Mike:	01:08	Well, welcome everybody. Another Friday afternoon is upon us. They seem to roll pretty quickly. I don't know about yourselves. But... so, before we start, I will warn everybody that this is for entertainment purposes only, and that you should be getting investment advice from qualified professionals, not the 4 scallywags on this particular afternoon on a Friday. And...
Adam:	01:33	Speak for yourself man.
Mike:	01:34	And... and I would also add really excited today, we have Lyn Alden joining us, probably one of the sharpest in both... both depth and breadth of knowledge in... in today's world. I think it's going to be an absolutely wonderful hour. And maybe if we go a little over an hour, I hope that's okay, Lyn.
Lyn:	01:55	That's fine.
Mike:	01:56	That's awesome. Great.
Lyn:	01:57	Thanks for having me.
Mike:	01:59	It certainly is a pleasure. And if those of you who don't know Lyn, by the way, I would highly recommend you check out lynalden.com. If there is a website that goes from absolutely soup to nuts on everything from what you might consider as a beginner and how to start, her start here page, and then diving deeper and deeper and deeper. It is pretty amazing what you've done there, Lyn. Congratulations. And I highly recommend that to anybody who's watching today as well. And with all that said, cheers.
Mike:	02:33	Cheers.
Adam:	02:33	Cheers. I love watching Mike as like giddy like a little girl with... with this. He's admires Lyn so much and this... but this is going to be a lot of fun.
Mike:	02:42	A true fanboy.
Adam:	02:42	So nervous and giddy.

Mike: 02:43 I know, right? So out of character.

Mike: 02:46 That's awesome.

Adam: 02:46 That's right, exactly. Yeah.

Mike: 02:48 Well, you know...

Adam: 02:48 Cheers, Lyn. It's so good to have you on.

Mike: 02:49 I'm intimidated.

Richard: 02:50 Yeah, cheers. So, maybe for those that might not know who you are, the handful that might not know who you are, maybe give us a little bit of your background then your general investment framework.

Backgrounder

Lyn: 03:03 Yeah, sure. So, I actually come at this from an engineering perspective, because I... even though I've been investing, you know, since I was very young before as an engineer, when I actually went to school, I went... became an engineer. And then went into... first, I went into industrial automation, then I went into aviation simulation. And then, as an engineer, I also developed on the side, I continued investing. And, you know, I had little websites along the way. I got a Bachelor's in engineering management. And so, I started shifting over to running the finances of an engineering facility more and more, and kind of seeing overseeing the day-to-day operations and kind of overseeing that quasi management/finance role.

And then, in 2016, I founded Lyn Alden investment strategy, which is, you know, a website that focuses on investment research for both retail investors and institutional investors. And I guess one of the main things we focus on is taking institutional level research, but making it accessible to a very broad audience. So, you know, explaining things that can be pretty complex, but in plain English. And so, it's not really dumbing things down, but it's kind of just getting to the point or... or, you know, purposely, you know, using language that, you know, people outside of Wall Street are familiar with, rather than kind of using in the... in the industry terminology.

And so, my initial background, like my earlier investments, mainly focused on equities and precious metals. But then over... over the long run, especially, you know... you know, over the past, like, you know, 5 plus years, I had to get more into macro, because we're in such a very macro-heavy environment that if you were not paying attention to some of the really big forces happening outside of individual stocks, it's really easy to get tripped up. And so, I describe my... my kind of framework as fundamental investing with a global macro-overlay. And so, a lot of macro investors focus on the really top-level stuff. They don't necessarily go down to the, you know, individual companies and things like that. Whereas a lot of people that specialize in individual companies don't... don't circle back up and go the top layer. And so, I try to combine those 2 layers. And especially because I find that going down to that really deep level, then circles back up and informs the... the higher-level macro view as well, because I find things that I didn't necessarily, you know, would have seen, if I didn't go down to like individual companies.

Digging Into Japan

Adam: 05:30 I would love to know, like can you offer an...? I love that, because it really is... is distinguished, as you say, from... from many macro managers, and I'd love to just get if you've got a handy example of how digging into some of the lower-level fundamental stuff fed back into the macro framework that I think would... would help to provide us with a roadmap of how you'd sort of generally, or one of the ways in which you sort of generally think about the problem?

Lyn: 06:00 Sure, a couple things. Like, one is, you know, I've analyzed Japan, for example. And, you know, when a lot of macro investors or investors in general, think of Japan, you think of a 30-year bear market, and it's just a big stagnant place, the GDP is not growing, the population is even mildly shrinking. And it's just... it's the place where money goes to just go sideways forever. But, you know, if you dig into individual companies and you start kind of looking at that market a little bit more closely, you find that they're...

you know, especially over the past 10 to 12 years or so, they've been really doing a lot of corporate governance reform. And so, they've changed the way that they manage companies. And so, they've had this process where it used to be like a lot of conglomerates, and they all own pieces of each other. And a lot of it's kind of very passively managed, and just not really optimizing high returns on invested capital, shareholder returns. But they've really made big progress in moving those things around and kind of divesting things and really kind of refocusing the business. And so, it's kind of like night and day compared to how it was 10 years ago.

And so, you know, going down to those individual companies and seeing, you know, what the CEOs are saying and looking at, what is the... what is the dividends done for this say particular company over the past 20 years, but how does the last 10 years look a lot different than... than the 10 or 20 years before that? And seeing that that change take place, both qualitatively and quantitatively, and saying, "Okay. So, Japan's not, you know, exactly the same market over that whole 30 years. It wasn't like one big linear thing. There are a couple different phases to this bear market."

Another thing, you know, example, you know, I... because I go globally, I go to different countries in terms of my investments. And so, I invest, for example, in Russian companies. And it sounds spooky like, you know, investing in Russian companies like, you know, there, you can have all these kinds of ideas of what they are. But if you go down to a couple individual companies and really look through them, and look at their return profiles, look at their returns, look at their dividend policies, things like that, it just gives you a somewhat different perspective than if you just looked at an index. Same thing if you look at the... the broad emerging markets, say an ETF, like the EEM ETF, you just see this... this big, squiggly line. And, you know, you just, if you're a macro investor, you're like, "Well, you know, it's... it's going to be bad when the dollar's strong. It's going to do well, when the dollar weakens. You're going to have these kind of, you know, a couple, you know, lists of things that might make you want to get into that or not."

But if you go down to individual... individual countries, especially different companies in those countries, you can be like, "Okay, so you know, this type of company looks actually really good. I love the valuations. I love the growth.

I think the CEO's doing well." And so, that can circle back and make you more comfortable with... with at least you know, certain types of emerging markets than if you're just looking at that, that broad ETF.

Adam: 08:49 That's really illustrative. Thank you.

Mike: 08:52 You...

Richard: 08:52 And we were talking a little bit about... sorry, Mike.

Mike: 08:55 Yeah, go ahead.

Japanification

Richard: 08:56 I was going to ask her about Japanification. So, maybe one of the reasons you've been studying Japan a little bit, and correct me if I'm wrong, but is this because everybody seems to draw that analogy with where the rest of the Western world may be going to, to maybe where Japan has been for the past 20 odd years? And how has that informed your view of Western worlds and some of the economic indicators that you think are relevant for us all to be watching at this point?

Lyn: 09:24 Yeah, exactly. You know, I've dived into it for 2 main reasons. One is just as an investment opportunity, it's kind of a market that I... that I think it's pretty interesting, especially in the past few years. And then secondly, it also informed that broader view of you know, what is inflationary? What is deflationary? What are some of the factors involved? And so, you know, I think one... one, I kind of call it a mistake where a lot of people look at Japan and assume that that's the natural end state for... for, you know, all... all developed countries, for better or worse, usually describe it as a bad thing. Whereas if you go into the details, it's... it's... you know, it's not quite what people make it out to be. Another thing is that they often describe it as the, you know, that Japan just prints a ton of money. And so, for example, if you look at their... their central bank balance sheet, it actually... I actually... I think I can bring it up here, because we talked about potentially sharing slides. So, let me see if I have it. Yeah. So, I'll share my screen here.

Richard: 10:36 Ah, there we go. Ah, yes.

Lyn: 10:40 Yeah, so you guys see this chart?

Mike: 10:42 There you go. Yeah.

Lyn: 10:43 Yeah. So, you can see, basically, this is the... this is a Bank of Japan, you know, balance sheet, and it just went completely vertical here. And so, a lot of people describe that as, "Well, if Japan can print an absolutely massive amount of money and not have inflation, then, you know, that kind of shows that, you know, if Europe or United States does it, it's not going to be inflationary." But it's a little bit more complicated than that. And so, kind of diving into some of their mechanics are things I've looked at. And so, if you look at, you know, that chart, it looks really parabolic. And indeed, their balance sheet is now larger than their GDP. So, they owned something like 120%, or whatever... I think 130%, now of size of their GDP, whereas the Federal Reserve's more like 35% of the United States GDP.

However, if you look at their broad money supply, so the amount of money that's actually in checking accounts, in savings accounts, in currency in circulation, the broad money supply that, you know, all the corporations and people have access to, that's grown far, far slower than the United States over the past 10, 20 years. You know, per capita, it's grown something like 2.9%, over the... over the past 20 years. Whereas the Euro grew at, you know, 5.6% per capita or something like that, and United States dollar grew at something like 6.2% per capita. So, it's more than twice as... as fast broad money supply increase as Japan, even on a per capita basis, let alone if you take into account population growth differences.

And so, you know, just because that... that balance sheet's going vertical, doesn't mean that the amount of broad money supply is going vertical. And so, that's one really big difference that people don't pay attention to. Whereas, you know, this year, United States money supply went up 25%, year over year, you know, in 2020, you know, Japan and Europe, you're looking at something like 10 to 12%. So, you know, about half the rate, maybe a little bit less. And... and so, all those environments are very different than they were over the past 20 years, and especially compared to what

Japan's been doing, because they've been growing money supply very, very slowly, because there's not a lot of private credit creation. And also, their... even their sovereign deficits, even though they've been somewhat large, they've been smaller than the United States in many years, and especially smaller than the types of things that are happening now. So, I don't necessarily view it as an ideal analogy for where a lot of these other places are heading, other than that, we are, of course, on a similar demographics trend.

Another thing that's a big difference is that Japan has a structural current account surplus. And so, you know, over the decades, they amassed a very big trade surplus. So, they... they... they exported more than they imported, because they were... they were known for high-quality industrial production cars and other things like that. And even as that kind of moderated in more recent times, now they have a somewhat more balanced trade situation. But due to years of doing that, they've accumulated a lot of foreign assets.

And so, if you look at the net international investment position, which is basically how much assets, foreign assets do Japanese people own compared to how much Japanese assets does the rest of the world own. And by that metric, Japan's the largest creditor nation, meaning that in absolute dollar terms, they own more foreign assets, you know, that the amount difference between the foreign assets they own minus Japanese assets foreigners own is the biggest in the world. And even as... as a percentage of GDP, it's one of the largest of major countries. It's kind of tied with Germany. And then it's only... you know, only countries ahead of it or like city states, like smaller things like Switzerland, Singapore, Taiwan, some of these really smaller, more specialized economies that are, you know, a little bit less diversified.

And so, in that sense, it's... it’s very different than that the United States, which is on the total opposite side of that equation. We have the... we have the deepest negative net international investment position drawdown. So, we have... you know, we're... we are a net debtor nation. So, foreigners own more American assets than Americans own foreign assets. And we run structural persistent trade deficits and current account deficits. And so, we're on the, you know, kind of the opposite side of Japan there. And so, I've also dived into periods where the Yen strengthened or weakened. And a lot of it has to do with their... their current account surplus keeps the Yen relatively strong, all other factors considered.

And so, basically Japan has a lot of kind of unique attributes that don't necessarily translate well to the United States, for better or worse. Like, we don't have the trade surplus they have. We don't have, you know, some of the attributes they have. Whereas Europe, for example, does look somewhat more like Japan. They have the current account surplus. They have the more aging population. But they have their own set of risks. So, they're not monetary sovereign the way that Japan is, because all of the countries have, you know, shared their currency. And so, you have that... that big difference between say, you know, Germany and Italy, whereas you don't have that kind of fracturing happening in Japan.

Mike: 15:50 And so, is... what are the... what are the downstream implications for that for Japanese asset prices, vis-à-vis, you know, sort of global asset allocation?

Lyn: 16:00 Well, so a couple things. One is, overall, Japanese equities are actually pretty interesting. And so, if you look at... if you look at the 30-year bear market, it bottomed really during that 2009 to 2012 period. And then since 2012, it's actually been one of the strongest bull markets globally. And it's like the bull market no one talks about. It's just, you know, as the... as their central bank balance sheet went vertical, their stock market started going vertical. And so, partly because the Bank of Japan buys, you know, Japanese stocks, but then the funny thing is, they're not even overvalued. And so, if you look at what most of their companies look like, look at their growth rates, look at their balance sheets, look at their, you know, earnings, multiples, price to book, price and sales, whatever... whatever metrics applicable for that type of company, they're actually pretty reasonably valued in many cases, and they have increasing corporate governance, and they've been through a multi-decade deleveraging process in many cases.

And so, overall, I think there's decent opportunity there. And then it also, you know, suggests that just because the Bank of Japan had very loose monetary policy for a long time doesn't necessarily mean that the United States can, you know, do similar things and end up with similar deflation. So, I think that... that if the United States takes, you know, some of these actions, we're more likely to get this more deflationary environment for better or worse. And, you know, one example, I've used that, prior to 2020, Japan never ran a government deficit bigger than 8% of GDP. Whereas we just... we just ran a 15% GDP deficit, and we're on track to potentially beat it this year. And with the Federal Reserve buying a lot of the bonds associated with that deficit, that's basically it is a very different environment in terms of fiscal monetary policy than what Japan's done. Because we're not just increasing our base money, we're increasing our broad money supply.

Mike: 17:49 And so, do you... do you start... is that... is that the first step and sort of saying, “Okay, here's a global macro. Japan's looking good in comparison to other equity markets,” and then you take that next step and start to look into individual stocks throughout Japan to find some particularly opportune value or particularly opportune sectors, or what's the next step?

The Next Step

Lyn: 18:12 Yeah. So, from there, I mean, I... a couple things. One is I do an annual report where I look at over 30 different countries and kind of keep a high-level perspective on some of them. And I update over the course of the year as needed, but that kind of gives like the... the broad snapshot once a year. And then in terms of individual companies, yeah, then I want... if a market’s interesting, I say, “Okay, what are... what are some of the top companies in index? What do some of these look like?” Because, you know, it could look good on paper, but I actually want to go see what some of the country... companies are doing.

And then, so I kind of dig around and I see, “Okay, what are... what is the sector composition? So, you know, is this particular country more weighted towards banks and energy? Or is it more weighted to technology? Or is it more balanced?” Like, Japan's economy is overall pretty balanced? You know, they have... they specialize, you know, pretty heavily in the industrial sector. But they have a pretty kind of broad swath of exposure.

And then, you know, in particular for Japan, I'm finding value in their value sector. And so, you know, one of the things that kind of sparked me to look more into it, I've been... I've been tracking Japan for a while, but Warren

Buffett made news last year because he bought 5% stakes in Japan's largest trading companies. And so, those, for people that aren't familiar, are conglomerates. And they're... they're kind of unique to Japan, because they're they don't really fit neatly into any category, but they're... they're kind of commodity producers that are also like industrial companies and logistics companies. And then they also own some like local things that kind of stabilize their cash flows.

So, for example, you know, like one company might have a uranium mine in Canada. They might have some like copper deposits over in like South America. And then they'll have like a... the second largest convenience store in Japan, and a supermarket chain, and it's all the same company. And normally, in most... in most countries, that would be considered not very ideal business, it’s kind of a cluttered collection of things. And in many cases, that has been a problem for Japan where you have these kind of just like companies that have their assets all over the place, and there's no kind of vision there.

But the... interestingly, the one sector, where we actually kind of want that is commodities, because commodities are such a boom/bust industry. And so, a company could be doing great, and if, you know, they’re a copper miner, and then copper is out of favor, and then they're just... they're just killed for like a year, like a decade They just can't make money. They get into financial problems. They... they destroy capital. Whereas actually, if you had a commodity company combined with like a supermarket, you know, giving out stable cash flows, and it's actually pretty interesting. You know, one of the things they do is, for example, they'll source some of the agricultural products, and then they'll show up in their stores. And so, they kind of have this weird kind of vertical integration, mixed with this horizontal diversification that, outside of that particular, you know, culture, you wouldn't really want to see too much, but they... they managed to pull that off. And so, I find a lot of those trading companies actually pretty interesting at the current time, especially because they have been improving their governance.

And then there's other cases that are trying to be less of a conglomerate. And so, one of the popular examples is Hitachi. They... they're kind of the GE of Japan. They're... they... you know, they're founded over 100 years ago with... you know, their first product was an induction motor. So, they were... you know, they're founded by an electrical engineer. They've been heavily involved in consumer electronics and IT systems and all sorts of things like that. But, you know, over the past about 10 years, they've been divesting a lot of their non-core businesses and still planning on divesting more. And so, now, they're really kind of doubling down on a couple of their core competencies... competencies. So, Internet of Things, for example, and then things that work well with that.

So, for example, infrastructure projects, you generally want to have a lot of sensors and software to track, you know, the status of that infrastructure. And so, that's a place where they can combine their mechanical, electrical industrial, with that IoT emphasis that they're going with. Same thing for, they recently acquired a big stake of ABB's power grids business. And so, they're heavily involved in electrical grids, which is probably going to be very important over the next decade as we get more and more electric vehicles on the road, and our grid system's just not designed to handle that sort of increased usage.

And so, they're kind of emphasizing businesses that can benefit from their - they call it the Lumada platform. They have Internet... Internet of Things, they have software, they have, you know, AI. And it's basically a way to kind of synthesize all this data together and make it available and kind of analyze it. And so, they're really focusing on businesses that can make use of that. And then they're divesting things like their chemical business. They're all also looking to divest their... their metals business, their construction business, things that are somewhat lower margin and don't tie into that... that core area.

And so, those are the sorts of things I'm seeing, especially from these conglomerates, where some companies are making good use of the fact that they're conglomerates, and other ones are shifting away from that, that's that more conglomerate structure.

Mike: 23:16 That's Great. Now, how do you think about that in the context, I've heard you talk quite eloquently on sort of the inflations of growth and dynamic...

of the growth in and inflation, how those dynamics are interacting, how they interact with Central Bank policy, with the US dollar, the Petro dollar, how do you think about... so, you've got this idea, culminating in Japan, and so, you're now thinking about putting together a portfolio of sorts, and... and how do you think about that? And maybe... maybe the place to start there is just going through sort of your top-down narrative and thinking about the dynamics that are at play in the sort of the big moving parts of inflation and growth and liquidity, and then maybe bring that back to how you would position Japan in that... in that framework.

Macro Trends and Positioning

Lyn: 24:05 Yeah, so there are a couple really big trends to be aware of from the macro perspective. And so, one of the biggest ones is the dollar cycle. And so, ever since 19... early 1970s, since the Bretton Woods system ended, we've had a system of floating exchange rates where, you know, instead of, you know, the dollar being pegged to gold and all these other currencies being pegged to the dollar, we have the dollar, you know, floating against a basket and other... other currencies floating against each other as well. But the dollar is the most important one because it's the global reserve currency, and so that... that's historically meant a couple things.

One is almost all energy worldwide, until very recently, has been priced in the dollar. And so, even if Saudi Arabia sells oil to France, they sell it in dollars. And so, that means that every count... you know, every country in the world that needs oil needs dollars. And so, they either sell their... some of their goods and services in dollars, or their... they trade, you know, their currency for dollars.

And so, there's that. And then 2, you start to see that... that countries get dollar-based loans or... or issue dollar-based bonds. And so, for example, you have a company in China, issuing dollar-denominated bonds, even though the dollar is, of course, not their domestic currency. And so, that's... you don't see American companies doing that. You don't really see Japanese or European companies doing that. But the rest of the world heavily does that. And then even there, you know, it's not like all of those are then owed to Americans. I think that's a big misconception is that, you know, because they're issuing dollar-based debt that's owed to Americans, that's actually not the case. They're often owed to Europeans. They're often owed to Japan. So, you have a case of like Japan making... a company in Japan making dollar-based loans to a company in, say, Africa. And so, it's a very unique situation.

And, you know, if anything, China has been a really big lender in dollars to a lot of frontier markets throughout Africa and Latin America, places like that. And so, you have this situation where, if you... if all the... if they all borrow when the dollar is weak, and then the dollar strengthens, for one reason or another, a lot of those emerging markets run into trouble, because, you know, that the... the, you know, the... the debt that those companies have relative to their local currency, cash flows, you know, goes up. And so, that... that can be a big problem and result in insolvency. And in some cases, the governments themselves become insolvent.

And so, we see these... these really big kind of 15-year cycles for the dollar. And so, the dollar had this big spike in the mid-80s, and another big spike in the late 90s, early 2000s. And then ever since 2015, we've been in the third major dollar spike. And so, if you look at the dollar over time, it's kind of this big sine wave that, you know, goes up for like 7 years, goes down for 7 years, and you have these really big cycles. And those are, you know, tied to major shifts in US fiscal monetary policy. But they have kind of global implications because of that... that big liquidity dynamic.

And so, normally, during these weaker dollar periods, you get, you know, kind of a global boom. You usually get a commodity, a bullish cycle for commodities. And then on the other side of that, whenever the dollar strengthens, you usually get a slower period for growth, a more disinflationary environment, more of a commodity bear market. And then ironically, you know, a lot of people think that a strong currency necessarily benefits that country. But for example, if you look at US corporate profits, they flatline for multiple years every time the dollar gets strong. And, you know, it generally makes our trade deficits blow out, you know, even more than they already are kind of as a baseline.

And so, it's kind of been this interesting dynamic, where, you know, whenever the dollar gets too strong it hurt... you know, for these weaker countries break first, the ones that have a lot of dollar-based debt relative to their FX reserves. But then that... that trickles throughout the entire world, including back to the United States. And then that usually the forces United States to, you know, shift to a more dovish monetary policy, more dovish fiscal policy, and then that alleviates the dollar, and we kind of start the next down leg of that cycle and that... that kind of next outlook. And so, you know, really kind of paying attention to the dollar cycles and, you know, what things are overvalued.

So, any sort of trend naturally kind of goes too far. And so, when you have a really disinflationary environment, you know, investors pile into safe bonds, they pile into growth stocks, they pile into all these things, and they will... they will get the valuations very high. Another side of the spectrum when you have a weaker dollar, when you have a boom, you'll have investors pile into commodities and emerging markets and things like that, and make their valuations too stretched, and assume it's going to go on forever.

And so, you know, in 2000, for example, we had the dot-com, bubble. And then it 2007, 7 years later, we had emerging markets that were roughly as expensive as some of the dot-com stocks were. We have... if you looked at the CAPE ratios, the cyclically adjusted price-to-earnings ratios of China or India, they got pretty silly in 2007. And so, it's no wonder that they've had this really big bear market in... especially in dollar terms.

And so, basically, knowing where we are in this dollar cycle, and kind of, you know, looking at valuations of growth stocks, value stocks, and commodities, and kind of looking for these trend shifts, is... is kind of a big part of my framework. And then so overall, I view us kind of entering, most likely one of those weaker dollar periods, higher commodity prices, you know, the potential for international equities to up from US equities, potential for value stocks to outperform growth stocks.

And so, starting from that framework, I've been kind of just going around in different countries, including the US, and finding some of the best plays for that. And so, one of the troubles with commodity stocks is that because they're very boom/bust, they're very aggressive, you know, they're not necessarily good long-term investments. They're more like a trading vehicle in some cases. Whereas, for example, some of those Japanese trading companies, because they have some of those other stable cash flows as a ballast, they actually can be long-term compounders if they're managed well. And so, that's kind of a more buy and hold way to express a diversified, you know, pro-industrial, pro-commodities period of time. And so, that... that's one example.

Same thing, if you look at the Russian equities, you can say, "Okay, if we're going to have a decent commodity environment, if we're going to have potentially a weaker dollar, you know, what... what do some of these companies, you know, how are they likely to benefit from that, especially if they're... they have pretty low debt, they have very low valuations, they're actually, in many cases, managed pretty well?" And it kind of goes down the list and find things that can either benefit from that reflationary trend or that pro-commodity trend without necessarily going into sort of more aggressive things that are really kind of boom bust in... in nature.

Richard: 30:51 I like that.

Catalysts and Indicators

Adam: 30:52 We seem to be on a real sort of fault line in the dollar regime as well. There seems to be a battle going on at... at these levels in the DXY. What do you... what are you thinking, or what are you watching for in terms of catalysts, either technically, or... or fundamentally, as indicators that we may be sort of downshifting in the dollar and... and that this new regime might be taking hold?

Lyn: 31:16 So, there's... yeah, there's a couple of phases. I turned dollar bearish back in October 2019. And that was because we had the repo rate spike in September 2019. And so, for people that aren't aware, I mean, we had a strong dollar, since around late 2014, early 2015, we had this period. We had a briefly weaker dollar in 2017. But then it got strong again in 2018. And a lot of this was because the US was running pretty tight monetary policy. We... you know, it's funny, because we had near 0 interest rates for most of that time. But, you know, compared to a Europe was doing, compared to what some other countries were doing, that was actually relatively tight on a global basis. And then especially when they started doing quantitative tightening, so they were shrinking the Federal Reserve balance sheet, while also raising interest rates. That was actually quite hawkish on the... on the global scale.

Richard: 32:04 Temper tantrum.

Lyn: 32:06 Exactly. And so, we had this stronger dollar. And so, that's... you know, Soros and Druckenmiller kind of identified that a while ago, that if you have a situation where a country has a... you know, kind of a loose fiscal policy, so they're running big deficits, but they also have tight monetary policy, that's actually pretty good for their currency until something breaks. And so, that was run back in the early 80s. You had, you know, Reagan ran pretty big deficits, but he also had Volcker running very extraordinarily tight monetary policy. And we had somewhat of a less extreme version of that, with... with, you know, Trump did stimulus. So, they had tax cuts and things like that, sort of running bigger deficits.

At the same time, as we had... we had, you know, Powell at the Fed, quantitative tightening and raising interest rates. And so, we had that... that strong dollar dynamic. But in September 2019, that kind of broke. And so, what happened was, you know, the... the rate that financial institutions, you know, lend with collateral overnight, blew out, and it went up like 7%, 1 night, like sprung a leak. And so, the Federal Reserve had to jump in and start lending in that market to drive that rate back down.

And so, there are a couple of us at the time, that were... that understood some of the dynamics that were happening there. And so, I wrote that the Federal Reserve is going to have to start buying T-Bills soon. And so, it's not really a repo problem, it's a... it's an underlying treasury problem, in the sense that there are all these treasuries being issued, and foreigners are not buying treasuries, because they generally don't buy treasuries in strong-dollar environments very much. And, you know, corporations were big buyers of treasuries briefly when they... when they repatriated cash because of the tax cuts. But then they... when they plow those... those cash into their share buybacks, they drew down their T-Bill holdings. And so, there's basically nobody buying T-Bills, and but there are a lot of T-Bills being issued.

And so, those were getting stuck in the banking system, and they were drawing down their cash and hoarding T-Bills.

And so, basically, there just wasn't really that... that kind of, you know, balance sheet capacity to keep doing that. And so, the Federal Reserve had to start buying T-Bills. And that marked a transition point between a very, very tight monetary policy to quite loose monetary policy because they're now expanding their... their balance sheet in an economic expansion. And of course, we... then we had the virus not that many months later. And so, we temporarily got a strong dollar because, again, you know, all these countries have dollar-based debts. And so, if global trade just comes to a halt, and all their cash flows stop, everyone has to... it's like musical chairs, the stopping, everyone has to scramble for dollars at the same time.

And so, we saw a brief spike in the dollar. But then when we saw the policy response to that, that gave us a much weaker dollar. So, we're running loose fiscal policy and loose monetary policy, which is generally pretty, you know, weak for the dollar. And so, that's kind of what I'm watching now. And then we... we've already come down pretty far. So, that, you know, the dollar index was like 99. When I started, it turned bearish. We got as low as, you know, in the upper 89 range. We bounced a little bit into the low 90s. And the key thing I'm watching now, there's one... you know, the technical catalysts are watching the 92 level, that 92, 93 level kind of as the upper bound, because that's kind of a previous consolidation level. And I'm also watching the 88 to 89 range, because that was the low that we hit back in, you know, late 2017. And it's also kind of roughly where we got to with this... with this latest move. And so, I'm kind of... you know, if we're in between that band, it's not very interesting. But if it starts breaking over 92 or starts breaking, you know, below 88, that's... you know, it's kind of a... kind of a continued trend shift.

Second, you know, about a month ago, I started to think that, “Okay, we actually might get a tactical bull move here in the dollar for a quarter or so, because the Treasury, you know, was going to issue a ton of treasuries.” And the Federal Reserve's only buying, you know, about a... it's funny when you say it, but only about a quarter trillion dollars of treasuries per quarter. And so, but if they were going to... they were going to issue $1.1 trillion in net treasuries. So, let alone the gross treasuries rolling over, they we're going to issue 1.1 trillion on net, and the Federal Reserve is going to buy like a quarter of those. And the question is, who's going to buy the other 3 quarters? And so, if, depending on who buys it, that could actually be quite dollar strong, because it sucks dollars out of the system.

But that was when we had the... the transition from the Mnuchin Treasury to the Yellen Treasury. And they quickly revised that plan down and said, "Okay, instead of issuing 1.1 trillion, we're actually only going to issue like 250 billion." And so, that actually kind of changed the calculus a little bit for what this next quarter looks like. So, things like that, that I'm watching between that, that kind of what is the net issuance and to compare to how much the Fed is buying?

Deficits and Treasuries

Adam: 36:56 So, how can... how can they run their deficits and their fiscal expansion without... without issuing equivalent treasury bonds.

Lyn: 37:07 So, they're going to likely draw down their Treasury general account. And so, the Treasury has a large account at the Federal Reserve that's basically their checking account. And so, if you look back over the past year, they actually issued more treasuries than they spent money on. And so, they... they accumulated the largest ever TGA account. And so, they usually, you know, historically, it's been below $400 billion. And even that was the high end of their previous range. And then lately, they got up to 1.8 trillion. And now, I think the last I checked, it might be 1.6 trillion, but it's really... it's really high up there. And so, they... they can pull down by about a trillion. And so, that's... they gave year-end... or quarter-end targets for where they plan that... that TGA to be.

And Mnuchin kind of did the same thing where they would say, "You know, we plan to end the quarter at like 800 billion," but they never did, they just kept issuing more, kept that level very high. Whereas Yellen seems to, you know, by... by changing it, and not issuing as much, and then, you know, giving that target, they're actually seems like they're going to draw that down this time, and normalize that back down to, you know, that... that, you know, probably a little bit above 400 billion. And so, that's one thing they can do.

However, if they were to say pass this $1.9 trillion package that some of the politicians are discussing, they're going to have to go back to markets and issue more. That's basically saying, for now, they don't need to issue as much because they can draw down from that... that cash balance.

Adam: 38:37 So, can we extrapolate that? I'm just going to work through the mechanics, see if I got this. So, if they... if the fiscal stimulus package is considerably smaller than is being bandied about, they will not need to go back to the market for as many treasuries, and therefore they can draw down the Treasury general account, and the issuance will be lower, and we could see a continuation of this downtrend in the dollar? But if they do pass the... the larger end of the stimulus bill, they will need to continue to issue treasuries, and we could see a tactical bull market in the dollar for a quarter or 2 while the market absorbs this new issuance?

Lyn: 39:16 Yeah. So, that's... that's one of the key questions I'm watching, because as much as the Fed is buying... and I had this position before, when I was kind of debating with people about, you know, the dollar strength. And so, one of the things was that, over the next couple of years, I expect the... you know, that the Fed to be one of the more aggressive in terms of expanding its balance sheet, but they won't be necessarily most aggressive in any given quarter. And so, in early 2020, they're by far the most aggressive in terms of their balance sheet expansion compared to Japan, compared to Europe. But then as you got towards the later part of the year, they've been on this kind of more steady approach of buying... you know, increasing their balance sheet by about 120 billion a month, which is funny because that's... that's one of the most dovish periods in... in monetary history. But it's actually less dovish currently than the ECB. And so, it's also relatively dovish compared to the amount of treasuries that are being issued over the long run here, because we're running, you know, in addition to un... unprecedented dovish monetary policy we have even more unprecedented fiscal policy. And so, the actual... the issuance compared to that purchasing rate is actually, you know, pretty significant.

And so, you know, if we get to a point where we have another quarter where it looks like the Treasury is going to issue, say, a trillion dollars in net treasuries, and the Fed says, “Okay, we'll buy a quarter of it. The other 3 quarters of it, like have fun. Private market can absorb that,” you can get higher rates, and you can also suck dollars out of the system. And that can stabilize the dollar and potentially shoot it up, until you run into a problem of either Treasury auctions not going very well, or something blows out like a repo issue. Or you might have a liquidity event similar to Q4 of 2018 where, you know, you had, you know, the stock market fell 20%, very quickly. You had growth stocks fall even more. Like, Apple was off more than 30% very quickly. You had no junk bonds issued for 6 weeks, because credit markets, you know, is... that's a more severe problem than the... you know, the stock market is if the... if the credit market’s frozen.

And so, if you were to get some sort of issue like that, the Federal Reserve could have... could potentially have to step up their purchases. But that's somewhat of an onerous thing for them, because that basically threatens their independence. And so, you always kind of have this... this fragile independence of central banks where you're not supposed to just, you know, do whatever the fiscal authority says, and just monetize whatever they want to do, but they might find themselves forced to. And that's basically what they found themselves in back during the repo spike, where they just had to, you know, go against their plan and start expanding their balance sheet in an economic expansion. And so, they could find the same thing, say, in late 2021, where they prefer to normalize, and instead, they have to potentially buy more. And so, but they're probably not going to do that unless the market has a pain point or something breaks. And so, there's that kind of that... that, you know, quarter or 2 period, where you could have a stabilization of the dollar, and you could have rising rates until it causes an issue somewhere.

Adam: 42:19 So, it’s... it’s reasonable to think that we may see some sort of a sawtooth pattern in one direction or the other as... as the... there's a sort of rheostatic dynamic at play where the... the Treasury needs to issue... they... the Central Bank doesn't want to accelerate their purchases, they won't accelerate until there's some sort of catalyst in terms of some sort of crisis, which will sort of poke up in one of the few different areas, and then they'll be forced to intervene again, and then that'll... that'll drive the dollar in the... in the other direction. And so, you can see this sort of... imagine this kind of sawtooth pattern up or down, depending on which way... which way it breaks in terms of its longer trend?

Lyn: 43:01

Yeah, that's... you know, that's how I play it. And it's, you know, you can only kind of look a couple quarters out, because, you know, the amount of issuance and the amount of, you know, purchases can change. So, the main variables I'm watching are, you know, if we... if we do draw down that TGA, and if they don't issue a ton and the Fed keeps buying a ton, we could have a renewed weaker dollar period for another quarter or 2, which would go against the previous plan where... where with the Mnuchin Treasury is going to issue a, you know, a ton of treasuries. But yeah, if you then get to that period, where we say, "Okay, we passed the 1.9 trillion. We're going to go ahead and, you know, the next quarter, we're going to up our Treasury issuance by a trillion," and if you start to see that at play and the Fed says, "Yep, we're going to sit tight with, you know, a quarter trillion purchases per quarter," you know, I started to kind of potentially point to, you know, at least the stabilization of the dollar, and kind of play that over time and see if it... if it kind of behaves as we think.

And so, you know, I think... I think Druckenmiller did a great interview the other... I don't know if you got a chance to see it. He did an interview with Goldman Sachs. It's about 20 minutes. And he had a similar outlook. And, you know, he's... he said he's short the dollar. And he described it as kind of 2 things. One is, you know, if... if rates... he's kind of playing a couple things. One is he expects rates to rise. And because, you know, he's expecting higher inflation and... and rates to kind of go up. And so, he's short the long end of the Treasury curve. So, he expects higher rates there. But then also, he's concerned that the Fed will come in and just block those rates from going higher, maybe because there are increased purchases in the long end or something like that. And so, he's also long commodities which are... which are very much benefit from that trend. And also, being short the dollar would benefit from that trend.

And so, you can play it in a couple of ways and kind of... kind of spread your bets out. Because if... if you expect significant fiscal stimulus and you expect some degree of reflation, there are kind of a couple of different levers you can play. So, if the yield curve continues to steepen, then banks can do pretty well and you can... you can short treasuries and things like that. On the other hand, if the Fed intervenes more and keeps the yield curve flatter, banks don't benefit as much, but commodities and gold can do quite well. And the dollar can... can... can kind of have another leg lower. And therefore, you want to be in emerging markets, you want to be in commodities. And so, you can kind of have that mix and say, "Okay, until we get more clarity about what the Fed's going to do, I can play all these different reflation trades and then kind of see which one kind of works out the best, which one ends up being the fastest horse there."

The Velocity of Money, and Inflation

Richard: 45:34 That dovetails, I think, I... I wanted to understand how you see the role of the velocity of money in all this, because I hear from a lot of the global macro crowd, everybody's sort of convinced inflation is coming. But the devil is always in the details. And for some, it might just be that they're... the expectation of inflation over the next 3, 6, maybe 12 months is on the horizon, but that doesn't necessarily mean it's going to manifest. And so, I wondered maybe you might comment on how the velocity might play in. Because unless we do have the velocity of money picking up, or a dramatic increase in the supply of money, it seems like we might get these one-off bouts of inflation, and they might get... be benefited by the denominator effect that we're going to see from 2020. But not really a sustained rise in inflation, like some of the narratives out there might have us think.

Lyn: 46:29 Yeah. So, there's a couple ways to look at it. One is, for... for inflation to be higher, we don't necessarily need higher velocity, we just need velocity to stop collapsing. And so, if you look at the 70s, for example, velocity wasn't particularly high. In fact, it was... it was lower than some of the preceding decades. But mainly, it was... it was kind of like sideways and static. And then you had an increase the broad money supply while velocity is pretty static. And so, by definition, you had... you had, you know, inflation. Whereas what we've seen this year is we saw a rapid increase in, in, you know, broad money supply and a rapid decrease in velocity that kind of balanced that out. And so, if we just see a stabilization in velocity, which where some cases, we're starting to see, if you look at the past quarter, you see velocity kind of flattening out, while broad money keeps increasing, that's when you can get that... that more inflationary spike.

You know, a second thing is, you know, whenever you increase the broad money supply by this much, I guess, take step back... back further, there's kind of multiple definitions of inflation. And so, different schools of economic thought, it's funny, because they often talk past each other, like, "No, this is inflation. No, this is inflation." It's like, "Okay, well, clearly, we need a couple of different terms here for a couple different types of inflation. And we don't have to argue about which one is the inflation." And so, by some definitions, a big increase in a broad money supply is inflation, it's monetary inflation. And then so, the question is, where does that inflation end up? Where does the... where does... if you print a lot more dollars, we all have more... and not talking about base money, but actual broad money, where does that end up?

And so, if velocity stays low, if inflation stays low, and especially if a lot of that money goes to, you know, the people that have assets or... or, you know, towards the financial system, then it goes into assets. And so, you see, you know, growth stocks do very well. You see real estate do very well. You can see bond yields can stay low, which means, you know, bond prices are still quite high. And so, you see that asset-price inflation. You can look at fine art. You can look at fine wine. You can look at classic cars. All these things are going up pretty dramatically.

And on the other hand, if you were to get higher velocity, if you were to get supply constriction, either due to the pandemic or other issues and you start to actually see inflation, then it can show up there instead. And so, the... the short answer is that, when you have an increase in broad money supply, it shows up in whatever is scarce. And so, lately that has been high-quality financial assets, things like... like treasuries, or, you know, growth stocks or real estate or wine, and things like that. And it's really poured into those. And we're also starting to see commodity inflation. We're starting to see, you know, copper and... and beef and, you know, soy beans.

Richard: 49:08 Grains.

ReSolve ASSET MANAGEMENT

Lyn: 49:20 Grains, exactly. A lot of these have gone straight up. Yeah, lumber, lumber doubled. And it's like, you know, all-time highs. And so, we're seeing that, but that's being somewhat offset by, you know, rents are very low, especially in cities, because, you know, they barely collect the rent anyway. And so, we have that kind of... that kind of dichotomy going on where currently, we're getting to the selective areas of inflation, and other areas are more deflationary. And so, the question is, as this... this normalizes a little bit, but as we're still doing stimulus, will it continue to be where it is now? Or will it pour more into actual broad inflation? And so, I think that's kind of a key thing to watch.

Gold, Silver and Bitcoin

Mike: 49:50 How do you think, in that... in that view, how do you... how does gold and silver play a role? How are they different and unique, and even Bitcoin, if we will show?

Lyn: 50:01 So, if you look at gold and silver, gold is a somewhat more disinflationary asset. And silver is a somewhat more inflationary asset. But there's a... there's a couple of caveats there. And so, the main thing about gold is that, you know, a lot of people try to categorize it, what exactly is it? And the main thing that it follows is... is real interest rates. And so, the nominal rate of a 10-year Treasury minus inflation. And so, for example, if you have... if you have pretty high inflation, like you... if you have 4% inflation, but Treasury yields are yielding 7%, then actually, it's not a great environment for gold, because you can either hold gold and collect no yield, or you can put your money in the treasury, and you can get a 3% real return. And so, gold becomes rather unattractive.

And that's kind of the situation you saw throughout the 80s and... and 90s where... where gold was in this kind of 2-decade bear market, because you had positive real yields. Whereas if you see, you know, negative real yields, that's like, it's quite good for gold. And that can happen in 2 directions. Either, you can have an inflationary spike, that... that... that nominal yields don't keep up with. And so, for example, in the 70s, gold had these... these 2 really big spikes. One was in the mid-70s, one was at the... at the tail end of the 70s, into the really early 80s. And that's when you know, real yields went down as low as negative 4%, because just yields weren't keeping up with the inflation that was happening.

On the other end of the spectrum, what we saw, you know, gold had a really big bull run in 2018 to 2019 and into 2020. That's because you saw real yields collapse due to disinflation. And so, at the end of 2018 10-year Treasury was like, you know, over 3%. Inflation was like. 2%. So, you had... you had 1% positive real yields. And then over the course of those next 2 years, you saw nominal treasuries fall down to like half a percent, and inflation fall down as well, but not as much, because they had less to go. And so, that... that dynamic fell from positive 1% to negative 1%. And that... that's a rocket fuel for gold. And so, gold did very well.

And then since that kind of August 2020 period, because we've had a rising 10-year Treasury that's kind of rising with inflation, we've had those real yields kind of stabilize at about negative 1%. And so, gold's been on the... on this correction. Whereas silver, you know, it's kind of been the opposite dynamic. So, it really kind of... it didn't really have as much of a bull market in that 2018-2019 period when you had slowing global growth. And then, of course, when we had that big liquidity shock in March of 2020, you know, silver just utterly collapsed. But then when we came out of that, with this more inflationary kind of policy, silver upped from gold from that point. And so, that's because we're in a more inflationary environment to some extent, especially for commodities and for monetary assets.

And so, in that dynamic silver tends to do somewhat better. And so, if you have the higher inflation, you can generally expect silver to do a little bit better, because if you have that... that more defensive pullback, and that more disinflationary environment, you can generally expect gold to do a little bit better. But either way, it's going to depend on what real rates are doing.

Mike: 53:08 And the new entrant?

Lyn: 53:10 So, Bitcoin...

Mike: 53:11 Crypto asset.

Lyn: 53:12 Yeah, Bitcoin's on its own pace. Because it's... you know, because it's undergoing a period of adoption from no one having it to like, you know, a couple million people having it, to now Tesla has it. Like, as you go up the roof, however high it's going to get, it's been on this kind of S curve of adoption, and it's become more mainstream and more institutionalized. And so, it also... it operates on these 4-year cycles. And so, every 4 years, Bitcoin's supply generation gets cut in half. And so, a number of new Bitcoins are generated every day, and every 4 years, that has a preprogrammed period where that issuance rate gets cut in half. And if you have static demand and supply is cut in half, then that tends to start pushing the price up, and then you have momentum traders jump on board, and then that pushes the price up more, and then you have a blow off top. And then it goes to another multiyear consolidation. And then a supply cut happens. And then it... it does it again.

So, if you look at the 4 year... look at the 12-year history, since inception, it's really kind of divided into these... these... these 4-year periods. And so, the bull market we're seeing now is strongly correlated with the halving event that happened back in May 2020. And if history is any guide, it probably has further to go, but then it'll hit some, you know, blow off top and some period of consolidation. But it's also... it's prone to some macro issues. So, it's... it's kind of mostly on its own beat there. But then, you know, when you had, for example, a liquidity crisis in March 2020, that hit all asset classes, especially in some of the more volatile ones. And so, Bitcoin sold off. And it had nothing to do with kind of its own cycle. It's just anybody who, you know, as dollar spiked, they needed money. So, you had a crash in silver, you had a crash in Bitcoin, you had a crash in stocks, even treasuries, at the worst point started to fall. And so, that's some kind of doing that. It's really on its own thing. And it's more about, you know, to what extent is that network effect going to continue or, you know, is that network effect going to kind of taper out and kind of hit a peak somewhere?

Adam: 55:13 Speaking of liquidity crises and the fact that everything, including Bitcoin, got sold off toward the end of March, for example, when there was just a global collateral call, how do you think about hedging this sort of liquidity tail? I mean, the... the macro framework is... is consistent. And I think the pieces fit together really well. But the... the sort of relief... release valve there is another major liquidity shock. How do you... how do you think about hedging that?

Hedging Liquidity Shocks

Lyn: 55:47 So, one is by maintaining a cash position. And so, even though I'm bearish on cash with a 5-year view, because I think we're going to be in a period of persistently negative real rates for cash and T-Bills, in those types of environment, that's one of the best assets to have, because everything goes down relative to cash and T-Bills. Even in the worst parts of that... that... that sell off, even long duration treasuries ran into a problem there.

Adam: 56:12 Yeah.

Lyn: 56:3 Even though it was less severe than...than some other assets, but it was pretty bad. And so, really, it was... it was cash and T-Bills that hold up. And so, if you were to get a liquidity event, that's what I want to have. Also, you can do it by... by being unlevered. And, you know, depending on what type of book you're running, if you were to get that advantage, you have some cash and you have an unlevered book, you can then deploy some cash. And if you want, you can deploy some leverage into things that just got, you know, became a bloodbath and a liquidity crisis.

And so, that... that's kind of the main way I'd play it. I mean, depending on what kind of fund you're running, you can be in a long volatility fund as well, you can... you can basically do things that would benefit from a spike in volatility. That'd be another hedge you can do. So, I think those are kind of that the main ingredients there to... you can also be long with the dollar. Because if you were to have that... that issue, specifically, you know, in terms of cash, it'd be the dollar most likely that does quite well.

Richard: 57:03 Apart from the Swiss Franc and the Japanese Yen, I guess, which tend to always spike in these risk off environments. I guess...

Lyn: 57:12 They... they do well also. Yeah. But the funny thing is, even, I mean in March, because everybody needed dollars at the same time, even the dollar spiked even relative to some of those. But yeah, you generally would want to be in dollars, Yen and Swiss Francs, and you wouldn't want to be in emerging markets currencies.

Political Extremes and MMT

Adam: 57:28 I'd love to hear your thoughts on some of the potential political externalities that might fall out of some of these extreme fiscal actions. I mean, we're already seeing a lot of sort of civil breakdown in a lot of places. Obviously, populism has been on the rise for 3, 4 years. How do you see some of these dynamics playing out? And... and what are some of the long tail potential outcomes from... from this political climate, do you think?

Richard: 58:02 And if I may throw in just quickly, MMT the term there. And if you might comment on MMT in the context of Adam’s question.

Lyn: 58:10 Yeah, so I think... I think we're probably on a track of more of these MMT-like policies, because, you know, if you look at history, there's these big kind of cycles for wealth concentration. And so, if you look back in the... in the 1920s, for example, wealth got very concentrated. And then we had that big bust. You had a rise in populism. And then you had FDR-style policies to try to, you know... you know, kind of cycle some of that wealth out, kind of stimulate their way out of it to the detriment of, you know, currency and bonds. And so, it was a currency devaluation in exchange for other benefits as the... as they saw fit. And of course, then they were forced into spending by the war in the 1940s. And that's actually, in some ways when they really stimulated the way out of it by really kind of, you know, taking their... their currency out to the woodshed.

And so, we're kind of in a similar environment where we had this period of rising wealth concentration. And it culminated in a couple things. One was we had the big subprime crash. So, we recapitalized the banking system. And then we've kind of, like our economy's limped along since then. It's actually been running at a pretty, pretty slow pace. Even though the stock market makes it look like it's been doing very well, a lot of those are actually benefiting from disinflationary trends, these really highly valued growth stocks, whereas like the... the more cyclical economy, or the more... the more real economy has actually been really kind of stagnant for the past decade or so. And so, we've had a lot of frustrations underneath the surface, especially because, as you talked about earlier in United States, we run persistent trade deficits. And so, we've really exported our supply chains in a more aggressive way than... than, say, Germany or Japan have.

And so, a lot of our, you know, people just don't have high quality work. Either they don't have work at all, or their wages are pressured from foreign competition. And so, if you look at say, different ways to measure wealth concentration, the United States is more concentrated than most other developed countries. And so, we're somewhat more vulnerable to that populism. Because if anyone who worked in past 40 years or so in finance or technology or health care or government, you did pretty well, you got a lot of benefits from, you know, that this... this regime we've been in without any of the downside. So, you've had a strong dollar. You've had, you know, you benefit from cheap foreign goods. Your job is not affected. You're doing great. But if you make things, if you physically make things, you generally had more downsides to that system than... than upsides.

And there's been this really big kind of a, you know, the pendulum swings back and forth. And so, in the... you know, the 60s and 70s, labor had a lot of power. And, you know, in more recent decades, capital has had a lot of power. And that, you know, each time, it generally goes, you know, too far and breaks something, and then there's... there's societal pushback. And so, if... if... if unions get so strong that it kind of chokes the system, then you have this pushback against unions. And then if you get to the other end of the spectrum here you have this... these... these, you know, kind of corporations and have a lot of people struggling, then you get... you get pushed back in the other direction.

That's where we're kind of seeing now, whereas we're, you know, we're seeing a flat job recovery, but a roaring stock market. And we're seeing all these... these... these kind of aid bills to keep coming in. And essentially, because you see populism and all these different angles. So, you have... you have populism on the left, you have populism on the right. You can... even Bitcoin is for... is type of kind of technical populism. It's a way of saying, “We want to go against the existing system. We want to... we want to do it with software." And so, you have all these kind of different paths towards populism. And I think a lot of it ends with probably running very large fiscal deficits. And... and the currency kind of taking the brunt of that. We're going to have persistently negative real yields for quite some time. And so, people that are... that are holding treasuries, or bonds are paying for one way or another. Whereas, you know, if you're on the... on the receiving side of that, you can generally benefit. And so, it's kind of a tumultuous environment, if you're trying to navigate different assets that you can invest in.

Mike: 01:02:12 Can you extend the discussion too on the US dollar maintaining its reserve currency status, given its shrinking size from an economic perspective in the world? So, I think that's an extension of the point you're making as well, or could... could be.

Lyn: 01:02:30 Yeah. So, one thing we've seen is that, you know, I mentioned before that... that, you know, for most of the past 50 years, all global energy is priced in dollars. And that worked for a while, because when that system started in the 70s, the United States was like 35% of global GDP, and we were the largest importer of energy. And but over time, now, depending on how you measure it, we're between like 15 and 22% of global GDP, and China's a bigger importer of energy than we are. And so, it's really hard to run a global system of all oil being priced in dollars, if... if, you know, the United States is a shrinking share of the global pie. Because other countries are, you know, growing faster than us.

We're only like... you know, say we're like, you know, 20% of global GDP, we're like 4 or 5% of the population. So, it's actually still pretty good. It's just... it's not big enough to kind of, you know, kind of account for the entire global oil market. And so, we're starting to see, you know, in addition, we've also used the sanctions pretty aggressively on some countries. And they say, "Okay, just because we're tired of this kind of boom bust dollar dynamic, we're also... we don't want to be able to be sanctioned," you see an increasing number of countries go around the dollar system and say, "Okay, we want to pay in euros, or we want to sell oil in euros."

And so, we've seen Russia, for example... Russia, for example, has been aggressively de-dollarizing and selling oil in euros. So, we've seen trade between China and Russia become more diversified in terms of it used to be almost entirely dollar-based. And now it's... it's, you know, the Euro share is bigger than the dollar. They're also using a little bit of their local currencies. We're also seeing trade between Russia and Europe is increasingly, you know, shifting towards the Euro. We've even seen a trade between Russia and India has shifted more towards... even towards the Russian Ruble in that... in that particular arrangement, but overall becoming more diversified.

So, overall, the way I see this playing out, is that the United States is really just no longer big enough to be the only currency used for global energy pricing. And so, we're now kind of shifting towards a more multi-currency energy pricing regime where you'll have the dollar able to buy oil, you have Euro able to buy Euro... oil. We've also seen, you know, the futures on in Shanghai, you know, Yuan... Yuan-based oil. That's been pretty high volumes. So, you know, probably at least those 3 currencies over time, they'll probably have increasing ability to... to buy commodities and oil. And so, in that sense, the dollar will change from being the global reserve currency to one of the global reserve currencies or, you know, will... will shift towards a kind of a status of having these regional reserve currencies rather than just one to kind of rule them all.

Adam: 01:05:15 I can see that...

Richard: 01:05:16 It's interesting...

Adam: 01:05:16 ... stabilizing mechanism to diversify the value of the different reserve currencies. But I wonder how quickly that can happen. I mean, you need to recycle a lot of Euro Petro dollars and Yuan-based Petro dollars to build up reserves and in order to allow those to be used as like swap collateral the same way the dollar is. So, this is sort of a long-term play, I guess, right?

Lyn: 01:05:43 Well, it's both. Parts of it is short-term, and parts that are long-term. And so, for example, if you look at how quickly the trade between China and Russia de-dollarized, it was actually happening... it happened very quickly. Like, especially like a 2-year period, there were just went from like 90%, to like 45%, you know, basically overnight in the macro sense. However, reserves change more slowly. And so, China, you know, they reached like well over a trillion dollars in reserves in US Treasuries. And then they started kind of over time, gradually tapering that down and not recycling those in as fast, and instead using those for other things.

And so, I think we're seeing a gradual shift, a gradual diversification of reserves, especially because we do have a collateral issue. Because in... in Europe, you don't have a euro bond. You know, the closest thing you have is... is, you know, German... German bunds. You don't have that... that shared, you know, environment. And so, that... that markets only so big, because they're not going to hold their reserves in like Italian bonds, for example. And then China also, you know, they have a more restricted bond market. And so, that's one of the biggest shortcomings.

One potential option that we're seeing somewhat is that central banks have been somewhat buyers of gold over the past 5 years. And so, one way they can do it is to separate the medium of exchange from the store of value. And so, in addition to holding their reserves in a... in a foreign sovereign bond, they can also hold their reserves partially in gold. And so, by... by, you know, using a little bit less dollars, drawing down their dollar percentage a little bit, you know, perhaps increasing, you know, some of those other currencies slightly, and also increasing gold slightly, you kind of slowly decentralize it and smooth it out over time.

Currency Wars

Richard: 01:07:32 I wonder how that might play into the whole idea of currency wars, which has been a term that's been thrown around in the last decade. And as these other currencies become more relevant in the trades amongst these other countries, that also goes against the economic impetus of a lot of these exporting countries particularly. And so, that dynamic against the weaker dollar, perhaps the US might favor that environment to some extent. But on the other hand, I don't imagine some of these other countries and Central Banks, just sitting around and watching their currencies become stronger, and then causing their economies to dip into a recession, or at least a de-heat to some extent. So, that dynamic would be interesting to play out. And I think that also plays into the crypto bullish case, which I think you've... you've somewhat made here.

Lyn: 01:08:24 Yeah. I mean, one of the... one of the kind of interesting things to watch is that the games... the game theory is so complex between all these different environments. And so, for example, when you saw the dollar weakened in 2017, for example, we had... we had a pretty big weakening down from the dollar index was over 100, and then it fell a little bit below 90. And so, you would think that some of those exporters would run into trouble. But it was actually quite the opposite where, you know, Europe, for example, had one of its fastest growth rates. And that's because, in many ways, that... that dollar release valve, you know, gave emerging markets a boom, and then Europe's a big trading partner with those emerging markets. And so, it can hurt their... their... you know, Mercedes are less competitive in the United States, for example, when the dollar weakens, but they're potentially more... you know, they're selling more to China as an example.

And so, you have that, that kind of, you know, multi-pronged multi-party dynamic, rather than just kind of a 2-way thing. But it is true that they... you know, I guess if you're... if you're the ECB, you want to see the dollar weaken compared to other currencies, but you don't want to see your Euro strengthened. And so, you have this... this competitive currency devaluation environment. And I mean, some countries have been more aggressive than others. And so, Switzerland's been a particularly aggressive, you know, devalued... like they try to keep their currency from appreciating by like just buying as much foreign assets as possible. And so, that... that's one example. The ECB has been less extreme than that, but they've been... they've been pretty aggressive as well.

And one thing to kind of look at is, in an environment where multiple currencies are trying to weaken, the one with the biggest structural current account or trade deficit tends to be the one that has... that has more to weaken. And it really, actually going back to Japan, if you look at their... you know, when their balance sheet went vertical, you know, at the time, the Yen was pretty strong, because they were experiencing disinflation other... other countries, you know, there's all these issues around the world. And so, Japan just ramped up their balance sheet. And at first, you actually did see a pretty quick decline in the Yen. So, the Yen fell versus dollars, a little bit compared to Euro. And then in 2015, it just stabilized. And then even though their balance sheet never slowed down, kept going vertical, the Yen just kind of leveled out, and even began strengthening compared to the dollar.

And if you look at what happened at that time... their... their trade deficit balanced out. And so, back, when they started that process in 2012, they had a pretty rare trade deficit, which is uncommon for Japan. They were in a particular slump, partly because their currency was so strong. And then when they dramatically weakened their currency by ramping up their monetary policy, it did weaken it, but once the trade situation balanced out, it was hard to weaken it much further. And so, even though they continued the policies, you just had a stabilization. And so, that's... basically, if you have an environment where multiple currency blocks try to weaken, the one that's, you know, quote/unquote, 'likely to be the winner' is the one that's running large twin deficits. So, it's... it's... it's running big fiscal deficits, and is running these... these... these structural trade deficits.

So, overall environment, I still think the dollar weakened more. But overall, kind of the best winner overall would be hard assets, that they kind of benefit from all of them kind of weakening.

Richard: 01:11:38 Scarcity assets, gold, precious metals, potentially crypto. But I wonder, there's been a pretty heated debate of late about regulatory concerns surrounding crypto. And why would the US or any other sovereign for that matter give up the privilege of … just printing a way out of this mountain of debt, which seems to be the one solution that they have and to inflate away this mountain of debt? So, how do you think about the... the... this risk of additional and potentially more draconian regulatory clampdown?

Lyn: 01:12:15 Yeah, so we're seeing that in the past couple weeks in Nigeria and India, where they're... you know, they're... they're pretty afraid, essentially of Bitcoin and how that could be competition for their currency. On the other hand, we've seen more and more acceptance in the United States. And so, for example, we just had the Bank of New York Mellon announce that they're going to custody Bitcoin, which is the oldest bank in the United States. I mean, they're the Bank of banks, basically. You know, they're...

Adam: 01:12:39 That is astonishing actually.

Mike: 01:12:40 Yeah. And they're super old, and their tech reflects it.

Adam: 01:12:43 Yeah.

Mike: 01:12:44 I mean, not that we've dealt with...

Adam: 01:12:45 Having with their custodial department.

Mike: 01:12:47 Not that we don't deal with them.

Lyn: 01:12:51 Yeah. And, I mean, even then, like a Fidelity, they've been in the game for a couple... you know, several years now where, you know, they're... they're a well-respected asset manager. And they're... they've been in Bitcoin pretty early. So, actually, it's... I've made the argument that the bigger it gets, the harder it is for these major capital markets to band. Because if... you know, at the moment, Bitcoin's at almost a trillion dollars in market capitalization is over 8 or 900 billion, depending what price it is. It could be... it could be up 10%.

Richard: 01:13:18 Could be anywhere right now.

Lyn: 01:13:19 Yeah, but so whatever it is, it's over 800 billion most likely. And so, you know, that's... that's a lot of assets. A lot of that's owned by Americans. And so, you know, there's someone in a corner there for... for outright banning it. Whereas some of these other countries that are more desperate have an easier time at least trying it. Generally speaking, though, it doesn't work very well, because it still trades in the black market anyway. And so, for example, some of these countries banned dollars, or they have in a quote/unquote 'official exchange rate' for the dollar. But then the real exchange rate is in the black market, where you have, okay, here's actually what... you know, if 2 people are kind of trading dollars for something else, that's actually what the exchange rate is going to be. So, there's that.

And then two, they also kind of fall behind in innovation, right? So, we have, you know, all these other, you know, the largest bank in Singapore is also doing custody now. And so, if you had these countries say, “Okay, we're just going to ban our citizens from owning it, and we're just going to kind of close ourselves off,” it's like, you know, good luck, because you're going against a kind of, in some ways, a currency that's designed to operate well in the black market if it has to, while other countries are embracing it legally. And then, you know, so we saw, for example, India tried to ban it a while ago, and then their... their... their Supreme Court kind of overruled that. And so, this will be their second attempt that they're trying now. It might be more successful. It might not be. And so, I do think that watching the regulatory front is important. But especially in these... these kinds of well-capitalized markets, it's somewhat less of a risk.

It's also, you know, if you look at, you know, where money’s stored, people already store their money outside of the banking system. They store it in real estate. They store it in equities. They store it in gold. They store it in all these different things. And Bitcoin is just one other thing that they can store it in. And so, ironically, by trying to ban it, they're basically arguing that is better than all of those. They're saying that's the one that we're afraid of, because it's a mobile store of value that, you know?

So, it's funny, because you see these narratives of people saying, “Oh, it's a bubble. It won’t amount to anything.” On the other hand, sometimes the same, people are saying, “Oh, government's going to ban it. It's too powerful.” And it's like, which one is it? It’s either, if it's a bubble, it'll just... you know, if it's bad technology, it’ll work itself out eventually. Or if it's an actual threat, it's... you know, it's a particularly challenging one to stop, because you can ban people from owning it, but you can't actually shut this system down.

Adam: 01:15:39 What they can do, I think, is change the tax regime on it, right? They could recharacterize it as a currency, and then cause people to have to pay tax on it, tax on gains every year, and liquidate, you know, other assets in order to... to pay those taxes, which would be an interesting shift in... in dynamics, I think, and create some supply.

Lyn: 01:16:00 Yeah. And in some ways, kind of gold's been under that similar regime where gold’s taxed as a collectible. And so, in some ways, it doesn't have the same tax treatment as a commodity. And so, yeah, you could have these kind of Bit... Bitcoin-specific, or crypto-specific taxes that make it, it's like, “Okay, you can still own it. We're not going to get so draconian that we're going to ban, you know, bits. But we're going to, you know, just make it onerous to hold.” And in some ways, you know, the fact that it's taxed like a commodity, you know, it's tricky, because a lot of these payment systems want to use Bitcoin. But then technically, you're exposed to, you know, capital gains or losses on these... on these transactions. And so, basically, there are... there is a lot of work to do for these regulators to kind of, you know, how they want to kind of open that up in the tax code, either to make it easier for innovation, or to clamp down on it if they want to make it less attractive.

Adam: 01:16:51 Yeah.

Mike: 01:16:52 I wonder, Lyn, if you also might... you wrote a great article on addressing the Ponzi scheme that, you know, aspect of Bitcoin. I wonder if you might just give us quick summary of that as well.

Lyn: 01:17:04 Yeah. So, basically, there... you know, there's a common argument that Bitcoin’s a Ponzi scheme, because if you buy into it later, you know, you... you get... you're not as beneficial as people that bought into it earlier. And so, I just kind of walked through that a couple of different steps. So, one is I brought up the SEC’s definition of a Ponzi scheme, and kind of what some of the red flags are. And I walk them through to see if they apply to Bitcoin more than anything else. And, you know, the short answer is not really. So, what's interesting is, if you look at a lot of these other digital assets, they are somewhat Ponzi-like in nature, often because they'll... they'll... you know, the founders and initial investors will get a lot of the tokens, and then they'll sell tokens, and then it doesn't look great. Even though in some ways, it's really not that different from a startup. But at least, you know, the optics sometimes aren't great.

Whereas with Bitcoin, you know, the... whoever Satoshi Nakamoto was, whether it's a him or a group, or we don't know, they put out the white paper first, and then they talked about it on... on, you know, forums. They talked about on email lists. Then they released it, and they didn't give themselves any pre-mine. And so, it was kind of, in some ways launched in the most public way possible to make it more of a protocol rather than, you know, a security. And so, that's why, in some ways, that's been a more elegantly released system. And so, that kind of went against some of the idea of being a Ponzi scheme.

In addition, you know, if you... if you then classify a Ponzi scheme as being broad enough, right, so you say, okay, you know, because it produces no cash flows, because it has some frictional costs being moved around, you can argue it's a Ponzi scheme. But then the problem is that that similar, you know, definition would apply to gold would apply to, you know, these other kinds of non-cash flow stores of value, that have some sort of frictional costs when you transact with them, including, for example, beachfront property or things like that. However, you know, as long as they appreciate and are scarce and hold their value well, you know, they... they, you know, kind of benefit multiple parties in there, both the buyer and the seller, as long as you know, over time, they're kind of using those assets for their needs.

And so, my overall view is that it really doesn't meet it any... any more so than other stores of value, although some of these other tokens, of course, do meet that definition more closely.

Richard: 01:19:20 The problem with the store of value argument is that the volatility of the price is such that, both from a store of value perspective and particularly for the means of payment, it does seem like it would be a long ways off. And so, on that aspect, the argument that this is more of a speculative asset than anything seems to... to hold ground, at least... at least in the short-term.

Lyn: 01:19:45 Yeah, I think so. I mean, I've described it as an emerging store of value. And so, if you start at 0, you can't just become a store of value overnight. And so, it's kind of going through that S curve of adoption. And so, first you have the... the Cypher punks that are... they like the cryptography, they like the... the kind of the... the libertarian aspect of it. Then you get speculators, then you get more tech savvy people. And then we're in... in 2020, then you got institutions. And you kind of go up the risk curve, because every kind of, every few years gets a little bit de risked as it kind of reaches wider adoption, as we get more regulatory clarity, as this kind of, you know, withstood different attacks or tests of time, you kind of expand a little bit more, by... by many ways of weathering it. It got slightly less volatile over time, but it still is obviously quite volatile.

And if you were to kind of complete that S curve of adoption and get more into that later phase, then it becomes more like silver or more like gold in the sense that it's kind of more of a static quo. And it's kind of reached the adoption that it's going to have. And so, I view it now as a more adventurous and a more emergent store of value. And that kind of is... because the story is kind of still playing out. But yes, certainly more volatile than... than ones that are already established stores of value.

Now, as for medium of payment, one of the interesting developments we're seeing now is that, you know, you can use Bitcoin as a network for payments, without using Bitcoin itself as a unit of account. And so, for example, we see apps like Stripe Global, say, "Okay, we have the Bitcoin network. We have the Lightning network built on top of it, which makes it you know, almost free to use. And then okay, we can do a fiat to Bitcoin conversion, send Bitcoin somewhere, and then do a Bitcoin to fiat conversion on the other end. And then you have effectively a currency-to-currency trend, you know, exchange that happened. And you can do that, for example, between dollars and euros, and you have this kind of instant final settlement. And so, you starting to see kind of innovation in the FinTech space around that. And so, neither party has to worry about currency risk, and the only one that has to worry about it is the intermediary that is kind of converting it back and forth in microseconds.

Mike: 01:21:53 That's... that's... see, that's the kind of emergent phenomenon and tech that is going to be exceptional in the space that can't be known in advance.

Lyn: 01:22:04 Yeah.

Adam: 01:22:04 What's it called? Is it called Lightning? Is that... is that the...?

Bitcoin, Lightning, Strike…

Lyn: 01:22:06 Well, there's a couple things. One is Bitcoins, the base layer, and then Lightning is a secondary layer that's built on Bitcoin that can make it so you can do more and faster and cheaper transactions, kind of... it kind of relies on the base layer for underlying security. And then on top of that secondary foundation, there are apps that use it. And so, one example app would be Strike, is a company called Strike. And they've been operating out of the States and they're starting to... you know, they're in beta mode, they're starting to roll out more globally. And the idea is, you know, you can have... and they already... they've already done these... these various test transactions, and they're starting to kind of increase the scale now, where, you know, it's particularly good for smaller payments. So, if you want to send up to $1,000, you can do it from phone to phone from United States to Europe in about a second.

And so, from the company side, they're taking on kind of a, you know, a millisecond of risk when they do these... these conversions. But overall, on that scale, the volatility is so low. And so, they're using that as kind of a payment channel. And there are some markets that benefit from that more than others. And so, for historically remittance payments, you know, if someone works in the United States and is from like, you know, an emerging market, and then they send money back to their family, that's historically been a very expensive payment that's kind of fraught with difficulties. And so, that's a type of application where that can drastically cut down the fees, and kind of make that simpler and make that kind of more decentralized.

But you're also can see it in just overall, kind of another way of doing currency conversions by using that kind of common unit of account, and kind of going around the banking system and doing it their own away. And that... you know, that company's kind of working through regulatory issues, but overall, seems to be rolling out here in 2021.

And then there's... there's, you know, there's companies like Lightning Labs that... that build tools for Lightning that some of these other app providers use. And so, you have that kind of ecosystem where you have, you know, some develop apps for the public, and you have other ones develop tech for those app companies.

Mike: 01:24:11 Short Western Union.

Adam: 01:24:12 Mike, you look into that.

Mike: 01:24:14 That's not investment advice.

Adam: 01:24:19 That's really neat, man.

Richard: 01:24:20 I realize we probably are running close to time for Lyn. But I did want to get your general thoughts on, what an end game might be for this whole central bank bonanza, potentially MMT in there? I mean, a lot of people like to bring in the analogy with the Fourth Turning. I don't know if you subscribe to that idea as well. And I think Bitcoin and some of the other Reddit Wall Street bets phenomena that we've seen of late are different expressions of those phenomena. So, I wonder if you might comment on what you think is the... what is your base case for what we might see for the coming couple of years, and where we might go from there?

Lyn: 01:25:05 So, I think that the Fourth Turning is a pretty good framework to be at least aware of. Whether or not someone subscribes to it or not, I think it's one of those things you want to be aware of it, and then see whether or not it makes sense to you or not. And so, I think there... there's a useful concept there. You know, whether or not I follow it, you know, to the year, right, I wouldn't put myself in that camp. But I think it's a... it's a good framework to be aware of. I've also... you know, I've often described a book called 'Lessons of History'. And that's actually an older book, it was written in the 60s. And they... they... it's kind of...

Richard: 01:25:36 Durant and Durant?

Lyn: 01:25:37 Yes. And... and they kind of summarize 5000 years of human history in about 100 pages.

Mike: 01:25:43 Love that book.

Lyn: 01:25:44 Yes, super, super dense. And they have a... they have an economic chapter that describes kind of the same Fourth Turning thing that, you know, they kind of have these multi-generational build ups in debt and in wealth concentration. And usually, it's some sort of event, either it's a revolution, or it's a... it's a more mild change. And depending on how well the society navigates that, you kind of go into the next cycle, and then you know, but a couple generations later, it just builds back up again. And then they have another test to see how well they navigate it. And so, I think that's a really good framework to think about, as we're kind of going through that where we build up a ton of debt, we build up a ton of wealth concentration. The last time we saw this sort of period in the United States was back in the 30s and 40s. And so, in some ways, kind of that historical period, in terms of fiscal monetary policy gives us some framework to work through.

And so, my overall view is that we're likely to have, you know, throughout the 2020s, some degree of currency devaluation. And that can take a couple of different forms. You could have high inflation, or you can just have persistently negative real interest rates. And so, you can have, for example, 3 or 4%, you know, inflation, but Treasury yields are held at 2%. And for a prolonged period of time, you know, cash and treasuries just kind of, you know, fail to pay off, and the broad money goes up pretty dramatically, and all those things devalue versus hard assets, like, whether it's gold, whether it's Bitcoin, whether it's high-quality commodity producers, like some of the Japanese trading companies, or some of the American equivalents. And so, you know, by owning those harder assets, you can generally protect yourself.

But then, you know, what emerges politically from that is, I think, anyone's guess. And so, you know, overall, I think politics, you know... you know, 5 to 10 years from now, could look quite a lot different than they look like now. I think, you know, both major parties could somewhat restructure. They kind of move around the Venn diagrams of, you know, what... what different parties represent. And so, I think you can kind of see that. Because especially if you look at, you know, the Democratic and Republican parties, they've had, you know, historical periods where they kind of, you know, flipped around what they stand for.

And so, I think you can kind of see another flip happening over the course of another 10 years where, not that they flipped compared to each other but that, you know, what you define as the Democratic Party might be different than, you know, what it... what it is now. And the same thing for the

Republican Party, we can see that kind of both of them changing pretty substantially.

Richard: 01:28:09 That makes a lot of sense.

Mike: 01:28:11 I'm... just to close it off, I think it'd be great for you to sort of summarize for listeners, for those listeners who maybe don't want... don't have the time or expertise to try and... and trade some of these dynamics tactically, if you have a high net worth investor or someone come to you and sort of ask you, "Listen, how should I position for this strategically, rather than tactically?" do you have any general advice or any general guidance?

Lyn: 01:28:39 I think an overall thing is diversification, with an emphasis on maybe some things that are high quality, but haven't done very well over the past decade. And that would include, for example, a lot of commodities as an example, especially if you focus on some of the more, you know, lower-cost producers, stronger balance sheets, things like that. In addition to, you know, other sectors that might have not... not done very well. And so, rather than, say, having a portfolio that's like 60% S&P 500 and 40% treasuries, like a 60:40 portfolio, I would want some of US equities, some... some, you know, Japanese equities, some emerging market equities, some specifically commodity producers, some gold, you know, a little bit of Bitcoin, and then some cash for any liquidity shocks that happened. Any sort of like, you know, things I want to rebalance into, and just kind of hold that really diverse pie. Because whatever you run into, you know, one of the segments of that pie might get blown up. But, you know, most of those segments should... should do reasonably well over the course of a decade.

That's kind of generally how I play it is by being more diversified than kind of the standard portfolio. Because there are... there are decades where that diversification really helps. And this past decade was actually a period where that diversification is mostly harmful. Mostly, you just wanted to be the NASDAQ and just sit in the NASDAQ for a decade. And pretty much anything you diversified into other than Bitcoin like would have, you know, reduced your NASDAQ returns. It just would have been a...

Adam: 01:30:05 …

Lyn: 01:30:06 Exactly, an anchor. You know, whereas I think now we're probably in that... in that sort of decade where that... that more broadly diversified thing is more likely to pay dividends than... than that kind of hyper focused, you know, trend running thing.

Adam: 01:30:22 Yeah.

Mike: 01:30:22 Hallelujah.

Richard: 01:30:24 Amen. Yeah.

Mike: 01:30:27 Lyn, thank you so much.

Adam: 01:30:27 Alright. I think that's a good time to close it. What do you think?

Richard: 01:30:28 Yeah, you've said all of our biases, and hopefully a lot of our listeners' biases there. So, that... that couldn't have been better for to close the show.

Adam: 01:30:36 Been a really interesting framework, like very comprehensive. I love the way that you tie the... the micro to the macro and allow one to feed into the other and back. And I think you've... you've offered some really specific guidance, which I find really interesting, like the Japanese trading companies as a potential play on commodities or just Japanese equities, and in general, the framework on the dollar, and how it impacts all these different other sectors in the financial economy. So, yeah, really interesting. I have to say, I wasn't... I was the least familiar with... with your work coming in, and have learned a lot. So, thank you so much.

Lyn: 01:31:11 Yeah. Thanks so much for having me.

Richard: 01:31:14 Yeah, I really appreciate your time, Lyn. Thank you.

Mike: 01:31:15 Thanks, Lyn. And remember, everybody, if you like what we're doing and the guests we're talking to, you got to like and share. And also, lynalden.com, go check that out. Subscribe to that. That's... that's a huge bang for the buck. If you like the hour and a half she spent with us today, there's multiple hours of that on top of that on her site. So, thanks so much and have a great weekend.

Lyn: 01:31:37 Bye.