

THE MIKE ALKIN SHOW

TALKING STOCKS OVER A BEER



Announcer: Free and clear of the chatter from Wall Street, you're listening to Talking Stocks Over a Beer hosted by Hedge Fund veteran and newsletter writer Mike Alkin who helps ordinary investors level the playing field against the pros by bringing you market insights and interviews with corporate executives and institutional investors. Mike sits through all the noise of mainstream financial media and Wall Street to help you focus on what really matters in the markets. And now, here's your host, Mike Alkin.

Mike Alkin: Welcome to the podcast. It's Monday, Aug 6, 2018. Hope you had a good weekend. We switched up the podcast. Rather than it going out on Tuesdays, it's going out on Mondays instead. So, when I say, "Hope you had a good weekend" it's a little more pertinent than what I normally would say when it would be released on Tuesday, even though I was recording it on a Monday.

Anyway, had a nice weekend here. Dropped my son off yesterday. His first time going to sleep-away camp. He's going to a sports camp for about a week. And of course my wife's a mess, because he's going to be gone for a week. But I dropped him and some of his buddies off with a couple of the other dads at the bus and they're going about six hours away to a big lake and having a lot of fun. I'm sure they will be. No technology, which, for me, I love the fact that he won't have technology.

And even though he's outside a lot, he plays a lot of sports and he's a very active kid, it's still the Xbox. There are some days I just want to pull the TV off the wall down in the basement where we keep it. It's unbelievable how these kids are. And we monitor it and we give him limited time, but, my gosh, left to their own devices, they would do that. And now they wear these headsets where they can all talk to their buddies, so wherever their buddies are playing at home. And so, he won't have that for a week. He won't have his phone. He won't have his iPad. So, he's a little bummed out at that, but he'll be doing all sorts of fun stuff.

So, did that yesterday and then watched some great baseball this weekend. If you're a Red Sox fan and if you're a Mets fan, because we had nothing left. I think I've told you. We're the laughing stock of the major leagues, the Mets, if you're a Mets fan. But if

you're a Mets fan, you're typically not a Yankee's fan. So, this past weekend the Yankees rolled into Fenway Park down five and a half games and the Sox swept them in four games, so that was nice to see. Sorry Yankee fans, even though I watch a lot of the Yankees, because they're local, they're on, but if you're a Met fan, you're not a Yankee fan, so Boston's just on an absolute roll.

But really, the best part for me as a sports fan, is NFL training camps opened. When the Super Bowl ends until the summer, I have football withdrawals. And I had the NFL network and there's only so much of the scouting combine and stuff you can watch and replays of past games. So, it's exciting that training camp is here.

And then I can't even admit it, but I'm back. I've got another show and, same guy, same subscriber to my newsletter and John who recommended the Americans. I watch it on Amazon and it's about KGB spies living in the US in the '80s during the Cold War. And I think you heard me say Blacklist was something else. This is crazy. I mean, this is really good. I mean, it's captivating. Really, just intrigue at its highest. I just love that stuff. I love spy stuff. I love that action and this makes you think and there's times where you can't look at the screen, because you say, "Oh, my God. I can't believe they're doing that".

So, anyway, highly recommended, the Americans. I was reading something today, saw something posted on Twitter by Biscuit and Basket. That's his handle. And he posted something about inflation and I thought it was kind of interesting. It was an article from Eric Cinnamond who is a value investor and it's something that I've kind of ... I don't know that I've articulated it, but stuff that you just anecdotally listen to and pay attention to and you see all this 2015, 2016 and parts of 2017, all this talk about tamed inflation.

Really, inflation's not here, both on the consumer and the producer price level. And Eric wrote an interesting article. I don't know Eric, but maybe I'll try and get him on the podcast. I see that he's done some, but it was interesting. He talks about how inflation is now hitting the headlines and he goes on and he talks about what he was writing about in the second quarter of 2017 where he talks about, despite reports of tamed consumer and producer inflation, many businesses reported cost pressures and pricing action in Q2 of '17.

And you did start to see that in the earnings reports, but again, everything we see and hear is low inflation, from mainstream, I'm talking about. And then he goes on to write in his fourth

quarter of '17 update, he wrote that rising costs, especially wages, are becoming increasingly noticeable. Frequent discussions on strategy to pass on price increases. In addition to labor, freight and commodity increases mentioned frequently. This shift from a deflationary tone in 2015 and '16 to an inflationary tone in '17 and '18 is becoming more evident with cost and wages accelerating in the fourth quarter. And I'd say, spot on with that, from an observational standpoint.

And then, as you go through he says, listening to the second quarter calls, he continues to notice and document numerous examples of rising corporate costs and price increases, right? So, the disinflationary environment, which you really saw in 2015 and 2016, is now being passed and replaced with rising rates of inflation. And he highlights, and I think, rightfully so, that the shift in narrative from one of deflation, right? Falling prices, to inflation has been really slow to develop. And he highlights that others though, now, including the media, are starting to take note of it and reporting on the change in trend that you're seeing.

And he talks about, he saw an article, Kraft Heinz tops estimates with higher pricing and shares surge. Another article that was published last week, inflation, gas prices, tariffs. And this was interesting when I saw it, that on Proctor and Gamble said Tuesday that Pampers prices are going to increase by an average of four percent in North America, while Bounty, Charmin and Puffs brands could see five percent increases.

And he highlights what we all see, well, those of us who drive, that gas prices are already up about 24% in the past year and rent and housing costs are up almost 3.5% and auto insurance has jumped 7%. I mean, those are things that affect our everyday lives, right? So, while government-reported CPI has been low ... I mean, it spiked a little bit in the last quarter, but these things are starting to really eat into it, into our everyday living.

And it's something that I think we need to really start to focus on and stuff that I'm going to be paying more attention to. It's not that I don't pay attention to it. I do, but I'm going to start talking about it more on the podcast and we're going to, as time goes on, talk about the impacts that it could have on your portfolios and how it could affect earnings and how it might be able to help you guide your positioning in your portfolios.

So, anyway, Eric brings up a point where we are talking about a shifting narrative, right? And the narrative, obviously for the stock

market, for the last nine years has been fabulous, right? Aided by quantitative easing and the global Central Banks and, you've heard me talk about this before, and we've seen asset prices and including equity prices go parabolic.

So, we're going to talk about some things. And I do. I try and bring up some stuff where I try and say, "Hey, I don't know that the world's going to end tomorrow, from an equity standpoint", and I don't make that call. But I do make the call that you are nine years into a roaring bull market and things do change underneath the surface. And that, your portfolio, the way you've been positioned, you might have had equities that were very conservatively, in your mind, that were conservative equities and they've had great moves and you, kind of, get caught up in that. You, kind of, get caught up in the euphoria of rising stock prices. But I think we need to remember that things change and sometimes they change slowly and sometimes they change really quickly.

The thing is, though, you don't know when they're going to change, right? And that's why I'm not a big forecaster for jumping up and down with time certainty on when something's going to happen. But prudence would dictate that if you're following a narrative and you subscribe, which I do, that things can change and do change as your asset prices increase, you need to constantly evaluate the risk reward. And you hear me talk about that a lot: risk reward, risk reward. And so, I think it's something that we all need to, kind of, focus on and pay attention to. And I have a guest on the show today who's really going to ...

We're going to talk about what's been going on over the last several years in the markets and it's a noted short seller who's been around for 35, probably, years. And he's going to talk about the changes that he's seen going on in the market and I think you're going to enjoy the conversation. He's known as a Permabear, but you're going to be surprised when you hear how he thinks about the world, and how he expresses the view, right?

It's one thing to have a view. It's another thing to know how to express that view. So, you can have a bearish stance or a bullish stance, but it doesn't mean you're expressing that in the equity markets or the fixed income markets or whatever markets you're investing in. So, we're going to bring on Bill Fleckenstein of Fleckenstein Capital. Fleckensteincapital.com is Bill's website and Bill is a noted short seller, like I just said. Been around for a really long time.

Bill and I had a conversation the other day and I thought it'd be really interesting to come on and share his views to my listeners. So, without further ado Bill Fleckenstein, welcome to the podcast.

Bill F.: Thanks for having me.

Mike Alkin: It's a pleasure. It's great to talk to you. I've been in the Hedge Fund business 20-some-odd years and I never had the chance to meet you, but I know you know one of my former bosses where I was a partner where I worked for David Knott for a number of years. And you and David knew each other many years ago.

Bill F.: Yeah. That was back in the really old days when one and one only made two and financial statements mattered and it was quite a different world. I'm going to be curious to see what the world looks like on the other side of the QE experiment and see where we go. Whether we go back to the future or they come up with some new crazy scheme, but we'll just have to see.

Mike Alkin: Well, you bring up such a good point, because I remember when I started in the middle-latter part of the '90s, I was fortunate enough to work for some guys who had been around the Hedge Fund business for a long time. And that was before I worked for David, but the aging financial crisis was occurring and then, obviously, get into the Internet bubble and guys who'd been there before and they'd seen that fundamentals matters, that one plus one does equal two and you always have to, kind of, remember that. And you fast forward to today, people tend to forget that excesses occur and that markets do go down pretty swiftly.

I mean, how do you think about it when you think about this crop of money managers where they've come in the business 10, 12 years ago? Maybe they saw the global financial crisis, maybe they didn't, but memories don't seem to run very deep or they just don't have the memories. I mean, talk about what you've seen over your career.

Bill F.: I think people's viewpoints, to some degree, or to a large degree, are strongly influenced by what they've seen. So, for instance, when I started in the investment business in the early '80s, guys had only just gotten through the '70s, which were a pretty poor period for the stock market in general. There was '73, '74, which was brutal and then it wasn't that great in the late '70s and rates were in the teens and all of that.

And so, people that had been successful and had survived the

wash out in the industry and the markets in general had a bit of a cynical [inaudible 00:14:03] to them, or let's say skeptical, and could, kind of, anticipate trouble. And it was almost like people that were good at figuring out what this might lead to a couple of steps ahead could get a beat on the market. And that was a prevailing thought and because you really had to be good to have gotten through that period.

And so, if you start to think, the business slowly started to change for a variety of reasons in the early '90s, but part of what happened was the advocacy of the pension plans and more on the defined contributions as opposed to defined benefit plans. So, people started to get a little taste of the ability to run their own money and that's about the time Greenspan started to experiment. I say, "experiment". I'm being kind to him. He didn't really know what he was doing, but he pushed the envelope in terms of what the Fed was going to maybe do, which wound up with the stock bubble and as bad as the stock bubble bursting was, the Fed never took much heat for it, because conveniently, after 9/11 happened, the economic problems were blamed on 9/11 and not the prior bubble.

And so, the Fed starts it up again, and we have the housing bubble, which is bigger and worse and all of that. And then you fast forward to today and if you'd started your career about when you did or any later than that, you've seen mostly nothing but upness as a consequence of the Central Bank policies and while [inaudible 00:15:54] was scary, very scary, and I think the more you knew the scarier it was. I can say it that way. The people that are in business now have really not taken much pain for as, sort of, out of control and experimental as these policies have been.

So, now you've got a whole group of people that I would assume, I haven't discussed with all of them obviously, but we kind of assume, "Eh there's no real reason to worry about any of these macro problems. They just don't matter. And everybody who says these Central Bank policies don't work are crazy, because look, stock and bond prices are under control, employment's this, that and the other thing".

And so, until we get a real accident, which we're heading towards, and I don't think it's that far away, you haven't been penalized for, sort of, believing everything will always be okay. Or, said differently, you have been penalized for being skeptical. And I think that's, kind of, what we've evolved to. I don't know what it is the-

- Bill F.: -and I think that's kind of what we've evolved to. I don't know what it is the computers that are running money are doing. My guess is they're probably pretty momentum oriented, and from what I understand they weight the prior experiences more heavily. So there's some variation of a somewhat green money manager that they're all coining it now. So I think the nature of the environment has modified the thinking and is such that now the sort of skeptics and cynics have been kind of washed aside, and it's the kind of guys we would have thought were, I don't want to say gullible, because that's a little pejorative, but our less skeptical are winning and have all the dough. In the money management industry probably, that's not to say in real life.
- Mike Alkin: I remember in the late 90s and early 2000 working for Marty Zweig at his hedge fund, Zweig-DiMenna. And Marty was interviewed everywhere, he was on Wall Street Week all the time, and I remember Marty sitting in our offices and just sitting there saying, "Don't fight the fed," right? That was one of his famous quotes.
- Bill F.: He was one of the early guys to say that quite as vocally, and obviously was quite correct.
- Mike Alkin: Yeah. And so it's interesting. When you fast forward to here you are, people think of Bill Fleckenstein, they think of a guy who's a really well known short seller, and you and I were talking the other day and we were talking about positioning and shorting, and you said something to me that I thought was really very interesting. You said, "Mike, when they cut in March '09, when it was obvious what was happening, I closed my short fund. So talk about that if you will, and your view. Take us through from '09 to where we are today, and the evolution and how you're thinking about expressing the view.
- Bill F.: Okay. Let me take a slight step back and talk about '08 for a second, because that was kind of important. So in '08, when things were collapsing, I was really pretty worried because I was short stocks and I had a custodial account where I could move all the money so it couldn't be lost, and I was really worried. They kept changing all the rules, so even if you were ... If you'd have told me before 2008 that the S&P was going to be down 38% I would have thought, well geez, we'll be up 100, or 70 or 80, and as it was I was up in the low 40s. This is fresh because I was talking to another friend of mine who was a short seller in my office at the time, and because they kept changing the rules they kept getting these immense draw downs. He happened to really get hurt when they

banned short selling the financials.

So anyway, there was a real move towards radicalness that had been going on for some time and it became quite clear that they were going to do whatever they could to "save the system." And when they came with QE, I knew that that was going to be trouble. One of the things that I had done as a short seller along the way is I decided, when I first started my short fund I set it up to where I would always be short because people used to worry, you can remember that, people would be afraid you might miss it, you know? And I quickly found out in the late '90s that was impossible. You had to be able to get out of the way if you wanted to.

So the more I went along, the less often I was short unless certain things were happening, because I realized that given the things the fed was doing, they mattered more pretty much than underlying fundamentals. So I had been preconditioned, I believed what Marty believed only on steroids, because I had learned that the hard way. So when they said they were going to start QE I knew it was going to be really hard to make money on the short side. So I said that's it, I mean stock prices were down a long ways, that's not to say they couldn't have gone lower, but I knew they weren't going to. And I just didn't want to try to be a short seller in that environment so I gave the money back and I closed the fund down. Now, I never dreamed that 10 years later the market would be where it is and we'd still be talking about QE, but that just goes to show you how ... Sorry, I meant to make one more point. I also knew that it had never been tried before, so as it was going to take place we wouldn't really know what we were dealing with because it had never happened before.

Mike Alkin:

You know, QE comes on, but it even goes back before that, right? Where the problems were. I mean just think social security, underfunded pensions, and we've not really had true price discovery where the feds let just the market settle in for decades. So we come here now and here we are, QE, QE, global experiment of QE, as the prices rise across the board people seem to forget what risk reward is. So here we are today and I mean, how are you thinking about the world with where we are right now?

Bill F.:

I think that we're heading into the opposite of QE, and obviously QT has started and people I think in general, the people that I was talking about who basically don't think that worrying or thinking about these things make much different. They think the market's up because the market's up, so the fed QT doesn't concern them and hasn't mattered yet, except for the fact that the S&P, and for

that matter the Dow haven't made new highs, only the Nasdaq has, because it's more heavily influenced by the FANG stocks which we all know have powered a huge bulk of the gains. And of course now we've got a couple of FANGs that are struggling. I mean, Apple's been struggling operationally, it's just the stock price goes up no matter what.

So I think the market's on borrowed time. I think it's running out of gas and it's taken a while for it to crack, it hasn't really cracked yet although we had a break in January or February, but I think it's going to. The problem is, I feel like once the market breaks 15%, 20%, whatever, the Fed's going to try to ride to the rescue again and it's only going to be in that period after the Fed does this again where we get to see if the markets finally start to say hey wait a minute, we're not happy with this outcome.

There are places in the world where their currencies are basket cases, and if I'd have told you in 1990 or 1995, or any of those times, we're going to come to a period where we're like Japan's going to do what it's doing, you would have said the currency would be worth zero and the Bahn market would back up and the central bank wouldn't get away with that, but in fact they have. So until we start to see some signs that they're not going to get away with it, no matter how distasteful we think the policies are, you can't fight it. You have to know that they're going to get away with it until they don't, and when they don't, that's going to be a huge problem. It's not very satisfying but it's better than beating your head against the wall or trying to short the market and losing it, you know, losing money.

Mike Alkin:

The Fed comes in and rides to the rescue again. So much of the market is a confidence game and so much of it is psychology. If QT turns into QE again as you think, how do you think the market reacts to that? Do they view it as saying okay, here comes more liquidity, or does that scare people?

Bill F.:

I sure wish I knew the answer to that question, because that is the 64 trillion dollar question. I don't know and I don't know how we really could know. I suspect that the Bahn market may not cooperate next time. My hunch is that while we start to get a break in the stock market the Bahn's would rally, but if they come with QE again, that moment in time there's going to be more inflation because it's percolating now.

Whether psychology changes enough to really be a big deal I can't say. I hope that they're not successful, that next time they won't

be deemed as the saviors, they'll be deemed as the entity that caused this. But I must tell you, I thought after the '99 bubble the Fed would not do it again, and they did it even bigger. After the '08 bubble of course I didn't expect them to not do it because I'd seen what they'd done and they started doing QE. So now, even though I hope that the policy gets discredited when it becomes clear that you can't stop doing it. I don't have a lot of faith that that will be the outcome. I think it ought to be but I'm not going to make a bet that says that it will be, I want to see what people do, because 2 times the Fed's blown bubbles and they're still worshiped. Now they're on the third one but it hasn't burst yet.

So I don't think you can plan past the crack in the market that's in front of us. I don't think you can plan past that, because you're going to have to see how the markets respond to what they do.

Mike Alkin:

So you mentioned inflation, and before I brought you on I had been talking about it, and it's been tame for quite a long time. Originally, everyone thought all the money printing would lead to, you would see the velocity of money increasing and you'd see inflation, and it just didn't come. But now we are starting to see it. You're seeing companies talk about having to raise prices. Obviously you've had some wage pressures, but the price of stuff is going up, right?

Bill F.:

Yeah, price increases are going through and people aren't too affected about it. You have to remember, when the Fed increases the money, or monetizes the debt, basically print stuff up, that is inflation. We've increased a bunch of money out there, so by definition that quantity of money has to go down again [inaudible 00:27:55] goods and services [inaudible 00:27:56], but you don't always know which goods and services is going to go down again. Has it gone down against fine wine? Yep. Has it gone down against financial assets? Yes. Has it gone down against art and other things? Yes, yes, and yes. Has it necessarily gone down against the price of labor? Well, maybe not yet. And it depends on where you are in your economic state in life, how bad the inflation is. If you're a young couple and you've got kids in school and they're in private schools, obviously you've got that expense. Housing and [inaudible 00:28:31], so there's been plenty of inflation, it just hasn't gone through in a way that has upset psychology thus far.

Mike Alkin:

One of the things the Fed, I always knew in the business, is the Fed really wants to fight inflation, right? And their tools are to raise interest rates. So as you're entering this QT, and really when QT was on the drawing board you didn't really see much inflation but

now that it's coming, what role do you think inflation is going to play in their mindset? Because I'm friends with Danielle DiMartino Booth, and Danielle was a Wall Streeter who then worked for Richard Fisher at the—

Bill F.: Yeah, I know who she is, I know who she is.

Mike Alkin: Oh, you know Danielle, okay. She will tell you, and she said it very publicly, that the Fed lives in world of models. You've got PhD's running around but it's very static for them. They have their models and they rely on them. Well now you've got this nine years of a global central bank experiment that no one knows how it's going to end, and now you're starting to see inflation. How does the Fed react to if inflation starts to run away a little bit? What tools do they have, and how do you think they handle it?

Bill F.: Well they, first of all they believe in their own press clippings. So these guys kind of think they walk on water [inaudible 00:29:51]. And like she says, they believe in their models. I certainly believe that that is the case. But that's what's going on. If the economy is fine and the stock market's fine and inflation picks up its head they might say oh, this is a little faster than we like, maybe we should tamp it down. But I don't think it's going to play out that way. I think the stock market is struggling and by the time inflation picks up more, I think the market will be in a place where they'll just say, you know, if it runs a little "hot," that's no big deal, because these guys think they can stop it on a dime, which of course they can't.

But I think they believe it. They're not going to worry about it. They're not going to worry about it until long after they've decided okay, we need to do something about it, and it doesn't cooperate, then they'll worry about it. They're not going to fret about it. If the market's tanking and inflation is 2.4% and it's supposed to be a 2, they'll say, well we'll let it run hot for a while, it needs to catch up, and blah, blah, blah. They don't care about inflation, or they don't ever worry that their policies can lead to an inflation that they can't stop in five seconds.

Mike Alkin: Right, yeah.

Bill F.: But it can't, because if they really wanted to stop it and take the monetary actions necessary ... Look, the stock market is so brittle with all the hot money and the ETF and [inaudible 00:31:15] selling, and all the various types of speculation, put selling and all that, it's very brittle, it could easily crash and it could crash

between the time it starts to go down and the Fed can unveil whatever it is to stop it. So the wildcard of a crash I think is far, far higher than normal. And if that was happening they'd assume that inflation would come down, which at some point would. But they're not going to let inflation change whatever path they think they're supposed to be on in my opinion.

Mike Alkin:

So one of the things I've realized is I just can't figure out the market sometimes. When I'm positioning a portfolio, my net positioning, I do the best I can to try and figure out the macro and I always err on the side of probably too cautious, but as we think, you know, you shifted a focus towards the precious metals, and I know you run a precious metals fund. One of the things that has really confused me is how gold is reacting over the last few years. What's your view on gold here?

Bill F.:

Well, one of the things that puzzled me for the longest time was how it was that the gold market peaked out just as QE around the world really got rolling, was really starting to get rolling, and my best guess is, that once QE became powerful enough people stopped worrying about the consequences because there hadn't been too many negative ones up until say 210 to 211, there hadn't been many, and then said, well geez, this is really going to work so they kind of lost interest in gold. So, gold had its own bear market. And now we're at a moment in time where inflation is in front of us and our problems in many countries relating to either their currency, certainly QE has gone on around the world and there are negative consequences from them, they're starting to show up in addition to the fact that acid prices got boosted. So I'm quite bullish on gold. I couldn't begin to tell you why it's been so weak recently other than to say that there's a rather large short interest that has built up and that has kind of carried today because I think that the margin demand has been weaker than usual because people don't really see the need for it because everything "seems to work."

So as the Fed's policies are perceived to not be working, I think demand will pick up and I can't tell you what the exact catalyst is going to—

Bill F.:

... will pick up and I can't tell you what the exact catalyst is going to be but the market at the moment in time we're speaking now is quite primed because when you look at the position in the futures market, there's a lopsided level of short selling and a ... almost a record level on the part of the speculators. I think that will really add fuel to fire when something else manages to create sparks. I

don't know why it's so lame and why no one seems to care, other than to say I think people have such high degree of confidence in the central banks that they don't feel that they need it.

Now, I don't know why, I couldn't begin to tell you why the decline in the yuan has been de facto negative for the price of gold, other than to say gold was declining when the euro declined and it declined when the yen was declining and now it's declining when the yuan is declining, it's almost like somebody's computer has decided that, "Oh, this matters and then it does." Maybe there's a contingent of folks in China that were speculating in other things and they had gold and they're selling it because they're in trouble, I don't know. I cannot begin to tell you why it's been as weak as it has. I don't expect it to last a long time, but that's not a very good answer.

Mike Alkin:

I was at Vancouver in January at a natural resource conference and at a natural resource conference, where there are probably seven or eight thousand attendees, there were panel after panel on cryptos. So I thought, well maybe the marginal gold buyer is rotating into cryptos and they're riding this wave, but there was such an interest by gold bugs in the crypto space. I thought, well now we've seen bitcoin collapse to, what? The 7,000 level from 20, wherever it was, but you've just seen gold do nothing, so that theory ... because that was the theory running round the conference at the time, saying, "Well, you know, these guys are maybe rotating some of that money in." But how do express your view? Do you express it through the physical or do you own the miners? How do you look at the world of gold?

Bill F.:

Well, as far as the cryptos, I think the cryptocurrency is maybe owned by Asians, or maybe millennials or people here in America that want to express some kind of an idea away from the Fed and stuff like that, but I don't happen to think that a crypto's a store of anything so I myself have no interest in them. I own physical bullion and I trade gold futures on a regular basis but I think the real upside is going to be in a lot of these mining companies because a lot of them never were as profligate as people think, a lot of them were and then a lot of them have ... a handful of them have gotten themselves in good positions and they're drilling and finding more ore and things like that and they're actually trading quite well. The big current lament that is being promoted by Paulson, John Paulson, I think is he's a day late and a dollar short on that. I think a lot of companies have been guilty of that but I think the companies figured out for a lot of them a couple of years ago and have done something about it.

I think some of his issues have been related to the picks that he had, so I think the browbeating that's gone on about most of these mining companies is a little bit late, that criticism, and it's a little bit inaccurate for many of these companies. I own a handful of companies and I don't feel like any of them have mis-allocated the capital.

Mike Alkin: And you've seen drillings cut back? Reserve and replacement is down to real lows, so in the junior mining space, they almost act as though the exploration arm for the bigger guys who aren't out there looking for stuff, it seems.

Bill F.: Well I think there's not a lot of green fields exploration but that's because the price is not high enough to really incent people. Now, there are some smaller ones that have done an excellent job of finding ... You know, Kirkland Lake has been a home run-

Mike Alkin: Yeah.

Bill F.: ... there's a small one called [inaudible 00:38:19] that I own and there are others too that, where they have exported, found meaningful deposits. I'm much more attracted to companies where they have high ore grade in terms of grams per ton, than the marginal stuff, because then you can only win with the commodity price for the most part. So I think there is an opportunity to make really serious money in some of these mining stocks, but the price of gold's going to have to go up for that to happen.

Mike Alkin: Right, right. One of the things I'm noticing as you see some earnings come out is some of these companies that are missing are getting shot. So you're seeing some stock picking that matters, but obviously we've seen the FANGs just take the day. You've seen this before, you've seen groups of stocks that can do no wrong and everyone gravitates towards. When you look at the FANGs, you look at the names that have been the market leaders, in your experience in the past, what is it that typically trips these up? Because valuation doesn't seem to matter to anybody?

Bill F.: Valuation does not matter at all.

Mike Alkin: It doesn't matter and you can't short valuation, you can't-

Bill F.: Valuation cannot end anything, it's just a measure of risk when things do change. I learned that a long, long, long, long time ago.

Mike Alkin: Yep, absolutely.

Bill F.: So it doesn't really matter how crazy things get in terms of causing it to end, I have a belief that manias can only end in exhaustion, that's the only thing that stops them. My favorite analogy is a chain letter, I don't know if you ever experienced a chain letter when you were a kid, or in high school, or in college or somewhere—

Mike Alkin: Yep.

Bill F.: ... but I've seen it a couple of times and they work and they work and they work, and then they don't. Why don't they? Well, the psychology changes, or something happens. That's been my dealing of how manias end. In my opinion, that's how the first stock bubble ended, although it was associated with the Fed taking back some liquidity that they injected in in December of '99 to avoid the Y2K problem that wasn't a problem. So the money then came back and then it exhausted stuff in March. In the '07 peak, the Fed had been raising in baby steps and then finally, the real estate market exhausted itself which was manifested by the very first payment defaults, which began in early '07. When that happened, I thought, "Okay, the real estate market's exhausted." This stock market is going to exhaust itself. I think we've seen that, in that in January the market broke at the same time, the cryptos broke. The cryptos are a perfect example of a modern day chain letter, in my opinion, and they just kind of flamed out for no reason in December. That's the perfect template to use.

Something in fact does help break them, but psychology has to change and probably the root cause of the psychology change is a [inaudible 00:41:27] change in underlying liquidity, although you'd have a hard time making a case that any individual chain letter back in history died because of liquidity. But in any case, so I think the market's in a process of exhausting itself and we won't know for sure until it heads down for real, but we did have a break and the SNP and Dow, as I said, haven't made new highs, even though the NASDAQ has. So I think the process is starting, it's just kind of going slowly but at some point, it'll pick up a lot of speed very quickly, I have no doubt about that.

Mike Alkin: Well for me, the ones ... I had followed Tesla, just from afar for a while, a few years, but I wasn't really spending too much time on it until about six months ago. To me, that's this market's poster child, because I look at the FANGs, Netflix misses, boom, done, its stock gets hammered. We saw others, Facebook had a tough quarter, gets hammered. Tesla I look at, and every bit of analysis I know how to do for 20 some odd years and I look at it, the balance

sheet gets worse and worse and worse and nobody cares and so-

Bill F.:

I think that's a very good example in my opinion, because it's one that I like to use. I like to use it because it seems obvious that they're not going to get to where they need to go and the competition ... so we all know all the reasons, anyone's paying any attention. I like to use it as a barometer. The other one I like to use is Apple, because their units haven't grown in four years basically and whether you want to talk phones or their iMacs or whatever, now they've gotten more money because they've raised the price of their phones, and they've sold more apps, basically games and things like that, which their third party vendors make and they just take a piece.

So I would have thought that the price of Apple, it's basically doubled since their new phone roll outs haven't really moved the needle. I mean, units are about the same as they've been for four years, right around 50 million a quarter on average and their revenues have been around 230 billion plus or minus. The stocks doubled as though things had gotten better and not stagnated. So I like to use the two of them just as some sort of a guide as to whether or not problems seem to matter, because if problems don't matter, you certainly can't be short if problems don't matter. I don't know if that should encourage you to be more long necessarily, but in any case ...

So I agree with you. I think it's a good litmus test and so as long as bad news doesn't matter, it means that it's not really time for the market to go down, with any vengeance. Now like I said, that could change very quickly, I don't know what's going to make it change because ... But I think the QT, which is operating beneath the surface is slowly mattering and at some point it'll matter quickly, because they're going to keep upping it. So I don't see how we get between now and the end of the year without some kind of accident but we'll have to see.

Mike Alkin:

So you're doing what, you have fleckensteincapital.com and what do you write a daily missive? Or what do you put out every day?

Bill F.:

Yeah, I've been writing a daily column since 1996 and I answer questions on my ... I write a column and I answer questions on my website and then I run my small partnership that I run.

Mike Alkin:

So every day when you're thinking about what to write, what do you focus on? What are the things that you pay attention to that maybe listeners could say, "Hey, this is what Bill's looking at." What's the ...

Bill F.: I guess what I'm looking for now is just signs that something's different than it's been in the last group of years, right?

Mike Alkin: Yeah.

Bill F.: One of the things I look at, although there's been no reason to look very closely, is Japan for instance, because, you know, they've monetized the snot out of the Japanese bond market—

Mike Alkin: Yeah.

Bill F.: ... and they print money hand over fist and you get nine basis points and you got a depreciating currency and they've [inaudible 00:45:45] it makes my head hurt when I think about them. Every time I think about how bad the Fed is, I think about the BOJ, or even the ECB for crying out loud, their negative rate. So as irresponsible as the Fed is, these other guys are way worse.

Mike Alkin: Yeah, yeah.

Bill F.: And that's not easy to say, and it's not easy to do—

Mike Alkin: And it doesn't matter.

Bill F.: ... but they have. So I just look for something that just looks a little different because unless something different starts to happen then it's by definition business as usual, or business as it's been.

Mike Alkin: Yeah, it's a fascinating time. Well Bill, I appreciate you taking the time out, I know it's the dog days of summer here so I'm thankful that you took a little bit of time to chat with us.

Bill F.: Hey, it's my pleasure, it was fun.

Mike Alkin: Great, we'll have you back, thanks a lot. Well, I hope you enjoyed the interview with Bill Fleckenstein. Bill has been around a real long time, I hope I have his genes because he's been around way longer ... I think he's been around since the '80s and he's known as a permabear but I have to tell you, obviously he's not, he closed his short fund in March of '09 or somewhere in 2009 and that's a pretty good time to get out of the short business. But I always have enjoyed watching his interviews and I'm glad I've gotten to know him recently and whether you agree or disagree with his view, he does bring a differentiated view and I'm thankful that he came on and shared his insights.

So obviously you know that I've been cautious and it's really hard

to say when something's going to happen or how ... the order of magnitude of something's going to happen, but there are a lot of moving parts out there and it's not all just a Goldilocks scenario, so I just wanted to bring on Bill and have him share his view with you all. So, I just wanted to let you know that I am the co-founder and chief investment officer at Sachem Cove Partners LLC and due to industry regulations, I don't discuss any of Sachem Cove's funds on this podcast and all the opinions expressed by the podcast participants are solely their own opinions and do not necessarily reflect the opinion of Sachem Cove or its affiliates.

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