DIVIDEND CAFE | PODCAST TRANSCRIPTION

FRIDAY, APRIL 19, 2024

Well, hello and welcome to this week's Dividend Cafe. I don't usually think you guys care much about hearing my own stories as to where I am and why I'm there and what's going on. But this particular week has been a real labor of love to get this thing recorded because I am actually out of my desert house in Rancho Mirage, California, and the WiFi went down. So I am recording across the street from my own house at the Ritz Carlton Hotel, just so I can give you this week's Dividend Cafe. It is absolutely amazing how dependent our lives become on wifi and the interconnection of home appliances and systems and basic living with such things in addition to, you know, the work functions like recording Dividend Cafe. So I'm glad it was all able to work out here. And hopefully you'll get some information out of this week's Dividend Cafe.

There'll be interesting to you, but thought I'd explain why I'm in a different destination than intended. Let's talk about this week as I'm sitting here recording. We're literally at 38,000 on the Dow. And last Friday afternoon, when the market closed, we were at 38,000 on the Dow. So this could seem like an uneventful week, except for there were 330 missiles fired at Israel by Iran last Saturday. And Israel did some form of a quasi. Retaliation against Iran last night. And in between there were interest rates moving and oil prices moving and earning season beginning.

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So you would think this would have been a week of some substantial market volatility, especially coming off the last two weeks where markets had dropped roughly 1500 points on the Dow. Three to 4 percent in the S&P and the Dow. And yet it's appears that we're going to end up somewhere right where we started.

So I just thought I'd reiterate something I'd said a couple of weeks ago in any short term period, a week, two weeks, a month, two, whatever it is. The answer as to what could happen is that markets can go up a lot. Markets can go up a little markets can go down a lot. Markets can go down a little or markets can stay flat. I think you will find those five options cover most ground. And here we are. An interesting question has come up as I've been making the case lately that ironically, the biggest risk to upside inflation at this point is oil prices. That if you were to see these oil prices that are right now hanging in there through a lot of Middle East geopolitical turmoil in the mid eighties, but if you were to see things break up into the nineties, let alone a hundred, that becomes the issue that really changes the picture with headline inflation, that is obviously completely out of the control of the federal reserve. All in a period of time where most other components have been conveniently disinflating, even if not at the rapid pace that they've wanted to be able to have optical cover to begin cutting rates.

And a few people because I've written so much about where I think the Biden administration has struggled to fill back some of the strategic petroleum reserves that they in 2022 depleted just massive amount of the oil did bring in our levels of emergency reserves down to where they were in the early eighties.

And for a number of factors, some that you could argue with their own mismanagement and others that were out of their control, they have not filled back the SPR. And some have asked, you know, do you think in election year, they're going to have incentive if oil prices do get back up to around 90 going in the summer?

So not only not fill back the SPR, fill back SPR, but to pull it down further to deplete more from the strategic reserves. And I wanted to address that because obviously I don't know, and I don't want to be so cynical, but I certainly do not want to participate in giving politicians the benefit of the doubt any more than I want to go around always assuming the worst.

So I think it's certainly fair to say that doesn't happen. possible, but the only caveat I'd give is I don't really know there'd be that politically beneficial. I think it would be perceived as so, shall we say cynical and opportunistic that it may very well backfire if they were to do something like that.

The dollar is, a subject that comes up quite a bit before more permanently bearish people. It's a easy way to look at some of the rightfully criticized elements of fiscal and monetary policy in our country, and then go to a conclusion that has a way of sounding kind of. Smart and sounding kind of dramatic without people necessarily really understanding what they're saying.

And that is to predict that the dollar is going to disintegrate, evaporate, lose status, fall apart, et cetera, et cetera. And I've always made the case that we can criticize policy where we want, but to make the argument that the dollar is going to fall apart, has to involve some substitute replacement that has always been lacking in that conversation.

But I just and then. The fact that the people have been, usually the people saying it have been saying it for so long, it's not been a great track record of prediction. I feel like I'm being very nice right now. The Treasury Secretary of the United States of America Chair Janet Yellen, former Chairwoman of the Federal Reserve, issued a joint release with the head of the Bank of Japan and head of Treasury at South Korea this week acknowledging The sharp depreciation of the Japanese yen and the Korean won in recent weeks, and effectively committing to some sort of coordinated response or whatnot.

This is all code. It's all veiled language for essentially them all coordinating and working together for them to sell dollars if need be. And again, the fair caveat to offer is they may not have to actually do it because by threatened to do it, it could have a market impact. The dollar did come down a little when they did so, but this is what we're talking about a day and age where people are just saying, Oh, the dollar is going to get hammered.

They're actually having to take emergency, almost unprecedented efforts to stop the dollar from rallying so much.

That's what we're dealing with. And yet most of the conversation is, don't you think the dollar is going to collapse? Interpret that for what you will. Maybe it's just simply because the dollar is in a moment of rally, and yet really just around the corner it's all going to collapse.

But this is what we're talking about. It's not unprecedented dollar collapse, but the rally and other currency struggles forcing Integrated response amongst some of the different financial heads of developed economies around the world. The S& P 500 right now, speaking of economies around the world, is in the 90th percentile and then some.

I think it's like the 94th percentile in terms of its historical valuation. The Hang Seng, which is the Hong Kong Stock Market Index, is in the 4th percentile. The fourth percentile, 96 percent of the time, the market's been more expensive than it is now. It's trading about eight times earnings. Now there's usually reasons for things like this.

Do I have the guts to enter the Hong Kong stock market on a valuation call right now? I do not. But it's worth pointing out now. I wanted to also say the UK which does not have the imposition of CCP. hanging over it the way Hong Kong does, which is really what is the basis of that downward pressure in Hong Kong.

The UK is on average for about 15 years traded at a 20 percent discount in valuation to the United States stock market. And it's currently trading at a 47 percent discount in valuation to the U.S. Stock market. So you could look at the valuation difference and say, Oh, wow, that's something. But you could also look at the valuation difference now compared to what the valuation difference has historically been.

And that is a perhaps even more accurate story pertaining to either excessive valuation in the United States or a value opportunity in the U. K. Or perhaps both contrarianism I talk about a lot as an investment philosophy, as a mentality, and I largely favor it around the idea of not playing into crowds, not, just understanding that when there's a consensus view, everyone thinks X, that is not ever true, that everyone thinks X, but no one has yet Priced that into X, if everyone thinks that it's already in the price and now it could be even bigger than people think and people could think it and invite more people to think it.

And there's a momentum story and a greater fool theory that could all push prices higher. But the problem with something in the consensus view is that it's in the price. The problem on the other side, when something is underappreciated, is that you could be wrong. And you most certainly are going to have to be patient.

And I think that that requires a lot of humility. And yet the better way to put to summarize how we view contrarian investing is always avoiding the madness of the crowds, but never just simply saying we want to go do the opposite. You know, everybody out there thinks that mud mixed up with lima beans is a bad meal.

So because they all think it, I'm going to, I'm going to eat it instead. I mean, there are certain things obviously where betting against the crowd for the sake of betting against the crowd is as dumb as betting with the crowd. The fundamental tenet of contrarian investing has got to be independent thought.

It has to be conviction that avoids doing things just because others aren't just as much as it avoids doing things just because others are. And that's where I Advocate so much for investing out of one's own beliefs and philosophy and process. And I think that tends to be a truly countercultural thing.

For those paying attention to Bitcoin, it is down about 8,000 in the last few days, roughly 11%. It dropped to 9 percent in a minute after the issues with Israel and Iran. I don't care if someone thinks it's going to zero. I don't care if someone thinks it's going to 500,000. I am totally, completely agnostic about anything speculative and lacking an internal rate of return, but I just want to push back on one thing, hich is so easy to push back on because I'm so empirically correct.

Like it or don't like it, and yet refer to it as a fight to safety, a safe haven. Like, okay, well, you know, maybe we should have Bitcoin, maybe we shouldn't, but it's one of those things that if everyone rejects the dollar, there's a lot of risk here. At least, you know, Bitcoin can be this. anti fragile asset, we call it, like a treasury bill.

It's pretty much the most untrue thing I think I've ever heard. Bitcoin's volatility makes the volatility of most risk assets look like child's play. This is not to say it can't go higher. It's not to say it can't go lower. It is to simply say that it does not and never has behaved anything like a safe haven.

It's not an anti fragile asset. It's got a very high correlation with micro cap NASDAQ stocks. It has a very low correlation with treasury bills. It's all I have to say. Auto insurance up 22 percent year over year. And why might that be? A relative piece from Ben Carlson this week who I thought had some thoughtful observations.

He talked about the possibility that people are just worse drivers now. And I, you know, I think that there may be something to that. I don't really know. I do know. That with a smartphone use in a car, the total number of car accidents is higher. But what we also know is that the price of used cars and the price of new cars went up a lot in 2022, and then they've sort of disinflated since then.

And I suspect that auto insurance having 22 percent inflation in 2023. Was a lag effect to the high increase in cars in 2022. So, that seems to me to be Occam's razor here in understanding inflation. Finally, I wanna leave you with a comment on cronyism. I hate cronyism, I hate crony capitalism. I am a free marketeer.

And I believe that there needs to be, and I try my very best in my platform and work to do this, to make a moral case against cronyism as being discriminatory, unfair partial, and allowing big and powerful and resources to, to gain an advantage not available to less big and less powerful, and that it is not byproduct of a market economy.

It's an anti market economy. It is the marriage of business with government for the means of picking winners and losers. And yet I also think that we fail sometimes to only make the moral argument, which is primary for me. When we don't make the productivity argument that cronyism is highly unproductive.

It disincentivizes very nonproductive activity and behavior. It essentially. Allocates resources wrongly. It provides subsidies to things that otherwise would not get it. It moves capital around. It distorts price discovery. It creates other costs borne by taxpayers, cost of regulation, cost of legal lobbying.

There's a regulatory burden it puts in the private sector. These, all of these attentions and all of these efforts. are describing essentially non productive activity instead of competitive and productive activity. Cronyism is a problem, not only for its ethical connotations, but for what it does to the productivity of the economy.

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And the last thing this economy needs is anything else, putting downward pressure. So I will leave it there for the week. Check out the chart of the week and quote of the week at DividendCafe. com and I look forward to bringing you another Dividend Cafe on Monday, our weekly trip around the horn of all current events.

I will see you on Monday and have a wonderful weekend.