Anatomy of the US Dollar End Game Part 5 of 5

Hosted by Erik Townsend and starring Jeffrey Snider, Mark Yusko and Luke Gromen
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My next question is: What signposts we should be monitoring along the way to gauge how this dollar end game is progressing. To illustrate my point, I'll start with a couple of my own.

First one, I will be watching the open interest when this new yuan-denominated crude oil contract starts trading. To my thinking, if this thing gets traction, and a year from now we're talking about how the Brent contract lost a considerable part of its market share to the new yuan contract for trading oil, okay, that tells me this thing is on like Donkey Kong. It's accelerating and it's time to really think about the end is nigh for the dollar.

On the other hand, if this turns out to just be a purely symbolic gesture, where we say, okay, theoretically, it's possible to trade oil in yuan, but nobody really ever does. Okay, that tells me that we're still in the buildup phase. It's an important symbolic gesture. But it's just a symbolic gesture.

Another major signpost that I'm going to be watching for is a decoupling of the usual relationship between interest rate differentials and the dollar index. In other words, if Treasury yields are going up at the same time that the dollar index is going down, things are getting serious. Because that means, as long as there's rising Treasury yields and that continues to attract international capital flows into the US, the system is basically working the way it used to.

If it breaks down to where rising relative – relative to other sovereigns around the world – the US is paying better Treasury yields than anybody else, and that's not attracting international capital flows into the US Treasuries and into the dollar, that tells me the end game is on.

Now those are just two examples.

What are the signposts that you guys think we should be watching for to gauge how this story is unfolding? And, particularly, what signposts tell us that this thing is really on now, it's not just a buildup, it's really happening?

Luke, why don't we start with yours, because I think you've got quite a bit of research on this point.

Luke: Thanks, Erik. Key signposts. I think if global central banks were to stop sterilizing US deficits by stockpiling FX reserves for the first time in 70 years, I think that would be a signpost.

And that's a signpost that factually has happened over three years ago, 3Q14. I think once that happens, I would be looking for US deficits to begin rising as a percent of GDP for the first time since the recession, because that has been a fail-proof 100% of the time indicator of either a coming recession or a coming US dollar devaluation over the last 50 years.

And that began in 3Q16. I totally 100% agree with your point that, if I started seeing the dollar down despite rates up and beneficial rate differentials in the US, that's a classic emerging market problem. Where the currency's going down and rates are going up. That's what we were talking about with the PIGS, Argentina, etc. etc.

Guess what's happened in the US this year? Dollar's down, rates are up, despite beneficial rate differentials.

I think you would start to see what you typically see in these emerging markets, which is a sharp rise in local currency in terms of risk assets. Regardless of fundamentals, regardless of valuation.

Guess what's happened to US stock markets this year? Guess what's happened to bitcoin this year? Guess what's happened to artwork this year? Guess what's happened to classic cars? Real estate. Etc.

It's happening.

I think we are in the very late innings and I – to your point earlier Erik – I think because, like the IMF former chief economist said almost 10 years ago, if you take the name off the masthead of what country it is, and you described it 10 years ago, you'd say, oh my gosh, this is a disaster.

And the only thing that kind of kept it was the fact that we were the US and global central banks were stockpiling our debt as their reserve assets. And we're now over three years into them not doing that anymore. I think we're a lot further along in this process.

What is the final trigger? I think that goes to Jeff's point. It's unpredictable. We don't know. Look, we could come out in ten days debt ceiling, December 8th – everyone seems to have forgotten about that – and the US could say, we're not paying it.

Or we're getting rid of it altogether, we're just going to print it all from now on and we'll spend whatever we need to spend. You never know. Could that happen? It absolutely could happen. Trump reached across the aisle a couple of months ago saying, why do we even need a debt ceiling? Let's just spend.

It could be something – some sort of binary political announcement. It could be some sort of war or geopolitical problem. It could be the yuan-denominated oil contract gaining traction. It's a matter of national security for China to move in that direction.

So there's a lot of potential triggers.

But, to me, it keeps pointing to the same thing, almost like those Venezuelan credit default swaps. They were at their lows when people were turning to prostitution for food, and starving to death. And, four to five months later, they were up 5x.

And I think there's something very similar going on, where we are well into this process. A lot of the symptoms are there. Just people are not accounting for them properly because it's the USA instead of Argentina on the masthead.

Erik: Mark Yusko. What signposts are you watching for?

Mark: Yeah, I agree on a number of the signposts. I do think the asset values is one to really watch. I had this kind of epiphany the other day. Grant Williams, who's a good friend and Twitter buddy, spoke at a conference I was at and showed a number of things that all of us looked at to say, oh, stock markets are incredibly overvalued.

Things like price to sales ratios and PE ratios and CAPE ratios. All the things that we have been classically taught tell us that things are toppy.

And then he put up a chart that, really, I'm struggling with for the last week. I wrote about it in my letter. I'm talking about it tomorrow in our around the world conversation. And it was the index – the S&P 500 – in gold. Which is actually materially lower than 2007 and materially lower than 2000.

When I think about what has happened in terms of a nominal inflation of assets, kind of last-ditch effort to fill the government coffers – I read an amazing stat. I don't know if it's right or wrong – you never know what's right these days around government – but it said that the top half of tax payers pay 97.3% of taxes.

Which is a frightening thought.

They say figures lie and liars figure – because the bottom half actually don't pay any. But it did say taxpayers. So I assumed that excluded the people who don't pay taxes. But maybe not.

But anyway, I think what I am looking at more now is these nominal increases. I mean, when single pieces of artwork go for $450 million, you have to wonder – the person who made that purchase – if it's who we believe to be rumored, that person's a really intelligent human being, which is proven by the amount of wealth they've been about to create over the past 20 years. Why would a really intelligent human being do that?

That just sends chills up my spine, actually.

Other things I look at are this issue you brought up, Erik, about the difference between

Treasuries and equities. You know, if equities were to start to go down, if there started to be a recession, and kind of a loss of confidence in the US financial system, and Treasuries weren't the safe haven asset that people flock to – which they have been for the last 40 years – that would be a signpost to really pay attention to.

Now, I'm actually not in that group. I'm contrarian on this one. I think the lows in interest rates are ahead of us, not behind us. I do think (at least in the short run) we are still going to be that safe haven, that risk-free asset. And I think we're about six or seven years right around that timing of that 2022-2023 timeframe for the real crisis in America.

But those are things that I'll certainly be watching.

And then, finally – maybe the most logical or rational, kind of the Occam's razor – is what's the currency itself doing? Are people running away from it? Or are people flooding toward it? Right now, I seem to see people running away from the dollar.

So there's signposts all over the place from individual crosses to just the demand for dollars for trade. I think all those signs are pointing to a weaker currency and a weaker US and a weaker environment.

The statistic that nobody pays attention to – this is kind of interesting – we have the lowest growth rate of US GDP in the history of recorded GDP. Since we started keeping track. 100 and some years ago. So 2010 to 2017 is the lowest rate of growth in our history as a country.

There's probably a reason for that. It probably doesn't bode well for the future. And it is a signpost that I think we should be paying very significant attention to.

Erik: Jeff Snider, what signposts do you watch for along the way?

Jeff: I'm watching the same things that all of you guys are, obviously, because those are the important things that matter.

I want to actually take it in another direction, because I think we're actually in a race. We're in a race toward some of the worst consequences that you described, Erik, and I think those are very real.

And the race is between the system that just continues on as it is – again, we're ten years into this thing and, remarkably, the Eurodollar system limps along, as badly as it has been. I think the other side of that is there's a possibility that people actually wake up and find that this is a huge problem and then actually do something about it.

And there's a couple of signposts that we've already seen that are essentially positive.

There was one last year where the Bank for International Settlements wrote – I forget who the author was offhand, I'd have to look it up – but they actually wrote a paper where they talked about the breakdown in covered interest parity. Which is a huge deal. Especially for mainstream economics. Because covered interest parity is one of the best-established principles in orthodox economic treatment of currencies and finance.

What it essentially says is that all of these things that we piece together as this dollar shortage is a lack of covered interest parity, the inability of the banking system and the monetary system to enforce arbitrage. And to keep things within certain bounds.

And the fact that here we had the BIS talking about the breakdown of covered interest parity, was a big sign that, hey, they're starting to get the idea that there's something out there that doesn't work. And not only that there's something out there that doesn't work, but maybe we find out that it's the monetary system that doesn't work.

And it wasn't just that – there've been quite a few of those kinds of things – academic papers, official papers – where monetary authorities, central bankers, whatnot (more than just the staffs) are saying that there is something wrong here that we – previously we didn't think anything was wrong, but maybe there is something there.

You could talk about the Federal Reserve in the last year starting to talk about inflation. All the models said that they would get their 2% inflation long before now. And the fact that the CPI and the PC deflator in particular don't hit 2% and can't hit 2%, even after doing all of the trillions in QE, is forcing some economists, some Federal Reserve members, FOMC members, to actually start to look at some of their most basic assumptions about what has gone on in the last 10 years and even longer.

They talk about the unemployment rate. There's something wrong with the unemployment rate. Because, why hasn't inflation spiked at this particular point?

I'll give you another example. Even today, there was an article in the *Wall Street Journal* the title of which was "A Decade After the Crisis, King Dollar Is the World's Tyrant". It's the same thing. The mainstream media, the Wall Street Journal, which is one of the most orthodox institutions, is starting to get the idea that there is a dollar problem.

And the dollar problem is a significant explanatory variable in everything that has taken place up to and including the political and social upheaval that we've talked about recently.

So, in my mind, it's a race between these positive things – the idea that maybe somebody will finally wake up and be able to solve the issue before the worst of the worst happens – and the fact that we are on a trajectory toward those worst of the worst problems.

So it's which one works out first. Do we get to somebody putting together the right kinds of answers at the right kind of time – which would involve significant international cooperation – or do they just stay in denial forever and just let this whole thing fall and crash and reset?

Erik: Let's move on now to which investment assets are going to be the best and worst performers through this transition.

There's no doubt in my mind that gold is going to be a winner in the end game. The thing I worry about is that so many people are just so gung ho about gold right now. I fear that – as Jeff has described – the dollar shortage could cause gold to underperform (at least for the next couple of years) if the dollar appreciates against other currencies including gold, as part of a last hurrah safety trade effect, before it eventually begins to lose value.

But the bigger concern that I have about gold is I think it's very likely to be the target of a windfall profit tax when that period of taxing the rich punitively that I spoke of earlier comes to pass. Now, taxing the rich, I predict, won't be limited to people who are actually rich. Anything that is perceived to be an asset of rich people is going to be taxed punitively. And I fear that gold is going to be at the top of that list, regardless of the true degree of wealth of the people holding it.

Other hard assets such as real estate, in particular, I think are much less likely to be subject to a windfall profits tax, because they're so much more widely held than gold is. So I think from a monetary theory standpoint, gold should be the big winner. But I have some real reservations about how it might be treated.

In the end game, though, I think the really big loser is going to be bonds. Both corporates and Treasuries. Let's face it, the problem we have in this world is just way too much debt that cannot be serviced and paid back in real terms. And I don't think that it's an easy trade, by any stretch of the imagination.

I think by far the most likely course of events is that there will be one last major flight to safety trade into US Treasuries, leading to a final blow-off top in prices, meaning a bottom in yields. Which could be considerably lower than the 1.36 or whatever the low print has been so far, in the ten-year yield.

Like any other bubble that ends with a blow-off, though, knowing when that's happening and when it's time to go short is extremely difficult.

I also see serious risks in short-selling strategies because think they're likely to be labeled as unpatriotic in the end game. Politicians will be desperate to find scapegoats to skirt accountability for their own failures. So anyone who's so unpatriotic as to bet against America by selling US Treasury paper short, they're going to have a bullseye on their back, regardless of the economic reality of that transaction. It's going to be perceived as an unpatriotic thing.

Overall, I think the winning play will be to get out of financial assets and into hard assets. But the picture is muddy. As I said, it's not as simple as buying gold and silver the way so many people want to believe it is.

I think it's going to be much more important to think about the coming escalation of the class divide. The rich are going to be taxed punitively. And I really think that is going to come down to the people who are perceived to be "the rich" not the real rich.

So anybody who's what I call small time rich guy – that's somebody who has more money than the average joe on the street – let's say a net worth between half a million and five million dollars – I think that's the people who are going to be targeted. The truly rich are going to use their power and influence to work around the system and avoid being taxed.

But I think that the affluent part of society is going to be taxed punitively. And I think it's going to be very hard to find a winning financial or trading solution to this problem, because I think that things like gold are likely to be the targets of windfall profits taxes.

So that's kind of the way I see things.

Mark, what's your take? Where is the place to be in terms of financial and market assets through this transition that we see coming?

Mark: Erik, this is where I'm having the cognitive dissonance – my brain has been trained to think one way, which is to say that buying overvalued assets is a really bad idea and buying undervalued assets is a really good idea. As a value guy, that's kind of how I live.

But, recently, that strategy has not worked. And when I say recently I mean over a number of years where, really, it's been all about buy the most expensive asset because it's going to get more expensive because it's a momentum. And that's been very frustrating for any of us who try to be more thoughtful about what we buy.

In the world which we are all envisioning, I think there's a non-zero probability that the exact opposite strategy of what my brain would normally tell me to do – which would be to get out of financial assets, particularly US equities – may actually be one of the best performing asset classes over that period.

Now, you have to look at it in terms of how does it perform in real terms, if your dollar's being destroyed, your currency's being destroyed, while you're really not paying attention. Which I think is one of the challenges today.

In that comment earlier about the average person not being able to afford a car using regular financing – so now you've got to finance out to 60 months or 72 months or 84 months – that's distressing. The fact that I went to lunch the other day with one of my guys up in New York (and, granted, it was New York) but, still, it was a hamburger and the bill was $60.

Six Zero for two hamburgers.

So there's just something going on that is real – and, like boiling a frog, people aren't feeling it, they're not paying attention to it. Because it's just insidious every single day.

You go back to Starbucks and they've raised the price 3 cents. And then they raise it 3 cents two months later. And they raise it another 3 cents. And pretty soon you're paying $4 for a cup of coffee instead of $3 for a cup of coffee. Which is kind of silly anyway. But I do it.

So I'm struggling in that my predilection is to say get real – I even have a hashtag for it on Twitter – which is to buy real assets.

I think your points, Erik, on taxation of safe haven assets or rich people assets – though, it's interesting. Gold clearly used to be a rich person's asset. But I feel like today it's a tinfoil-hat-wearing asset. That it's not the rich people who own gold, it's the crazy people like myself who think that you should be worried about government confiscation of wealth and you should be worried about inflation as a wealth tax.

But I do think that will get in there as a windfall profits tax or just a plain old devaluation like we did in the '30s.

I also think you've got to what's going on in the bitcoin world. We could do a whole show on bitcoin, obviously, and what's going on there. And, is that really the first wave of this devolution of our currency and the value of our currency?

Watching bitcoin go from a couple hundred dollars to almost $10,000 today. Just extraordinary movement. So I'm kind of at a little bit of a loss. My gut says I want to own emerging market assets, in equities, because that's where the growth is going to be. My gut says I don't want to own US assets because they're really highly overvalued.

I don't really want to own other developed market assets like Europe – although, as I say that, as it's coming out of my mouth, I do like what's going on in Japan.

And as they move to what I think is going to be the beginning of a whole – I'm going to open a huge can of worms here in that I think Japan is rapidly moving toward a debt jubilee where they're going to solve part of this challenge, which is what everybody thinks is the intractable problem of having too much debt to GDP.

I think they've just slowly and carefully been issuing currency, buying up those bonds into the Bank of Japan, and at some point they're going to own them all and then they're just going to cancel them. And just get rid of it. So – whole other topic for another day.

I want to own diversifying assets. I want to own real assets. But I fear, particularly in the short run, and I wrote my whole quarterly letter about this – as Yogi Berra said, it ain't over till it's over.

And that this bubble, particularly in US financial assets, is going to run longer than normal people would think – normal meaning people who rely on their brain as opposed to momentum – I think it's going to go further than we think.

Erik: Jeff Snider, what's your take? What do you want to own as we go through this transition?

Jeff: I'm with Mark here. I think you have to have a realistic assessment of where we are and you want to get real. I think you want to have real assets, whether it be real estate, commodities, gold, whatever. You have to have a significant allocation to real-type assets.

But more than that, you know, there's more than one way to do this. And I think, no matter which way you decide to do it that's right for you, you have to be aware of the risks. And I think in some ways this is the most difficult time to be an investor, because there aren't any real safe haven assets like there have been in the past.

If you go back 20 years, during the dot com bubble, you could buy a US Treasury yielding almost 6%. The net would be a decent return. A decent safe low-risk adjusted return. Whereas today you don't have that. And I'm of the view – like you, Erik – that interest rates are probably going lower before they go higher.

But still, there's more than enough risk in the Treasury market that you have to be aware of what you're doing even there. So it's a challenge to get a risk-adjusted return that actually makes sense for what you're trying to do. And what the actual risks are, because we're in a period of tremendous transition. There's no question about it.

I think we all agree that something has to change here, something has to give. And that could be a pretty violent paradigm shift. So it presents a lot of challenges about how you get through that period to get to that point B which is the happy days.

A lot of people end up getting wiped out in these kinds of transitions. Which is why I think you want to be careful about how you do it and why you want to be quite favorable towards real assets. Because that's where history has shown it's the best place to be in any kind of transition that you really can't predict ahead of time.

Erik: Luke Gromen, what do you want to own when the shit hits the fan?

Luke: I still am very optimistic – I think this is a really, really positive, optimistic thing for much of the country.

It's interesting, both of you guys used the word "real". I have "winners" – when I say that, think "real".

So demographics, debt, entitlements – those three things mean that it's a mathematical certainty that Western sovereigns will default in nominal terms unless real rates remain solidly negative. And so I agree that that sets up a really favorable environment historically for gold.

And I agree that gold wins. But I think gold will be the absolute last asset to rise in price. It will do nothing, like it's done nothing for five years.

So few people understand, the paper gold market is structured in a very similar manner to the sub-prime CDS market last cycle. You have large supplies of paper gold, just like you had large supplies of sub-prime CDS able to be created out of thin air with very to no underlying capital requirements.

And if you remember that moment in *The Big Short* where Michael Burry was confused, because initially he owns a CDS, these insurance policies against falling home prices, and the value of those insurance policies against falling home prices began falling when home prices fell.

And it's the same thing this time around. Gold prices have fallen after the US got downgraded for the first time ever. They've fallen as US creditworthiness has declined notably, as balance sheets of central banks globally have moved higher.

Paper market gold leverage has moved significantly higher since 2013 to the extent you can get some brief glimpses of it, when you had a run on physical gold that commenced in 2013. Now I ultimately think that gold will do what bitcoin has done. And I think it actually is probably pretty powerful.

We now have had a monetary asset go from $1,000 to $10,000 in one year and there have been no real negative financial impacts. No zombie apocalypse. We're not sitting in bunkers. The sun is still up and shining. My Cleveland Browns still suck. After bitcoin, if gold goes from $1,300 to $10,000 in six months in one year, investors might just say, hmm, I guess that makes sense.

To your point, Erik, on punitive windfall on taxes on gold, my thought has always and continues to be, why tax it when you can confiscate it from the people of America by sticking a *We Buy Gold* stand in every mall and out front of every jewelry store in American?

US citizens' gold, it's already gone. It was confiscated, sold for dollars, and shipped East. For the wealthy holders of gold I think (a) they write the laws in this country, sometimes verbatim and hand it to their sponsored congress-people. And (b) if you put a windfall profits tax on gold, that gold's going to be put in a suitcase, it's going to be loaded onto a G5 at Peterborough Airport, and it's going to be flown to a location nonstop where such windfall taxes don't exist.

So, to me, unless you really go to a 1984-type scenario, which I'm optimistic won't happen, I don't think there's a windfall tax coming. My view on that might change if you see a windfall tax proposed on bitcoin.

But, more broadly, I think the implications are straightforward. If you have to have real, real negative rates for a long time to keep sovereigns solvent or non-default, then I think any asset class whose issuance is non-sovereign and non-infinite should – and in fact must – outperform sovereign currency, sovereign debt.

So I think the optimal strategy is really a levered long. Borrow as long as you can at fixed rates. And if can find a positive real, positive ROI investment, I think that makes a lot of sense.

And I think the flip side of that is that the real value of debt, and especially sovereign debt, is likely to get crushed. And mathematically must be crushed to avoid a much worse outcome.

Erik: Finally, I'd like to ask all three of you one last round of questions. All three of you are professional money managers or investment advisors. So let's suppose that I am a perspective client. I'm considering the possibility of hiring each of you to run a million dollars for me.

I'm going to start with Luke and Mark, because my question to both of you is going to be the same. Which is, I am 100 point zero zero percent convinced that you two guys are going to be proven right in the end on this stuff. There's no doubt in my mind.

But my biggest hesitation is about hiring you to run my money is that I think you're probably a bit ahead of the pack. You might be a bit early with your dollar call. And I see a strong chance that Jeff is going to be proven right.

And, again, his view is not dollar bullish per se, it's just that there's going to be a continuing dollar shortage as a result of the breakdown of the Eurodollar system.

And it makes me worry, if you guys are so dollar bearish, does that mean I'm at risk of losing money if I invest with you guys and Jeff is proven right? So where does that leave us? Why don't we start with Mark.

Mark: I think it's a very important point. And I was one of the lone wolves, along with Luke and a handful of others, at the beginning of this year that felt the dollar would depreciate. And so that worked out well.

And what's interesting is the assets that we thought would benefit from that actually did, by and large, but not in the way you would think.

What was interesting is oil, for example, which normally goes up when the dollar goes down, actually did the opposite for the first half of the year. Oil went down – that was one of our big surprises was that oil would fall toward $40 by mid-year and then rally back to $60 by the end of the year.

And it looks like we're going to be right on both halves of that. So we're able to play that correctly, even though our view on the dollar going down would have said just get long oil all year. Which would not have been that great a trade.

So I think what you have to do is separate the dollar from other types of assets.

If you come to Morgan Creek today we're going to have a heavy weighting in emerging markets. I think one of the things about emerging markets is it has become less dependent on that dollar trade, because they are less dependent on commodities. Much more in emerging markets today related to consumption and big opportunities in places like health care, technology, consumer, alternative energy, as opposed to traditional commodities.

So we've seen that breakdown a little bit of the dollar linkage to emerging markets. If the dollar were to have a short-term rally, that doesn't mean, necessarily, that emerging markets are going to get killed. Particularly if the earnings continue to come through.

And then the last piece of that is we always say the dollar rallying relative to what? Given how cheap emerging market currencies are relative to the dollar, we think that it's pretty unlikely that the dollar rallies relative to those. Now it could rally relative to the Euro or the yen, but I just don't see it really rallying against emerging market currencies.

So we do favor real assets today. We do have a little bit of exposure to gold. Which I totally agree with the last comments that it's going to be dead money for a while because of this silly creating of paper gold that comes out of thin air, which is one of the benefits of bitcoin being digital gold. And having a true fixed supply.

So then the last place – and this is something that's harder for the "average" investor – and I feel bad because the SEC defines that – they say if you're not rich you're not smart – which I think is completely ridiculous. Some of the smartest people I know don't have a lot of money and some of the wealthiest people I know don't have a lot of sense.

It's not true universally, but I've seen plenty of wealthy people, who are deemed accredited or qualified purchasers, do some really unintelligent things with their capital. Whereas I've seen some pretty average investors, that the SEC deems unworthy of investing in private investments or hedge funds, do some really intelligent things with their capital.

I like the private markets today, particularly the private markets outside the US. Particularly in places like China. Where we're buying into just incredible growth at rock-bottom prices because these are private markets. And people have this bias against those particular markets.

If the dollar were to have a sharp rally, I do think in the short run it would harm emerging markets, it would harm US corporate profits, and US equities. And I think it would actually cause some stress in the physical commodity world.

So some of the themes that we follow would be damaged. So, to that point (I've tweeted a lot about this) that cash is king. And that having more cash than you would otherwise have is a really good investment here.

And some of the smartest guys I know – be it Seth Klarman, Julian Robertson, or George Soros – have 50+% in cash today. Because, again, it has high option value. So that's another way to deal with this short-term uncertainty so that you have capital to buy cheap assets that you want to own for the next leg up.

Erik: Luke Gromen, same question. As you invest in this world, how do you hedge the possibility that Jeff will be proven right before you're proven right?

Luke: There's this great article, also today in the *Journal*, and it talks about – the title of the article is "It's Not The Leverage It's The Illiquidity That Will Hurt". And in it is the quote: With really illiquid assets there is no market and so they must mark them to modeled valuations – or educated guesses.

And it's a talk about how, this time around, the percentage of assets in pensions and insurance companies, in particular, in the article are these more illiquid things. So, to me, when I look at the context of what has transpired since 2008 of the Eurodollar, hey, what happens if we get a strong dollar spike, a super spike and a selloff in risk that is really persistent in any way?

I think what happens is liquidity will evaporate. I think funds will erect gates, I think everyone will market the fantasy, and I think no one will lose money. And I think central banks will bail it all out. And I think nobody thinks this will happen.

But it happened in 2008. You had a suspension of short selling. You had a suspension of mark-to-market accounting that, as far as I know, has not been reinstated. It took authorities a year to respond because they didn't understand the severity of the problem.

To Jeff's point, that it was the Eurodollar market that was more important, beginning in '07, that broke down.

I'm not sure of the classical things they were all focused on. And I think they – whether they completely understand it, they certainly understand it a lot more. You've seen money market fund gating rules were approved three years ago.

Jim Rickards, I thought, in his latest book, *The Road to Ruin*, opened with a fascinating point which was – he was talking with an unnamed high-level executive at Blackrock, and that person said that in the fall of 2014 the US government approached Blackrock about instituting selling bans. Not short selling bans. Selling bans. In the next crisis. The US government.

We've seen the market reaction to the last several crises getting serially shorter. Culminating in the last one which lasted six hours. After election night.

And so all of this is, what we're describing, is taking place in the context of a world where any sustained selloff on risk assets will quickly pose an acute risk of a US government nominal default and then nominal default of other Western governments.

So, to me, the question is less how do I hedge it and more an asset or capital-weighted strategy of do you really think you'll be able to perfectly trade a roundtrip risk-off dollar spike flight into Treasuries and then run to the other side of the boat, get back out of Treasuries, and back into risk assets?

And I think, at the $1 million size you're hypothetically giving to each of us, I think you'd probably be able to. You'd have to be very nimble, but I think you could do it. At the $100 million size, too, probably. At $1 billion size? Nnnn. $10 billion size or larger? I don't think so. And at $100 billion size, there's no way. In my opinion.

We've seen all these things. You saw it again in early 2016. It was – I thought it was one of the best pieces Zero Hedge ever did. They highlighted that, in essence, the Dallas Fed was telling banks to stop marking to maket all the shale stuff, and shale all bottomed that day. And it was never explicitly said that way, but they later went back and they highlighted exactly the meeting. The meeting took place, they were trying to –

I think people are wildly underweighting the degree to which they'll change the rules and the speed at which they'll change them this time around. So I guess that's probably how I would say – I really don't lose a ton of sleep at this point because I just think nobody's got a bigger DVO1 (dollar value of basis point risk) than the US government.

Erik: Jeff Snider. Same question turned around, essentially. I'm really very persuaded by your argument that this dollar shortage is continuing. I think it probably is bullish for the US dollar against other currencies in the short run. But I'm also convinced that, in the end game, Mark and Luke have got this figured out.

So how do you invest around this? Is there a signal that you watch for when you change gears? What do you do in terms of how you approach your investment strategy?

Jeff: The way we want to approach our investment strategy is with Luke's and Mark's and mine. We want to make sure that we have our eyes on what the end point here is, or what we think perhaps the most likely end point is.

We don't want to get caught like Luke is talking about where you're stuck on one side of the trade and you want to get to the other. So we try to invest so that we can anticipate how this might all work out, so that it's consistent with what we find today. It's not an easy task.

And that's why I think we do a lot of our allocation toward real assets – because those are the things that are going to perform the best, relatively, over both kinds of periods. And I'm talking about the short run as well as with our eyes on the end game here.

And so I think the challenge is to make sure that you understand the risks of everything that you're doing so that you can be as consistent as possible from A to B.

At point B is where you might want to change things completely. And reorient your investment philosophy to a much better and happier day. But it's getting from A to B that you need to worry about today.

So I think, from our perspective, it's not necessarily about do one thing or do another. It's about how can you be consistent knowing that you don't really know how this is going to play out. But you have an idea of where we're going in the long run. Which is sort of a paradigm shift.

Erik: Finally, before we close, I'd like to ask all three of you to share with our listeners what you do for a living. Mark runs a hedge fund. Jeff and Luke are both investment advisors.

What do your companies offer to investors? Who are your clients? And how can our interested listeners find out more about you, follow your work, follow your writings? But also learn more about what offerings your companies have to offer.

Why don't we start this time with Luke.

Luke: Thanks, Erik. FFTT or Forest for the Trees is a macroeconomic thematic research firm that provides unique research services for institutional and high net worth investors. And what we do is aggregate large amounts of data from disparate publically available information in an unconventional manner. And we're just trying to identify developing economic bottlenecks, because our 24 years of experience on the Street suggests that excess returns accrue to those sectors as set to benefit from or be hurt by economic bottlenecks. And you can find out more information about FFTT (including a couple of samples on our website) which is fftt-llc.com. And I also have a pretty active twitter feed at @lukegromen.

Erik: Mark Yusko, tell us about the fund you mange for Morgan Creek.

Mark: Because of some SEC rules and regulations I can't talk too much specifically about the funds, but we do run a couple of different funds. One, focused on global long/short equity and one focused on emerging markets. Also long short, but more long-biased.

We run a number of private markets funds, global as well as some focused ones like the one in China. And also as a registered investment advisor helping some wealthy families with essentially an outsource CIO model. You can find out more about us, and we're happy to contact people after they contact us, at morgancreekcap.com. I also am active on Twitter – my wife would say overly active on Twitter – @markyusko. And I look forward to engaging with anybody who would like more information.

Erik: Jeff Snider, tell us all about Alhambra Investments, please.

Jeff: Well, like the fortress in southern Spain that we're named after, the Alhambra endured centuries of political and economic turmoil, and that's kind of where or how we approach investing.

We're trying to recognize the situation that we're in and create investment strategies and portfolio strategies that are designed to allow people success, knowing the risks and the period of time that we're actually trying to invest within. We try to use our in-depth research of not just Eurodollars but specific sectors to be able to do that.

Because we have to be aware of what kind of emerging risks – the unknown unknowns as well as the known unknowns that could threaten your portfolio. Our goal is to provide retail investors, not specifically high net worth individuals, but any kind of retail investors, as a registered investment advisor – how we can use our research to best design portfolio strategies that accomplish the goals with a realistic assessment of the conditions.

You can find us at alhambrapartners.com and I do lots of writing and research that's available throughout the internet and syndicated in lots of different places.