DIVIDENDCAFE | PODCAST TRANSCRIPTION

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Well, hello and welcome to this week's Dividend Cafe. I'm recording this week's on Thursday from our office here in New York City.

I have not recorded a lot of Dividend Cafes on Thursdays as of late. We're generally recording them on Fridays. And so if anything happens in the market on Friday. That would have been otherwise noteworthy. Hopefully you will understand why you're not hearing me talk about it. Because at this time I don't know about it.

But as I'm sitting here recording just a little bit before the market closes on Thursday, there's a couple of things I want to go through today. Covered in the written Dividend Cafe of the week. But nevertheless worthy of your attention here in the podcast, in the video. The first and probably primary thing I want to talk about is seemingly.

Unrelated to almost all of you, but actually very related to literally all of you and there is some new financial product, some would call it a new innovation that is making its way around that not a single client of the Bahnsen Group owns or ever will own, or that any advisor at the Bahnsen Group would ever advise on or recommend or utilize. And yet I'm going to be talking about it here for the next few minutes. Now, why do we care to talk about a product that does, that we're not going to use? There's a reason, and it's going to get down to a sort of philosophical understanding about investing, about human nature and about the intersection of supply and demand.

The product just to cut to the chase we're referring to is something called a single stock ETF. Well, for those of you a little more astute, you may know that an ETF is generally a exchange traded fund. That's a basket of a whole bunch of stocks. So why would one need a single stock ETF when they could, an ETF is a stock.

They could just buy the stock. Why would they buy an ETF of the stock? Would that be the only stock in the ETF? Doesn't make any sense. Well, of course there has got to be a reason. And the reason is that there are these ETFs that have been created to give people leveraged exposure. To a given stock, either the stock going up or down.

In a single day. And so a lot of these are three times levered, but only within the estimated price movement of that day. So there's a Bloomberg article, I have a Lincoln dividend cafe that refers to one particular one of these where the stock on the year is up over a hundred percent at three times leverage.

You would think it, it would, the ETF would be up 300%. But it's down 82%. And the reason is that the options that are being used to create the leverage reset every day. And so the mechanics of it have nothing to do with just being triple along the stock. It's a day by day by day trading mechanism. My friend Cliff Asness, who's a hedge fund manager with AQR here in New York City said, What fresh hell is this? Was his Twitter question about these new innovation, innovative products. It is just obviously a financial product manufactured for rank gambling, intraday speculating where one could be very short with leverage or very long with leverage day by day by day. Now I sound real critical of the product cliff calling it fresh hell, me repeating cliff saying it.

There's a whole lot of other things I probably have said or have thought that I'm not saying. Okay. And yet if someone were to come to me and say, what do you think they should do? We should ban these products, right? I would say no. And here, and this is a very important point. That's going to come down to all investors here in a moment.

When we look at like a societal epidemic, let's leave aside levered single stock intraday ETFs for a second. And look at something, like drugs, the epidemic of illegal narcotics in our country. I am one who, if I could get a magic wand and only use one waving of the wand to try to solve the problem would absolutely try to solve it on the demand side.

Meaning, whatever spiritual or personal or emotional or psychological hole someone has in their life that's causing them to go to this unhealthy and destructive habit. That demand is the way I would believe we could try to achieve a more permanent and substantial solution. Going to the supply side, trying to get the drugs off the street, I think is a temporal fix and someone would move to a different drug until that demand Proportion is resolved, the supply issue is at best case temporary, and it doesn't seem to always be so easy, even temporarily.

When I think about financial products, and I'm sorry if the analogy seems crude or melodramatic, but I think it's a helpful way for me to make a point that I truly do believe in. Financial irresponsibility, financial recklessness, financial speculation, financial gambling. These are things I think people have every right to do personally.

I don't think a fiduciary advisor should advise on it or recommend it. But an individual on their own who has not been defrauded about the risks, who has received disclosure that is necessary to make a decision. should have the right to go blow themselves up. And I would like to maybe see tort reform and litigation reform where when people do that, they can't sue people that were a part of them doing what they wanted to do to themselves.

But I'll leave that aside. Theoretically, I don't think that the issue here is the supply of financial products that I think are essentially up to no good. The problem is the demand. Well, what we're striving for at The Bahnsen Group is to remedy the demand side day by day by day. By first of all, having clients who want our advice, having clients who trust us, who are interested in real coherent solutions to real problems, to challenges, to goals, to the financial objectives people have and the bad products out there that don't fit within that, we don't have to worry about.

We have the demand side properly prepared and disciplined. And advised upon so that then solutions can be presented that are appropriate. Look you're, you can't change human nature. People think they can make three times in a day and that, there is a sense in which some may really honestly view it as recreation and I don't think it should be illegal for someone to recreate with their own money.

Like I said, I don't think they should be allowed to sue people when they go Recreate poorly with their money, but that there is no recreating not poorly. So, it's going to end the way it's going to end I think that Advisors, this is not what i'm referring to here when I say people have a right to do this with their own money Advisors who have fiduciary duty To clients need to live up to that products like this are unspeakable to me in terms of my own moral and fiduciary duty to clients.

But to the extent that I can't control the supply side of our industry, what products come out that would have no business in the universe of what we do on behalf of our clients. The way around it is on the demand side, avoiding absurd. And reckless speculation. And I think to the extent that we do that the value proposition can be honored, to contort the demand of investors, to meet it, to be in line with the needs of investors.

That's what our job has to be. And out of that defined solutions that meet objectives that would be our aim single stock ETFs, triple liver levered for a day activity. is not the last set of products that's going to come out that offend my sensibilities. And it is absolutely not the first but underlying the manufacturing of these products, the supply is a demand issue.

And that to me is at the heart of what we have to do as fiduciary advisors. Let me go through a few other things just as I get ready to wrap up. And as I mentioned, I have a plane to catch myself here shortly. The yield curve had been severely inverted for most of the last two and a half years, and there was absolute excess of commentary About how an inverted yield curve meant a recession was coming The yield curve is essentially now at the 210 the two year and the 10 year back to flat so it is more or less uninverted The 90 day and the 10 year is not uninverted yet But once the fed starts cutting then that will begin to happen And yet no recession has come.

Now maybe one comes in a year, maybe one comes in two years. And if someone believes that a inverted yield curve is predicting a recession in four years or five years, then they could go on believing that. It would be a reasonably unhelpful prediction. Predictive source, if that were the case now isn't what was predicted and the people predicted it were wrong.

Now, a lot of times the yield curve is inverted throughout history. There has been a recession. They weren't wrong to quote history But as a foolproof predictive measure, it simply isn't and never has been We spent a lot of time talking about that, but my own belief is that other issues coming out of the inverted yield curve now need to be looked at with a similar degree of skepticism because we're heavily weighted in the defensive sectors, just by nature of our dividend growth philosophy, the fact that consumer staples and the last average of a period coming out of yield curve inversion, when yield curve is uninverted a year later, consumer staples have been up 15 percent better than the market healthcare has been up 10 percent better than the market energy has been up eight, eight and a half percent better than the market.

And we're heavily invested in those three sectors. You would think I'd be holding tight to that statistical point, but I'm actually not because I don't know that history will repeat itself when the yield curve un inverts when history didn't repeat itself this last time around when the yield curve did invert.

Some of these issues that people have believed to be causative were not causative, and history has not been foolproof. Now, right now, look, over the last four to six weeks, healthcare, consumer staples they're doing very, very well. It may appear that this trend of past precedent is reasserting.

I would take it with a grain of salt based on some of the, counter historical behavior of the yield curve and the economy around it in the last couple of years, but it's worth noting. That's why I bring it up. There's a chart at Dividend Cafe this week that I want to bring to your attention.

It's a complicated chart, but I'm going to make it simple and by in my explanation, how do you get government debt up 10 trillion and total real GDP growth, real GDP after inflation economic goods and services in the economy measurable. Up something much less than 10 trillion. There's no other reason, it's just math, than what it would be called a negative multiplier. When the government spends a dollar and GDP grows more than a dollar, that's what John Maynard Keynes referred to as the multiplier effect. You got a positive multiplier. When the economy is growing less than the amount of additional government debt, you have a negative multiplier. And that negative multiplier.

Is what I have talked about for years and years. Probably devoted more time in my own academic study to this subject than anything, and I'm committed to doing so for many decades to come. It is the diminishing return that comes from excessive government and debtorness, specifically the use of debt capital that becomes unproductive.

And there is a marginalization of the productivity of that use of that debt. And it manifests itself in a negative multiplier, which downward pressure and economic growth. And this is the dynamic that I've referred to as Japanification. So the per capita GDP growth has declined all the while the debt as a percentage of GDP has increased.

There's a chart at Dividend Cafe to play this out more. It's very much worth looking at. I'm going to leave it there just in the nature of time. And I want you to digest the major point of this week's, which even though it's not really about single stock ETFs, it's trying to cause you to think a little about that supply demand issue when it comes to financial needs and financial products.

I am looking forward to being back with you next week. I'll be back here in New York doing Dividend Cafe. Brian will bring you the Monday Dividend Cafe. Thanks for listening. Thanks for watching and thank you for reading The Dividend Cafe and happy anniversary to my wife, Joleen.

Thanks so much.