be there when I need to be there, well, you're seeing what that's like 10 days in the NASDAQ. And I'm still there, but I haven't diversified in any other things that are moving in sort of a different step to slightly different music.

You're going to feel that volatility echo right through your account statement. And that then, of course, leads to poor behavior. So, it's certainly not too late to really think about the concept of getting other asset classes that behave more in that frequency with the inflation assets, and then thinking about how you're going to manage risk around that too, because we've got this massive volatility. So, it's not just having exposures. It's thinking about how you're going to add to and attenuate them around the edges. Not, I have it, I don't have it tomorrow, and then I have it again today. That's going to be really challenging.

Gold and Crypto in 2022

Rodrigo: **00:21:44** Jeff, you guys are running that commodity ETF, you have a wide variety of commodities. What's interesting to see is many advisors and investors out there being really baffled by how their gold position didn't protect them last year, right. I actually don't know what gold is doing here today. But it just speaks to, it does speak to what is inflation, right? And what tools do you actually need to combat a decade's worth of inflation volatility? And what, when and how, it's just such a wide landscape of probabilities and …

Adam: **00:22:22** Yeah, how can inflation arise and how it arises, then determines what type of instruments you need in the portfolio, you need in order to manage that risk.

Jeff: **00:22:33** Right. Well, look, the thing that's been puzzling for people is that gold didn't react and gold was a punk asset class as inflation was percolating, much to the chagrin of the precious metals bulls. And a lot of it was because I think you had this concept of at the margin. At the margin, I anticipate inflation. I don't like what the Fed is doing. I'm going to grab Bitcoin, Ethereum, something like that. And so the dollar moved, the marginal dollar moved into this asset class that hadn't existed when, if I saw inflation in 1970 or '75, I had two to choose from, basically, gold and silver. And in this case, there was more to choose from, so you didn't have that bid in the marketplace for the precious metals.

Now, what's interesting on this question of crypto versus the metals is you had a total lack of correlation. And then it seemed in the second half, last year, there seemed to be clicking, but now you got this rollover here and so-called risk assets, dating back to maybe it dated November 8th when the NASDAQ kind of peaked. Maybe it dated to December 3rd when rates bottomed. But gold's been sneakily creeping a little bit. It's like 1780. Now it's maybe 1830-1840, something like that. It's behind the scenes.

And a couple sessions ago, I don't know what we're talking about micro term, but you know, Vaneck with their gold miners, that thing popped 7% in a punk session. It was one of those sessions where Tesla was being taken out, you know, everybody's talking about the bicycle… Mike, if you see what they're saying about that, it's iPad taped to a bicycle. They're brutal on social media. You know, the gold miners started percolating recently and you start to wonder whether or not that's got a new bid in it. It had been -- the asset class had been really in the basement for some time.

Rodrigo: **00:24:32** Well, let me share my screen on that point.

Adam: **00:24:35** Yeah, let's see it.

Rodrigo: **00:24:39** This is a chart I recently found which is basically mapping gold price with real rates, right? So, note here in August of 2020 that seems to have been the bottom of the rates, of negative rates. So, we hit real rates down to negative 1.15 according to this chart. …this is the peak of gold. Right? That's when gold kind of peaked. And that was August 2020. From there, rates actually improved, real rates actually improved and gold got crushed in 2021. And then kind of had gone sideways, both the real rate and gold at the same time. So, they're negatively correlated, right?

So, this idea of… also a lot of people talk about Bitcoin taking over gold. I'm like, no, it's a different type of inflation. It's a monetary inflation that led to negative rates that led to gold doing really, really well in 2020 up until that point. So, I think, again, this is a different inflation issue, right. This is a different type of inflation that was led specifically by the Fed bringing rates down to negative territory, real rates down negative territory. And 2021 was a supply chain issue that bled out into commodities.

Adam: **00:25:55** Well, yeah. You've got gold sort of as a hedge against, well, a few things, first of all, like a lack of confidence in currencies. But also gold tends to thrive during financial repression. So, if you see a spike in inflation, but the Fed is holding rates lower artificially in order to provide room for fiscal expansion, that's where you typically see gold begin to move. And I think what we're seeing right now is the market coming to grips with the fact that the Fed may not be as repressive as everybody expected them to be, that they may actually respond by becoming more hawkish in the face of this more persistent inflation.

I mean, Powell has for the last two or three meetings, admitted that this inflation impulse has been more sustainable than they had expected, right? They were talking about transitory, they've removed that transitory language. And now they're talking about persistent inflation and rising expectations. We're not yet seeing that in some of the inflation, price data, like the break-evens. And the five year forward rates have sort of equilibrated a little bit here. But I think some of that is just the market saying the Fed may not allow inflation to get out of hand to the degree that they thought the Fed might let it get out of hand even sort of three to six months ago. And so you know, gold is not seeing an expectation of sustained negative rates.

And the chart you just showed, showed a major reversion of real rates back above into positive territory where they were in material negative territory for a while, right. So, all of these dynamics kind of play into gold. And again, speaks to the idea that trying to manage your gold position or manage your inflation hedges from a discretionary standpoint by trying to navigate the central bank supply chain commodity constrained multi-dimensional puzzle is probably a mug's game, and you want to have some systematic methods that are proven, with their ability to be responsive, not every time, but over time in these types of environments.

Jeff: **00:28:22** Let me ask you guys this. You know, we only really have inflationary environments from, in the case of many of our careers just the… in fact, all four of us, only the commodity super cycle that was gold 15 years ago. Before that, we're just going based on what we've read for the 1970s. And when Greenspan took Fed Funds down to one, that was wild that was really wild. He was trying to, hopefully, let the NASDAQ players off the hook, but the NASDAQ ultimately fell 77% from '00 to '02. And he went down to one and it was, I can't believe this guy. What is he even thinking, this is the nuttiest public policy I've ever seen, said everybody. And now here we are, we're at zero, right, zero to 0.25, right? And then street consensus is we're going to get to 75 or 100 basis points by the end of this year. And then forget the balance sheet, which by the way, tapering down the speed with which you were still expanding your balance sheet.

Adam: **00:29:35** Yeah, it's only a first derivative, right? Yeah.

Rodrigo: **00:29:39** Wait, is that the language, they're tapering down this …

Adam: **00:29:44** They're going to allow it to rot off because the maturity of the balance sheet actually has really shrunk so they, just by not buying, the bonds will mature and so the size of the balance sheet will shrink over time without them having to sell any into the market.

Jeff: **00:29:57** Right, from extraordinary to still extraordinary. And it's one of these things where they're so far behind the curve. And you know, Adam, you mentioned the supply chain and none of the four of us have the answer. We can only… it's conjecture. But the supply chain still has serious issues, and the central bank, of course, can't quell that. But you know the Canadian trucker strike, I don't know if that's still persisting, but Americans just don't get it. You know, I'm the token American on the call here. Americans just do not get how much we trade with Canada. They don't. They think it's all China. They don't realize. Maybe they'll realize in a week or two, if the store shelves start to empty and…

Adam: **00:30:41** Well, they're going to have an abundance of strawberries and blueberries, I think and, in North Dakota from all the deliveries that can't go across the border.

The Lagged Effect of the Shelter Component

Jeff:	**00:30:50**	And the other thing is psychologically, it's just ink on paper, but the psychology of those CPI numbers in the United States have an effect. When people who are not in financial services are talking about the CPI number, you've got a problem. And what we very clearly have coming in the next 3, 6, 9 CPI reports in the United States, your guess is as good as mine, is the housing inflation that we had in '21, which did not show up in the shelter components of our CPI calculation, CPI is 33, 32% of US CPI. The Bureau of Labor Statistics , they have shelter up for calendar '21 in the United States at 3.84…
Adam:	**00:31:38**	Yeah. So, unpack that for me, Jeff, because I've been railing on this point. What's going on here?
Jeff:	**00:31:46**	Here's the deal. When I was back in, well, we got Canadians here, back in university, here we call it back in college. Okay. I earned $7 an hour, I'm going to make you a two minutes story. This story needs to happen here.
Adam:	**00:32:04**	Take some time.
Jeff:	**00:32:05**	$7 US per hour, and I was calling on the State of Florida conducting this type of research. Hi, Adam. Yes, I'm conducting research on behalf of the State of Florida. What's your annual income? What's your race? How long have you been in your house? Oh, are you renting? What's your rent? Blah, blah, blah. 30 or 60 minutes to collect this data, for example, Medicaid? Right. The university system collects the data, like University of Michigan, consumer confidence. And what happens is, all right, Jessica, and I bought this house years ago. The Bureau of Labor Statistics would come to me now and say, Jeff, what would your home rent for right now? I don't have the foggiest. All day long I'm doing ETFs and I'm doing value versus growth. And I'm doing… tell people about Greenspan from 25 years ago. I have no idea what this place would rent for. And what happens is, and people need to understand this, what happens is, is you answer and say, I don't know, I've got this apartment and it will rent for 500 bucks or 1,000 bucks because you own it. And then what you realize because I think average apartment rents in the United States are like $800 or something. So, let's say it's an $800 apartment. I don't realize that in my neighborhood, rents are up 20% because I'm not a renter, I'm an owner. Until word gets around, somebody comes to my house for some drinks. And they say my landlord raised my rent by 20%. Well, I just told the Bureau of Labor Statistics that rent was up 5% because I didn't realize that it was that hot. Then, six months later, the surveys come, the Bureau of Labor Statistics calls me back or I guess it's on the internet now and they say, Hey, Jeff. What's the

rent? Is it $800 now? No, it's 900-1000 or 1,100 or you know, whatever the number may be. And that is essentially what ends up happening is you have this lagged effect on the shelter components on owners' equivalent rent, which is the way they end up calculating it. So, owners' equivalent rent by the Bureau of Labor Statistics was up something like three or four in 2021. Which would come to…

Adam: **00:34:14** What was the median house price up?

Jeff: **00:34:16** Eighteen. Case-Shiller was up 18. And then if you go to Reddit, or not Reddit … say Reddit because of Gamestop and all this, not Reddit, Redfin, you go to Redfin, or you go to Zillow, and they have big data and they say rents were up 11 or 12, but rent's showing up as three or four. So, you're going to get a February and March and April CPI number out of the United States, it's still telling you stuff that happened three or four quarters before, but it's going to be sticky, 5, 6, 7. And I'm not so sure that the market appreciates it. And to not belabor the point, we've got two CPI numbers coming in before the March Fed meeting, February 10th and March 10th. So, people need to be aware of that.

Adam: **00:35:03** Wow. So what was the nature of the shelter component is owners' equivalent, is it about a half? Is it a third?

Jeff: **00:35:10** Ah, I know that the two combined are like 32. I think owners' equivalent rent is probably the higher component because I think something like two thirds of Americans are homeowners. So, maybe you call it 20% is owners' equivalent rent and 10 or 12 might be rent.

Adam: **00:35:28** Honestly, I put my tin hat on for the first time in five or six years on this owners' equivalent rent component of the CPI. Because I just can't imagine that these statisticians at the Bureau of Labor Statistics believe that Ma and Pa Kettle is sitting in their home they've lived in for 40 years, who socialized with only other people of their age group that also have owned their homes for 30-40 years, have any idea what their home would rent for. It's absurd.

Rodrigo: **00:35:55** And also if you go to Germany, where the vast majority of people rent their homes, that's one thing that you get a big sample size there. The reality is that because of the push to own a home in both the US and Canada, the vast majority of people that you're going to source are going to own a home with zero money down. Right? And they won't know the rent, you won't get as large enough a sample size, and you will be ignorant to what you would rent your house for. Right. So, it's a problem in the US.

Jeff: **00:36:26** And it's even more so Rodrigo. Because you think about me and Jessica, right, 25 years old newlywed in Chicago, we didn't know a single homeowner. All of our friends were 25 years old. So, not only did we know our rent, we knew all of our friends' rent. Right? Now I'm 40. Right? And it's the opposite. We don't really know any renters. So, it's doubly. Not only do you not know your own rent, but you don't even have a comp. But I know what the price of all these houses are. Think about it from that perspective.

Rodrigo: **00:36:58** Okay, so we have rising inflation, we're seeing at least contemporaneously, whether it's going to be here to stay or not, I don't know. How does the next year play out for different types of sectors? Like value, let's talk about value versus growth and the tech stocks and who's going to get crushed. What are you seeing if we see a rising rate environment for the future?

Adam: **00:37:23** … to unleash on this theme here. Go ahead.

Value Versus Growth

Jeff: **00:37:28** I don't have any strong opinions on value versus growth. Yeah, it's… Okay, let's take that COVID crash from February 19th to March 23 of '20, right. And let's think about the components or the cause of that crash. Because right now, I mean, Rodrigo, am I being fair in saying that this is a stealth crash inside the NASDAQ? The S&P is holding fine. The S&P is at 44, right. Peak was what, 48 on that? We got stuff with black ink, so long as it's in value.

But I mean, if you're in anything, that's, you know, the big wrap is anything unprofitable right now. It is a stealth crash. And so if you think about the COVID crash, and you think about the only other crashes in our careers, or in our memory, right, you have the Lehman crash, and you have the dot-com crash, which the interesting thing about the dot-com crash, as I was pointing out in some of the literature, cheap plug, you can find my stuff on WisdomTree.com, right.

So, if you think about the 1990s bubble, as I was writing at length, anybody will listen is we called the TMT bubble, tech, media and telecom. But I was just racking my brain remembering what was going up a lot in the 90s, and what stocks do I remember going up a lot. Everyone I typed in was a five bagger from 1995 to 2000. I'll give you some examples. I'm not even going to say …

Adam: **00:38:57** Hold on, while you're giving examples, you were such a tease yesterday, you threw out that chart, you made everybody guess, and then you didn't even tell us what the answer was.

Jeff: **00:39:07** I did. It was the Gap, Gap Kids where you go get clothing.

Adam: **00:39:15** Wow. Okay.

Rodrigo: **00:39:16** Wait, what was the question?

Jeff:	**00:39:18**	The question was, here's a mystery chart, what chart is this? And of course, this thing is going just from \$5 to \$50, or something from 1995 to 2000. And of course I tricked Mr. Butler over here because everybody's going to say Qualcomm or Cisco or anything, right?
Mike:	**00:39:40**	My guess was eBay.
Jeff:	**00:39:42**	Yeah. Oh, man. I remember that one. Yahoo, right, this laundry list and it was the Gap. And the reason was because I remember and this is some stuff I'm writing about is you've got some companies out here in this market that are not really tech, are they tech? I don't really know what they are.
Adam:	**00:40:03**	It's a good question. What's Apple?
Jeff:	**00:40:04**	But they're cool. The thing …
Adam:	**00:40:05**	Is Amazon tech?
Jeff:	**00:40:07**	Amazon's considered consumer discretionary. But there's these companies out there, there's a lot of them that are cool. And the appeal is they're sexy stocks, right. There's an appeal to it. And the thing was, it's hard to remember guys, but when I was a kid, and we used to go to the mall, and hang out on a Saturday and the Gap was cool. And the Gap was a 10 bagger in the 1990s. And so you don't really remember it now because the brand I think is kind of fallen by the wayside. I don't know the name
Rodrigo:	**00:40:41**	I was a Gap employee in the late 90s. I was a fantastic greeter.
Adam:	**00:40:47**	Also, Jeff, I think your turtleneck looks great buddy. Don't…
Jeff:	**00:40:51**	I got it at the Gap.
Rodrigo:	**00:40:53**	I probably sold it to you.
Jeff:	**00:40:55**	Well, now here's the thing, when you go back into the 1990s, to the so-called TMT bubble, and I'm coming around about way to talk COVID here, the deflationary crisis of COVID and the inflationary crisis here in 2022. You know, you had big runs, pull up the charts, back in the 90s; Pfizer, Coca Cola, I have been pulling all of them; ExxonMobil. You guys, come on, Brent Crude and West Texas Intermediate were in a bear market throughout the 1990s.
Adam:	**00:41:23**	13 bucks.
Jeff:	**00:41:24**	Yeah, yep. ExxonMobil was in a bull market. Everybody was in a bull trend. P&G was up several fold, cigarettes were doing well, consumer staples, you just didn't think of that. There was a lot of stuff racing higher. And we might

not have been racing quite like Intel and Amazon. But it was an all equity, broad bull market. But when you write a book in 2000-2003, a post mortem, you write about the really most egregious stuff because you're trying to get people to buy your book. And the most egregious stuff was over in tech and dot-com.

And I say that because right now, we have this broad participation. Even value is in a bull market. It's just underperforming, but even value has done very, very well. We're at the point where on our mandates where we get something at 12 -- we have a basket at 12 or 13 times forward earnings. And it's appealing because Fed's down zero and because you get 21 times forward earnings on the broad market. And if you think …

Adam: **00:42:34** There's a time when 12 times forward earnings would have been unthinkable, like that would have been a growth stock.

Jeff: **00:42:41** Well, when we bottomed the stock market in 82, it was a matter of routine to find the blue chips at 6, 7, 8 times earnings, posting big dividend yields. Of course you had Paul Volcker was up in the stratosphere on Fed funds. But what I'm getting at is okay, so what was the winning strategy there in the first quarter of '20 when COVID is striking. And it's essentially disinflationary growth, crisis, stay at home, cyclical rebound, that's not even what we're thinking. We're going to have everybody lose their job here. And so you go piling into whatever it might be at least on a relative basis, FANGs, Russell 2000 Growth, Zoom, the laptop taped to the bicycle, that type of thing.

Now it seems that if, and I say if guys, because how many times have we all been wrong on markets? If this is something like a stealth bear inside the NASDAQ, inside the Russell 3000, certainly inside the Russell 2000. And maybe it's a stealth bear that starts grabbing the market's generals. I mean, some of these generals have been punk of late. Amazon's been dead money for a year, Tesla's off two or 300 points here from the peak was 12 or 1300 on that name. What is not going to work, it would seemingly be everything that worked during the COVID crash and immediately thereafter.

And also critically and I'll stop here, everything that was really game on from March '09 until we started hitting the skids here in about the third quarter of last year as a dozen years. If you get it 10 or 12 on the other side, 10 or 12 years, whatever it may be. It's got to be the opposite side of the trade. And I don't know that there's enough people in our industry that are prepared for a multi-year bout of doing the opposite of everything that they've done their entire career.

Rodrigo: **00:44:36** Well look, it's a good old fashioned diverse bear market, right? Like when was the last time that happened? '08 was a credit crisis. It was an everything down, you know, nothing saved. You're out for the count. COVID was kind of similar, right? It was a liquidity event, it was a disinflationary negative growth shock. When you look at the 2000s, you actually saw value. And the late 90s underperformed drastically to the point where Cliff Asness was about to call it quits. GMO was being fired. Right? And Druckenmiller, I think, was also involved in this terrible late transition. And in 2000s …

And so what happened in the 2000s was in the big leaders, the big index leaders, the large indices, they were down drastically 40-45, 50%. The NASDAQ was down 75%. But value managers cruised through. Right? I remember the best performing mutual fund in Canada was the Sprott Equity Fund. What did Sprott invest in? Commodities. Like it was crushing it, it had no bear market. And of course, it was then bought as a bear market protection protocol. Bad idea, for '08.

Cap Weighted Investors

Adam: <u>**00:45:57**</u>

I think what you're highlighting there is something that we've touched on before, but right now is a really good time to review it. Because the market dynamic we have right now for most investors, who let's face it, are cap-weighted investors, and that has increasingly become, you know, that trend has accelerated over the last decade. The cap-weighted index is more dominated by big tech than it has been since the 2000 peak.

Meanwhile, the sectors that do well during inflationary periods or during periods where rates are rising, and therefore, high duration equities get treated more like bonds and end up selling off is those sectors, like energy and materials, which to Jeff's point, have been the laggards, not just for the last three years or five years, but ever since the 2009 peak, or 2009 bottom, right. They represent a vanishingly small proportion of the cap weighted index. Big cap tech represents, what is it, Jeff, you'll tell me, I'm going to say 28%, or something of the cap weighted index, but something obscene, right.

And so even if energy and material sectors rise by 50%, 100%, 200%, over the next three years, if big tech drops by 10, 20, 30%, the index is going to go down, because the weighting of those energy, materials and inflation-oriented sectors is just too small to overcome the drag from big tech. And so you could have a market situation where the cap-weighted index goes through a 2, 3, 4 year decline or kind of grind lower, while two or three or four sub sectors just have massive profits. But the cap-weighted investor doesn't participate, and instead, it ends up being a loss. Obviously, from 2000 to 2011, was a lost 11-12 years for cap-weighted investors, right?

For equal weighted S&P investors, they peaked in 1998. And by 2008, they were 40-50%, above the 2000 peak, or the 1998 peak for the equal weighted, right. So, it's the cap-weighted investors, which to grant them their due, have had the best run in the history of cap-weighted investing over the last 10 years. Okay. So, we're sounding smart now for like three weeks, right. The cap-weighted guys have absolutely crushed it, at least the US cap-weighted guys have absolutely crushed it for the last 10 years. And all of us smart guys look like dumb asses. But these are the investors now that are most vulnerable.

Rodrigo: **00:49:07** But look, this is active management. I mean, CalPERS is going to turn around five years from now and start buying active managers again, to help them transition through this type of bear market. Right? So, I think we've been saying this for 10 years, by the way, Adam, I agree. But I think at some point we're going to get to a traditional bear market, where you're going to need to -- where you can pick and choose where you want to participate at the level of AUM for your portfolio that will get you through it. And active managers, whether it's asset allocation or sector selection or stock pickers might be back. In the last 10 years, there hasn't been much of a choice.

FANGs. I mean, growth was only coming from them. In this type of market with higher yields and more global investing, US dollar going down, global markets and opportunities arise, where all of a sudden money has to be spread about by many, many companies that have growth opportunities that didn't exist 10 years ago, over the last 10 years. So, while I do still think that Apple does cool things, and it's not just a tech company, and what is Google and all these things, I think they'll continue to grow. They'll have to share the love in a way they haven't needed to in the last 10 years.

Anti-trust Legislation

Adam: **00:50:26** Jeff, actually, to Rodrigo's point about Google and Apple, do you have any thoughts or comments on the recent Senate committee announcement on the anti-trust? They passed the anti-trust rules against big tech?

Jeff: **00:50:44** Not really, not really. The thing that I've been bopping around in my mind that I've been perplexed by for so long is I can't believe the public hasn't come after these social media companies with pitchforks yet.

Adam: **00:51:01** Preach, preach. Totally agree.

Jeff: **00:51:06** And here's the other risk that I just, I don't know, maybe it's the hubris of a bull market. And you know what, maybe it's like, Gap. At some point, maybe the kids just think that what you're selling is boring. And we've seen that with the actual platform of Facebook, right? It's older people like us are on Facebook. The kids moved to Instagram, which is owned by Facebook. And what happens if Instagram just flat out becomes not cool anymore? It's really very simple on that matter.

Now, with respect to Twitter that's a mid cap, and I don't cover the name, right? You know, I don't do individual stocks, guys, I'm at Wisdom Tree. Which we're doing screens for dividends and such. But when you think about Twitter, it's like, every time something comes into my feed, so and so got kicked off of Twitter, it was somebody I was following. So, I'm clearly following the right people. Right, the people that are… and they tried to kick off the hyperinflation guy a week ago, when he got reinstated. It's like, come on, we need these people.

Adam: **00:52:14** Rudy Havenstein.

Jeff: **00:52:15** Yeah, and it's like…

Rodrigo: **00:52:17** Why did he get kicked?

Jeff: **00:52:19** I don't know. And we need to have free discourse, and we need to allow people to -- let me decide what's true, and what's false, based on who I've chosen to follow. I don't need the state to be deciding what is true or false for me. So, that's …

Adam: **00:52:39** You and I need to have an offline discussion on this topic, dude.

Jeff: **00:52:42** So, that's one of the risks of these platforms is that ultimately, either the kids get bored with it, or somebody else comes along with another platform, if they'll be allowed to do it, and we say, all right we'll all do a wholesale shift away from this stuff. So, I think that's one of them. Now, in terms of some of the antitrust issues, the one that's in the background is Amazon, with Margrethe Vestager over in Europe, they were very, very disappointed with the way Amazon was charging the individual vendors in continental Europe. And then also remember Amazon, three-four months ago, they just resolved it. But Amazon was duking it out with Visa, because of the fees levied by the card companies on Amazon.

So, you have this company that's so powerful, that it can boss around Visa, and in turn MasterCard, which are the primary payments programs. I mean, because I don't think a firm is going to make a dent in these guys; just how powerful are these corporations. And then the other thing is, is even if you don't go by classic antitrust grounds, in discussing these things, all that matters is September or October rolls around, and you're looking to get a senator or congressional seat on either party's ticket in the United States, by the way, either party. Say some things about Google or Amazon on the stump, and I think you might just win your office.

Adam: **00:54:09** Well, this is what was so remarkable about this new legislation that they passed. It was a bipartisan bill, it passed as a bipartisan legislation in the

Senate. So, you've got both sides of the aisle, cracking down on big tech and obviously, they're perceiving this as a, you know, both parties are perceiving this as a way to continue to gain support from their base, right?

Jeff: **00:54:37** Yeah. Well, and you know, the other thing …

Rodrigo: **00:54:39** Which is crazy because it'll make it more expensive for them as their Amazon deliveries go up.

Adam: **00:54:45** Amazon is not squarely in the target here.

Rodrigo: **00:54:47** No, no. This one's Facebook.

Adam: **00:54:49** And Apple and about their app stores. Amazon was sort of in the target, but mostly they can't place their, any Amazon branded or any Amazon affiliated products ahead of other vendor products in their search algo, which does have an impact on their bottom line, but it's a slightly different dynamic than what's going on with Google and Apple. Anyways, I just thought it was interesting, because I noticed yesterday the legislation was passed, and it was passed unexpectedly at around 10:00 or 11:00 AM. And I was watching big tech, and it wasn't much of a reaction immediately.

And then two hours later, there was this massive trending collapse into the close. And I don't know, cause-effect is pretty tricky. And obviously, we're seeing follow through again today, and who knows what's going on. But I can't help but think this has the potential to materially dent bottom lines over the intermediate term for some of these big firms.

Environmental, Social and Governance

Jeff: **00:55:51** Let me ask you guys this question. You know, ESG, right, environmental, social and governance. Second letter there is social. These companies are called social media. You know, I talked with the gang over there at WisdomTree, hey, maybe we should take some of these ESG funds we have and let's talk about - these companies are anti-social. What is their social part of ESG if it's not making sure that our society isn't on tender hooks, we aren't at each other's throats. Is the put option on social media that the ESG crowd gets, either,they decide it themselves, or they get the push?

Adam: **00:56:40** I love this theme. I had not thought of this, but I think it's magnificent. And I mean, it really is the exact same theme as the lobby against Philip Morris. Right? You have an extraordinarily destructive, addictive tech, a product, let's just say product, right, that is fundamentally harming society. They're externalizing a massive amount of societal cost. And those externalities are being borne by society while they're profiting from their bottom line, right. So, it wouldn't take much, especially with this bipartisan support that we're seeing for these big antitrust tech bills for this to be re-characterized as a social harm.

Rodrigo: **00:57:32** Also, I mean, ESG is the only topic that keeps on beating inflation, depending on the poll that you're seeing, right? The power of ESG against whatever it believes as a conglomerate is bad for society, has gotten hurt. If you look at the amount of investing in oil and gas, because it is believed that that is bad E, right. That has affected these companies, their ability to invest in future projects. So, you're going to -- if they catch on to this, which I think is brilliant, it is definitely a detractor in society. When you talk about conversations about your children, my kids are seven and 10. My wife is freaking out because they don't have any devices yet. And I'm saying to her, you know what, society is going to find a way to… by the time it's our problem, it's likely a lot of it's going to be solved. And it might just be with the ESG crowd. I like that concept a lot. And I think they have power to do that in short order.

Jeff: **00:58:36** Well, if they choose, and one of the interesting things about ESG is it can be a proxy for growth and value, right? So, you notice I was quoting this the other day, don't quote me on it, but I think like on an MSCI US ESG, relative regular old MSCI US, there had been 100 bips worth of underperformance in the ESG mandate since November something, right. So, in the last two or three months. And the reason is because you're underweight all the stuff that's at least held up a little bit better, and you overweight the tech sector, and we're overweight communication services and these types of concepts that have been populating these growth indexes. So, the viewer knows no matter where they may fall on ESG, there is that pair trade…

Adam: **00:59:23** You know what's funny too, Jeff, like this is all just narrative anyway, right? Like you can just imagine a CalPERS or a HOOPP or a CPP, deciding that they want to get long more value names or want to get long more commodity names and they want to get off their tech holdings. But they've got this cap weighting constraint, but they also have this ESG mandate, and they're like triangulating the fact that, okay, if I just shift my definition of ESG to include the externalities of these social harms that big tech is inflicting, now they're on the same basis as the ExxonMobil's of the world. And that gives me the ability to express this sort of view while maintaining that ESG scenario.

Jeff: **01:00:11** Does CalPERS have to push Sustainalytics in that circumstance, or are the other consultants directionally? Because don't you basically have to abide by whoever your ESG consultant is telling you; Texas Teachers, CalPERS, something like that?

Adam: **01:00:26** Okay. Does Texas Teachers tell MSCI how they want to gather ESG compliance, or does MSCI tell CalPERS?

Mike: **01:00:36** Haven't they sort of moved the goalposts a little bit on ESG too from the standpoint of it's becoming the process of declaration and improvement from your current level, in order that you can continue to include assets that may be, you know…

Adam: **01:00:54** Well, it's a good polite disclosure is enough, like you can, if you're ExxonMobil, if you're like the Koch brothers, but you've got a massive ESG disclosure statement, your MSCI says you are, you know, how you rank highly on ESG, because you've told us about all of the environmental waste you're pumping into the rivers **…**

Mike: **01:01:13** And you've looked at ways to improve it, and you have a plan to bring that down and all these …

Adam: **01:01:19** I don't think that's necessary. I think it's literally if you just disclose it, then you get 80% …

Rodrigo: **01:01:24** So, from what I understand, I think this is a messy, messy area. And there is a big growth and consultants that will ask you what your E, your S and G is, and create portfolios based on that, right. So, a lot of it, especially in the large institutions, are driven by the constituents, by the board, by their values. And then they get a consultant to say these are our values, go source us the product and create an SMA for us. Right? So, there's still a lot of that as well. And yeah, I'm sure… I like that. How do you lobby the ESG world to include a high pollutant into your index? Well, you're telling me you're going to do better?

Jeff: **01:02:03** Is that a question that was …

Mike: **01:02:06** To be frank, though, that's where the biggest impact would come. So, to be fair, just filling your portfolio with a Tesla or whatever, and that has a whole bunch of hair on it too. So, not saying that. But getting those who are the worst offenders or offenders to some form of accountability is where a lot of the potential improvement in the environmental, social and governance areas. Like once you, it's hard to do, but I mean, you can't just overlook that part of it. Right? You do have to sort of say, here's the global available companies that we can invest in. And where would we get the biggest juice for the squeeze? Well, improving the largest offenders probably gives you the largest impact.

Adam: **01:02:55** No, that's a very fair point. Absolutely, yes.

Mike: **01:02:58** So, it's hard. It's hard not to do that, to take that approach. And so I do think that is a viable -- you have to have that. You have to allow for that.

Adam: **01:03:10** I agree. I guess my only point was that the way I understood it, because we've been doing a lot of work on ESG recently, because we've had a new division kind of focuses on that in Canada. But it does, I am scratching my head a little bit, because it does seem like disclosure alone gets you a very long way towards being awarded high ESG rankings, right? But I also agree that disclosure is sort of the first step to -- yeah. So, that's fair.

Mike: **01:03:44** First we have to get you on the hook admitting and then we're going to get you on the hook to improve.

Jeff: **01:03:48** How much of this ends up sticking if copper goes to $6 a pound and Brent Crude goes to one and a quarter? Yeah …

Mike: **01:03:58** You have this under investment in all of this area at the moment, the capital investment. Well, look at the flows, right, the flows, we're talking about market cap weighted indices, the fact that the US markets are 61% of global market cap, and I don't know, 30% of global GDP. So, you have the biggest flows of capital, I think are probably in the US. And those flows are largely going to predetermined market cap weighted S&P type allocations, which then continues to leave a lot of the resource space underfunded from the standpoint of getting access to capital. And so yeah, it sets up a very interesting set of circumstances where you could see substantially higher commodity prices. So, we've been talking about the -- What about the deflationary side? Do you guys want to delve into that a little bit like talk about the …

Rodrigo: **01:04:55** No, that's not what this podcast is about.

Deflation and the Birth Rate

Adam: **01:04:59** No, no. Let's flesh it out. So, walk us through one or two different ways that that might play out over the next little while.

Mike: **01:05:07** Yeah, actually I think Jeff's the one to help us through that.

Jeff: **01:05:11** It's easier for me to tell you guys this than my wife. She sits there at like eight o'clock with a glass of wine and is like please, please with the inflation, all right. So, for one, you know, I don't know that we need to get too into the birth rates as the primary catalyst for a deflationary situation. But you know, one of the things that was notable is that with COVID, we found that it was the opposite of what you might have expected. They had data that were showing that when a hurricane is coming to South Florida that 40 weeks later, wouldn't you know it, we have a little bit more babies in the hospital down in Miami because people were home for three or four days for the hurricane.

Adam: **01:05:59** With the power off.

Jeff: **01:06:00** Yeah, with the power off. And there was that theory going around that that was going to happen with COVID. Right? I mean, it makes total sense. Except it didn't.

Rodrigo: **01:06:10** Because we got the divorce rate went through the roof.

Jeff: **01:06:13** The divorce rate, but also a critical mass of people were just, I guess, very, very afraid to bring a child into the world, right? Because with COVID, there's a broad spectrum of opinions, and it just didn't happen. And it kind of rolled over. And there might have also been, there's an argument, and it's a roundabout way of doing deflation here. But look, all right, honey, we're going to get married on such and such a date. And we're going to start trying for a baby the night of our wedding, right? We waited for this date. Oh, the wedding is canceled because of COVID. We'll have the wedding next summer. Okay. Well, I'm young, I got time. I'll wait till next summer, we'll get married and then we'll have the baby. And so there was this delay on procreation. And we saw this in many, many countries during COVID.

So, there is an argument that maybe the deflation or the deflationists are exaggerating, because we may get some respite on births in '22, or '23. As people finally, they got hitched, and now they're going to do it, or they're seeing some light at the end of the tunnel, they're not so freaked anymore. They're ready to bring some children into the world. So, it goes. But the problem is, is you take something like Spain or Greece, you're at 1.2 or 1.3 babies per woman, and you need 2.06 to keep your population stable in the absence of immigration and that marginal 0.7 or 0.8 children is a big move. This is why China finds itself totally boxed in, has to make the populace believe it has a grip on their livelihoods by saying oh one child policy is now two policy, is now three child policy. But if nobody you know ever had more than zero or one kid, you're not really going to, you know.

Adam: **01:08:05** No, it takes multiple generations to adjust your expectations there. Yep.

Jeff: **01:08:09** Right. So, I mean, it's like Jesse and I had, we have a number of kids, but we don't know anybody with any large quantity of kids. And so there's that… And we came from small families so we're kind of oddballs, right. And if you don't know any neighbors that are having a bunch of kids, well then why -- it's not normal to you. And so I think that's one of the grips that confronts multiple cultures. This is happening across Latin America, North America, Asian countries like Korea, Eastern Europe, Western Europe, it's happening everywhere. So, that is a deflationary story. Right?

Other deflationary stories is look, maybe the cure for high commodity prices is high commodity prices. Earlier we were talking about lumber. If lumber breaks the back of housing, let's just say, and now you have punk housing prices, well, then you don't necessarily need to march into your boss and demand a raise because prices aren't running away from you. Remember, this was, going back to what Rodrigo said, which I think was an underrated comment earlier about what caused that financial crisis in 08. We had commodities broke the middle class. The gasoline price broke the middle class and it was that which led the bull market, led on the downside. It was all -- Back then …

Adam: **01:09:26** Hold on a second. I think that's a major causal leap there, dude. We also had Bernanke raising rates into a massive housing boom, right. So, everyone was massively over-levered on their mortgages and rates started going up.

Rodrigo: **01:09:42** We top tick oil though in July or August of 2008. Right? Like, that's a major event. And you're paying a zero money down mortgage.

Mike: **01:09:56** Well, guys, it's never one thing, come on. I mean, it's a culmination of these things. Just like of course –

Adam: **01:10:02** You can't get away with saying that oil broke the back of the middle class.

Jeff: **01:10:10** It absolutely did, it absolutely did. Let's not forget that we had rolling food crises in the global south in that era. You had people in the streets in Egypt, for example, because food prices were so runaway. We only really now have it at this juncture right now, food prices doing that. The risk is that we get some sort of social unrest in some of the impoverished countries or just regular old street protests from the wealthy countries. From that extent, that is the risk that inflation ends up being that which cracks you.

The important thing to note is that if you think that there's a change here from our disinflationary cycle into an inflationary period, then you just basically need to ask yourself, all right, what didn't work for the last 5-10 years? That's what I want to own. Right? I mean, at the turn of the century, you needed to get long EAFE, right, MSCI EAFE, you needed to get long emerging and get the heck out of the NASDAQ. And as we went into that crisis of '07, '08, '09, you needed to get out of the banks, need to get out of *Oilco* and onward and start rotating into the stuff that was kind of cold heading into it. And here, I think it's plain as day. We got something that's going on inside the market's internals. People are taking a bloodbath if they're in the wrong stuff. I mean, they've been right for years. I've been wrong.

Mike: **01:11:42** This is just classic market behavior too is, how are you going to turn away from what's treated you so well for so long? And it's buy the dip, and it has worked so well, and conditioned you so well. We're literally the turkey farmer all over again. The turkey trusts the farmers until turkey dinner. The farmers treated him well.

Jeff: **01:12:11** You know what I just thought of? All right, dig this Mike. All right, in the 1920s, and we probably need to sign off in a second. And I just start, when I get ideas I start talking, guys. Not remembering the 1920s, but it was a story stock era, right? You wanted to be an RCA, right. And these companies that were going to be the next big thing.

Mike: **01:12:36** There was a technological revolution, the car, the radio.

Jeff: **01:12:39** And then you have the 1930s, which we call the deflationary 30s. But Homestake Mining is that one that whenever somebody is talking about the 30s, especially gold bugs, I mean I go way back with the gold bugs, they love to tell you about how Homestake did well, and that was in a -- it was just a different market. Even though it's kind of de-- it was not kind of, it was a deflationary market, it was just new, a new market.

And are we in something different now where our cyclicals are holding up okay, but the unprofitable tech is just in the tank and the -- what did we say, the iPad taped to the bicycle to make that reference four times in one call. You just start to wonder, is this Fed tightening cycle and/or this onset of inflation which is creating, it's going to give us this new market in which the leaders of yesteryear become the laggards. And it's all that other stuff that you need to take a look at. Sign me up, that's my thesis.

Rodrigo: **01:13:36** Yeah, I mean, that would be a market that people can navigate, right, if you have some skills. The problem with '08 was that it was this exogenous credit event that affected everything. And we were at levels that we'd never seen before. You know, corporates, banks are not at that, near to that level, right? They're pretty well protected. We saw a lot of that during the COVID crisis. And the COVID was another external event that happened to us. So, barring something like that, and both of them were V recoveries, by the way. I mean, '08 was -- 2007, like May 2007 to August of '08 was a good old fashioned bear market. And then when Lehman broke, that was the V recovery. That was V all the way down to October-November and then recovery from I think it was in March 2009 and then B recovery, same thing here.

But this, barring an exogenous event, I mean, markets are markets. There's going to be preferences, there's going to be shifts, we're going to see this rotation and we're going to see the market cap weighted indices go back to the old fashioned bear market, which is two or three months of drawdown, a little bit of a recovery, then another leg down, a little bit of recovery, another leg down. I wonder how the world's going to react to that for the *buying the dip* people, right. We conditioned the whole generation on that.

Adam: **01:14:55** Will we transition to passive in retirement accounts and passive becoming the de facto saving vehicle for an entire generation of retirees.

Mike: **01:15:05**

That's the challenge in the 2000, 2001, 2000 to 2003; '01, '02, '03 down seven, down 11, down 12 and taking money out those three years, that's a tough thing for retirees to cope with. But I do want -- and then of course, there's the wealth effect on top of that, where the Americans generally are over invested in stocks, are more invested in stocks than they've ever been, and with the depreciation of that wealth, they're going to have some sort of direct impact on their spending. But I want to come back to the sort of deflation or disinflation side because I want to get back on that.

So, there's the birth rate, there's obviously a lot of debt. What else is there, Jeff that actually, hey, we're going to get back to work? Omicron is actually a gift. It spreads fast, it's less lethal. It spreads through, we're back in a normal market, in normal economy with people going out in March, supply chains fix themselves, I don't know. I'm making shit up here. What else have you got to give us this sort of attenuation of these prices and sort of that side of the equation?

The Productivity Boom Ahead

Jeff: **01:16:15**

Well, for one, you could have a productivity boom that a lot of people hypothesize would be coming. And if you don't, you can count on inflation persisting. So, that is one of the things, right, is that maybe this era will be a productivity boom, like the 1990s. But that might have just been the bull market talking. Right? And the other thing about deflation, is it because there's a crunch in liquidity, and you always do this post, after the fact that some of the things are so obvious after the pain hits. Just think about it this way. So, in February of '07 that little tiny thing nobody had heard -- I had never heard of it until it went under, that New Century Financial. Right? It was like a mortgage lender. And that's not good.

And then Bear Stearns hedge fund. Oh, Bear Stearns hedge fund, oh, this isn't good. And it's one thing after the other until whoa, now it's Bear Stearns, right? And then when you go back and you look at last year, on the speculative endeavors, guys helped me here, when did SPACs officially implode? That was a good eight months ago, or 10 months ago when those things peeked out. Right? You had …

Adam: **01:17:27**

Averaged down to 80-plus percent, yeah.

Jeff: **01:17:30**

Yeah. See, the SPACs totally imploding, that's not good. And then the guy Bill Wang, he blew up, and Greensill, right, over there in Britain. And …

Mike: **01:17:42**

…, I guess.

Jeff: **01:17:44**

Oh, and the Chinese property developers, okay. And?

Adam: **01:17:58** Chinese tech.

Jeff: **00:17:50** I was going to say the DD IPO. The DD IPO, which was one of those… Wait, we have a failed IPO on a huge corporation on the, was it the -- I assume it was the NYSC, not the NASDAQ. Yeah, they floated it at 11 or $12. Stock went up to 14. And now it's something like five. This is the Uber of China. SPACs blew up, property developers blew up, a couple frauds going on over there in Britain. And then the IPO pipeline in China and China itself, right? I mean, the PBOC had to ease policy, what three or four sessions ago, so Jay Powell's going to hike, the Bank of England, the Bank of Canada they're all going to tighten. But by the way, don't tell anybody. China's easing policy.

So, you start to wonder is that, Mike, is that something for, you know, I'm on an inflation thesis. But if you're thinking about what could catalyze this sucking sound on liquidity …

Adam: **01:18:49** Crypto, like Bitcoin closed below 37 today, below 37,000 right down nine and a half percent. So, that entire sector was like $3 trillion in wealth, right. And so speaking of wealth effect and margin calls and spillover effects into the broader economy.

Jeff: **01:19:13** And if you just think about I mean, I think that it's a totally piping hot labor market, which is why I think inflation is being underestimated, but you could have a situation where I'm wrong. And these 10.6 million jobs in the United States that are on offer right now is there an offer because everybody's minting profits and everybody's feeling good. Maybe it's 9.6 or 8.6 million jobs after the hiring manager takes a look at their 401K and says you know what, I was going to hire five people for this department I'm going to hire two or three now. Right? And that is on net deflationary as well, Mike. So, I think that with markets, it's always important to just think both sides of the equation to keep ourselves honest, you know.

Rodrigo: **01:19:59** But this is important because it circles back to the beginning.

Automation

Mike: **01:20:03** Hold on, Rod, because I want to -- You raise another point that as you get going through this great resignation too, there is a -- if we're going to have this lack of truckers, lack of labor, what happens when you automate? Once you automate, those jobs are gone forever? So, all of a sudden, you can -- now that, again, I think that's part of maybe the productivity boom that you're talking about. And that's not immediate. That will take some time to manifest. But if you can't find or hire people, that crisis will create the necessity to force you to change to say, well, I'm willing to accept some other automated approach to that thing.

Well look at us sitting and having Zoom calls, look at the face-to-face meetings that are now all Zoom meetings. That's not as good as a face-to-face meeting. But it is a crisis necessity change in behavior that now has some impact on increasing productivity to some degree and reducing travel time. And how else is that going to manifest through the chain as we go forward? And how might that attenuate the labor shortage? Anyway, it's a lot …

Rodrigo: **01:21:06**

Yeah, but no, this is it, isn't it? Like, it's the yes - and, it goes all the way back to the beginning of this conversation, which is an inflationary decade is not commodities up every single year, for 10 years. An inflationary decade is big booms and big busts when the fix to a commodity or high prices is high prices. And then we go down and the Fed breaks the back of inflation. And we have this deflationary period and all these things that we've been discussing, both on the inflation and deflationary side, are always bumping up against each other. But it is going to be more volatile. I mean, especially short term, you got the short term things like supply chain issues and monetary policy. You get the longer term things like birth rates and efficiencies, right? So, this is, again, a more normal environment where things are moving around, and it's not just one theme all the time.

"Responsible" is a No Win

Adam: **01:22:03**

I have to say that the last decade has been one of the most difficult periods in history for people who want to take responsible portfolios. Because you really are making a bet on like five companies, right? Like, if these five companies or this sector doesn't perform well, then your entire portfolio suffers. And if you're not substantially overweight in those five companies, then you're going to massively underperform. And so it really is this weird no win situation for those people who are trying to be responsible and prudent.

So, I mean, whatever. Wishes are wishes. But that type of environment, where the vast majority of margin in the economy accrues to a narrower and narrower spectrum of institutions, is just an extremely difficult environment to navigate. It also results in lots of other socially maligned externalities like inequality, and all of the secondary effects that derive from that. But also just from an investment or a capital allocation standpoint, it's just a very difficult environment for prudent investors to navigate. So, I would certainly welcome some return to the decades of -- to other decades that we've experienced in the last century or so.

Jeff: **01:23:46**

Interesting.

Rodrigo: **01:23:47**

So, what you're saying is you want everybody who, 90% of investors out there, to fail. Take away their number one winner, it's that what you're saying?

Adam:	**01:23:57**	I want to see prudence rewarded again and incentivized for, at all levels of the economy.
Mike:	**0:24:05**	They'll be back into the BRICs. Don't worry.
Adam:	**01:24:07**	Well, speaking of that, it's interesting to see that emerging market equities are positive on the year.
Rodrigo:	**01:24:13**	Oh, because they haven't been doing so well, right. That's interesting.
Jeff:	**01:24:18**	China does appear to have reached a, well I don't know if it's permanent or you know, temporary but it does seem to have bottomed. So, right now recently, it's only China working, it's gold is working. Some of our EAFE stuff, the super value, like the deeper value stuff has been working in recent weeks. But you know, there's another issue inside the BRICs is that because this Ukrainian situation and we don't have time to get into it, I don't think. But Russian credit spreads are blowing out now, right, on account of you don't know if you're going to get some declaration that you need to maybe get these Russian bonds out of your portfolio now, you know, do it by Monday …
Adam:	**01:25:01**	Yeah. And Richard commented on that as maybe a driver of what we're seeing in the gold market too, because gold definitely tends to be a bit of a barometer of geopolitical risk. And this escalation on the Ukrainian/Russian border is certainly a hot spot and needs to be monitored pretty actively. But yeah, this massive spike in Russian five-year CDS is top of my macro radar screen at the moment.
Rodrigo:	**01:25:29**	Last time that happened was 1998, wasn't it, LTCM, caused a whole lot of trouble.
Adam:	**01:25:35**	Yeah, they decided they were just going to default on their USD bonds.
Mike:	**01:25:38**	That was that debt of 25% of GDP too, not the current set of debt circumstances we have now.
Rodrigo:	**01:25:46**	You know, the only thing I'll say closing off here is that I do think value is poised to do well here. And I got to say, my whole career, I've heard every investor possible say well, I'm a Warren Buffett style investor, I don't do anything else. He is a momentum manager. That always irked me. I've always kind of had disdain for value managers. And it's to their credit that at this point, I actually feel sorry for them. But I also don't look forward to their pompous remarks in the next…, the only thing I am really not looking forward to. So, I hope they … and they have humility going forward.
Jeff:	**01:26:29**	Value's been in the wilderness so long. Just let those of us who was, who are acolytes, just let us have a little bit of time, just to …

Adam:	**01:26:36**	Yeah. I can totally get behind the value guys here. I don't have that…
Jeff:	**01:26:46**	It's been too long.
Rodrigo:	**01:26:45**	I don't understand, like value was the growth of… like, value was the only thing. I only buy real companies that are undervalued, … and anything else is stupid.
Mike:	**01:26:59**	Apple's value.
Rodrigo:	**01:27:00**	Yeah, but that's not -- this is not the value guys that are… I'm just saying it's going to be a problem. I'm going to have a hard time. I'm happy for them. I just hope that they offer some humility in the coming decade. That's all.
Jeff:	**01:27:15**	In the coming decade. I thought it might be in the coming few months.
Rodrigo:	**01:27:19**	Oh, no, no, no, no. I go big, baby.
Adam:	**01:27:23**	A decade of value renaissance is what I heard.
Mike:	**01:27:26**	It happens for a decade at a time, does it not? I mean, that's basically, bottom in '09, tech stocks money …
Adam:	**01:27:33**	These three-year massive surges. And then you know, if you're not there for them. Anyways, this has been absolutely awesome. Was it that long?
Jeff:	**01:27:46**	2000 till '07. So, it's been 14-15 years now.
Adam:	**01:27:52**	I love it. Okay. Well, this has been a lot of fun, actually. So, Jeff, thanks so much for helping us to celebrate our first new Riffs back for 2022. And we look forward to having you on again. And, guys, if you haven't hit the Like or Subscribe button yet, please do so now so we can continue to entice magnificent celebrity guests like Jeff on the show again. And we've got a great lineup coming for you in the next few months.
Rodrigo:	**01:28:26**	All right, thanks all.
Jeff:	**01:28:27**	Thanks, guys.