Darius Dale: Hedgeye turn BEARISH U.S. Growth

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Erik: Joining me next on the program is Darius Dale, Director of Macro Research for Hedgeye. Our regular listeners know that Hedgeye always sends us a fantastic book of graphs and charts. I highly recommend that you download it as Darius and I will be referring to it throughout the interview. You'll find the download link in your Research Roundup email.

Our regular listeners are already familiar with the process that Hedgeye uses. But for any new listeners, we've asked Hedgeye to go ahead and send us the full chart book. So the first 15 or so slides are for reference of any new listeners.

Darius, why don't we go ahead and focus on your three main topics, starting on Slide 18. A lot of our listeners think of your colleague Keith McCullough as probably the most bullish guest that we've had on this program. So even Hedgeye is turning bearish in this environment. The first of your three macro themes for the second quarter: Is the USA growth cycle perhaps reaching a cyclical peak? Tell us more about it.

Darius: Thanks, Erik. Thanks for having me. I'm a huge friend of the show. I guess before we even get started I just wanted to address the hearsay amongst your listeners. We definitely appreciate the kind words, but within the hallways of Hedgeye, Keith is certainly no permabull. We like to go both ways at Hedgeye in terms of sequencing the cycle, but I would say Keith probably has more of a bearish bias. When he gets out of bed, we kind of have to cajole him a little bit to turn bullish. Fortuitously, we've caught some pretty big up moves.

Erik: Well, I think that probably the way to describe it is Keith is a very outspoken individual. And the times that he's been on the show in the past he has been very adamant in a bullish view. And he's been proven right by the market. So we've got to credit him with that. Even Keith McCullough has turned bearish though.

So what's going on with the peak cycle theme that you're focusing on as your number one topic for Q2 of 2018?

Darius: Your listeners will definitely know that what matters most to us at Hedgeye is sequencing the cycle from a second derivative rate-of-change perspective. Particularly keying off of changes in growth and inflation and profits as our key drivers for predicting financial market returns over an intermediate term.

And certainly just isolating the US model – our models are picking up on a peak in the year-over-year rate of change in economic growth here in the US in the first part of 2018. We definitely see that developing into a trend lower in economic growth as we progress throughout the back half of the year.

So that's something we think is imputing a fair amount of volatility into financial markets and across asset markets. And we definitely think that's another factor that's sort of capped upside in bond yields domestically, which has been obviously taken since consensus positioning, and obviously some pretty big calls by some pretty big-name investors.

Erik: And, for any new listeners who are not familiar with Hedgeye's process, which is actually very involved and very interesting, we've discussed that in our prior interviews with Keith McCullough. So if you'd like to hear that information, go back and look for Keith McCullough's picture on our home page at macrovoices.com. And listen to some of those prior interviews where we get into Hedgeye's process in detail.

Darius, it looks like as we move into Slide 20 or so you're showing that, boy, we're here, and it sure looks like a cyclical peak to me. Talk us through the next few slides here.

Darius: You're probably going to hear the word "sequence" from me several times throughout this interview. Because that's the hallmark to our fundamental process. It really is the hallmark to our entire process. Even if you loop in our derivative market analysis, that really aims to try to identify where investor consensus might be and it might be positioning at the margins. Obviously, with sequence it matters where you're coming from and where you're going.

What we show on Slide 20 is that we're coming from a pretty asymmetric point, from the perspective of our rate-of-change seconder of analysis on when isolating growth is a factor. So this chart shows consecutive quarters of accelerating year-over-year GDP growth in the post-war era. And what we learn is that we're at a fairly asymmetric point in terms of how fantastic this sort of run of growth has been off the mid-2016 lows.

If you flip over to Slide 21, we show that same data X-axis here, but what we layer on in this analysis is where realized vol has been, using the S&P 500 as a proxy for risk assets. And we're at a really asymmetric point in terms of where we might go from here, both from the perspective of the cycle potentially peaking and rolling in rate-of-change terms, but also from the perspective of financial market volatility having a bearish to bullish phase transition that might trend for quite some time from here.

We're just at a pretty asymmetric point. And this really hits the nail on the head as it relates to this Goldilocks bias that investors came into the year with. Obviously, that bias shifted to reflation at the margins, if you look at the CFT net futures and positioning across the fixed income curves.

But both reflation and Goldilocks are counter to a fairly material slowdown in growth and a fairly material slowdown in inflation relative to expectations as we get further into the back half of 2018.

On Slide 22 – this deck is a condensed version of our quarterly macro themes deck – what we've done here is take a few of the highlight slides and illustrate the point we're talking about in terms of forecasting a peak and the year-over-year rate of change in economic growth here in the US.

What we're showing here on Slide 22 is retail sales, control group. A lot of these indicators, and these are just a handful of indicators – we have a myriad of indicators in the broader deck that all sort of look the same – you have a fairly demonstrable acceleration that persisted from the middle part of 2016 all the way through the end of 2017 or into the early parts of 2018.

You've seen some fairly steep decelerations from there. And we would anticipate those decelerations really start to trend, particularly as you move into the middle part and the back part of the year where you really start to face peak base effects on a year-over-year basis.

A lot of charts on the macro sort of look the same. If you look at Slide 23, luxury goods consumption kind of mirrors the same trend that we see in retail sales. Durable goods on Slide 24, capital goods on Slide 25 – a lot of these charts look like we're kind of rolling off the top into steepening base effects. So that's the hallmark of our fundamental forecasting processes.

One sequencing the sequential momentum in the indicator, and then overlying a comparative base effect model to understand how the year-over-year growth rates might progress as we progress throughout the year with minimal changes to the momentum. Or we can obviously shock the model with whatever we think might happen.

This is pretty standard econometric analysis. And what it tells you is that growth is going to be a lot slower from here, absent a pickup in sequential momentum in the back half of the year. So that's something we want to call out to investors as a causal factor for why we're seeing a pretty material pickup in volatility here domestically.

Erik: I see that you've got a couple of inflation slides coming up. I'm particularly interested because we've had radically contrasting views. We've had a guest like Julian Brigden come – and Hugh Hendry for that matter as well – come and tell us they think it's 1965 and that there's a massive inflation coming.

And at the same time Russell Napier just penned an excellent article saying, hey, the US is destroying money supply in the US dollar while other central banks are creating money supply. It has to be deflationary, forget about inflation.

It seems like everybody has got radically different views. Where do you guys weigh in on this inflation debate?

Darius: No disrespect to your other guests. Obviously, a myriad of very thoughtful very experienced and really sharp investors join you guys on a weekly basis, so I definitely don't want to disrespect their views. I think there's a lot of credence to be given to both camps.

But the way we think about things at Hedgeye is that it's not 1960, it's not 1970, it's not 2009. It's 2018. And there are some factors. Cyclical factors that are hard to sequence. But if you wake up early and do enough work, you can get a pretty good handle on what's going to happen with inflation now, rather than relying on historical corollaries to get you to some sort of easier, in state analysis without having to go through the wiggles and nooks and crannies in between there.

We're really focused on those wiggles and those nooks and crannies because, as we saw on Slide 26, if you think about the progression of inflation over the past 12 months, the risk assets or inflation assets and interest rates have really, really traded concurrently with changes in reported inflation. So we think it's really important to have a great handle on those near-term changes in reported inflation. Obviously keeping in mind what might happen from a secular perspective.

But, again, our job at Hedgeye is to be macro risk managers and not to be prognosticators and people who put these grandiose positions on. We definitely want to help investors manage immediate- and intermediate-term risk, which is where a lot of wealth is generated.

Thinking about inflation more broadly, on Slide 27, one of the things we're keen to call out is this affirming of CORE inflationary pressures domestically. We have some slides in the back of the deck that we can hit on later, showing our labor market analysis, that effectively summarize our belief that we are getting to the point where you might start to see jump conditions higher and reported wage inflation here in the US.

We're not quite there yet. But as we progress throughout the year , certainly by the end of the 3rd quarter and into the 4th quarter, we'll certainly be there from the perspective of much faster trending rates of wage growth. But even now, at the beginning of the year, we're seeing CORE inflation start to pick up. So we have a hawkish inflationary bias over the next quarter or two. But we definitely don't see inflation really moving materially higher from there as base effects steepen.

If you look at Slide 28, some of the cyclical dynamics that are going to impact inflation and comp is this wireless price war beginning in March, and then, obviously, the lagging, the all-time lows in medical inflation. And this pretty material downshift in energy inflation that we saw in the middle part of 2017 is something that's going to provide some uplift to reported inflation here in the United States over the intermediate term.

But we wouldn't necessarily be able to comp to chase that from there, particularly with what's going on abroad in international economies. If you look at Europe, or you look at some of these more advanced economies, inflation is really not where central bankers want it to be. And there's a whole host of structural reasons why that is the case.

If we want to talk offline about those – or, if not, if we want to dig into those – but we're fairly consensus with respect to inflation over the next three to six months. But as you get to the middle part of 3Q and certainly into 4Q 2018, we're definitely well, well below the Street on inflation.

Erik: So to summarize, Darius, it sounds like you think this impending breakout to the upside in inflation that you're showing on Slide 27 is very possible but it's not going to be sustained in your view. You think that by the second half of the year there will be some serious headwinds to inflation.

I guess that makes me wonder how that dovetails into your earnings outlook for the rest of the year.

Darius: Definitely. If you think about – on Slide 29, what we show on this table are the progression of S&P 500 revenue and EPS growth. Then we juxtapose the historical progression with consensus estimates for the next four quarters. And what you see is that consensus is kind of out to lunch with these projected Looney Tunes growth rates.

Obviously tax reform is a big factor in there. But one thing that is also a factor in there that we're calling, we're basically effectively flagging material degree of risk to – it's just a static to improving operating environment assumption that's embedded in both revenue and EPS estimates for the US equity markets.

If you think about peak GDP, growth rate expectations, amongst Bloomberg consensus, you have cycle peak inflation expectations over the next 12 months from Bloomberg consensus. You have tax reform. All these things are dovetailing to create this perfect concoction of bullishness, which, in my opinion, it's why many investors view the market as sort of cheapening here, or cheaper here, than if you think about where next 12 month EPS could be.

But one of the things we're calling risk to, I guess, with this US peak cycle view, is that you can't assume a static operating environment or improving operating environment from here. If you look at Slide 30, you've got sales growth pretty much staying where it is. EPS growth materially diverging from sales growth. I mean some of this stuff is kind of Looney Tunes in the context of what might be peak in domestic economic growth, from a rate-of-change perspective.

If you look back to when we were bullish, over the last 12 to 18 months, we had pretty easy comps on a sales and EPS growth perspective. The corporate profit recession that we saw from 2015 into the middle part of 2016 was very deep and it was very pervasive. And it was very easy to comp our way out of that.

Now, if you look forward over the next 12 months, it's going to be increasingly difficult to comp our way out of that, certainly if you look at it on a two-year basis perspective.

On Slide 31 we're showing a two-years comp stack for over the next 12 months and extensive forecasting a pretty sharp acceleration in the two-year growth rate on EPS growth. Obviously, tax reform, again, is part of that.

But, what is also part of that, we show on Slide 32, they're assuming peak margins. Over the last 20 years, we've tried to get above this 14% level on operating margins, and have just not been able to sustain that for a variety of reasons.

I think there's two key reasons why we're unlikely to sustain that over the intermediate term. The number one reason is wage growth.

On Slide 33, this analysis juxtaposes various degrees of tautness in the labor market vis-à-vis wage growth. And what you see is we're nearing 1. The relationship is now linear 2. We're nearing levels of tautness that should perpetuate a material uptake in domestic wage growth.

And then, lastly, in Slide 34, why does that matter? Because at the end of every economic cycle you have this pretty sharp uptake in wage growth towards the end of the cycle that really drags down corporate profit margins. And then, once you get to a certain threshold in corporate profit margin degradation, you start to see firings and separations increase.

Again, we're not quite there yet. I think we have to get to the back half of 2018. But certainly as we progress throughout 2018 you might see a peak in the EPS growth rates here in Q1, and earnings might actually start to become a liability for the market as we progress throughout the year.

Erik: Darius, the second of your three major themes for Q2 was global divergence reiterated, you're calling it. Walk us through this series of slides, that starts on Slide 36.

Darius: If jump ahead to Slide 37 – again, at Hedgeye we're really big on data sequencing and understanding where we are on the growth and inflation sine curves with respect to every major economy. What we show in this slide is the sequencing – every major economy from a Hedgeye GIP model perspective (GIP stands for growth inflation and policy).

The summary of this slide is that 1s and 2s are good. 1s and 2s mean growth that is accelerating. And 3s and 4s are bad from the perspective of growth. That means growth is decelerating. Even if you pull this chart all the way back to the first part of 2016, what you see is that the world has been in a globally synchronized recovery since then. And it's transitioning to a much more precarious state. Think about so many major economies starting to peak and decelerate from a rate-of-change perspective.

This chart shows what this snapshot looked like from a trending economic data perspective at the year-to-date high in global equities. And with so many indicators trending higher, if you flip ahead to Slide 38, you look backwards and say, well, duh, of course the volatility hit all-time lows. We had a two-year-long globally synchronized recovery. That's precisely the environment we should have seen volatility hit all-time lows, which we show on Slide 38 across global equities.

And if you think about what's happening now, we're starting to see a fairly emergent deceleration in trends across some of these: consumption, manufacturing, PMI, and inflation aggregates. I think that's really bad. And it's certainly, from these levels of consensus, complacency to really start to impart a significant degree of financial market volatility to the extent that these nascent decelerations off of peak growth rates really start to trend, as our compared-to-base-effect models suggest they will.

Erik: Darius, as I look at these last few slides, we're really looking at a number of indicators, data feeds, that are giving you prognostications. And, boy, as I look further to the right everything is looking red.

How does that line up with what you're actually seeing in markets?

Darius: We've seen a pretty material step up in volatility. And a pretty material step down in performance. If you look at Slide 40, what we're showing is all those same global equity markets from a year-to-date performance perspective, and from a 90-day realized vol perspective on a year-to-date basis. Side by side juxtaposed with what's happened in 2018. And what you're seeing is a lot of red and some doubling and tripling of volatility – realized vol.

On Slide 41, we show that realized vol on a 30-year percentile basis. What you're seeing is we're basically at all-time lows across realized vol or somewhere near all-time lows across realized vol for pretty much most of global equities.

Going back to that chart on Slide 22, we're not coming from an inconsequential point if you think about, one, this globally synchronized recovery fundamentally, but, technically speaking, also all-time lows in volatility. So it won't take much to reduce risk budgets and force investors to close trades. So this is something that we're really keying on.

If you look at global interest rate markets, on Slide 42, confirming our outlooks. One of our big calls at Hedgeye is Quad 4 in the Eurozone, i.e., Europe is slowing. We have European growth and inflation trending lower throughout the year. Maybe not in the intermediate term but certainly as you progress to the second, the third, and the fourth quarters. We're materially below the Street for Eurozone growth and materially below the Street for Eurozone inflation.

And that's also one of the reasons why we think – if you look at the economic surprise indices for the Eurozone broadly, they're down at levels we haven't seen since 2012. And we expect them to stay down at around these levels until consensus gets its act together in terms of no longer straight-lining what had been a fantastic recovery in Eurozone growth and inflation that culminated in Q4.

It's Q2, here, in 2018, so we definitely want investors to be managing the risk that's ahead of them, not the narratives that are behind them.

Erik: A theme that we've heard a lot about from our other guests is the risk if China sees a slowdown or, worse yet, a blowup of their massive credit expansion. It could send shockwaves throughout the global economy. I see you've got a sequence of slides here talking about China slowing.

Tell us what you see on the horizon here.

Darius: We don't make grandiose calls from a macro perspective. If you think about any process that's very data-driven and very centric on identifying where you might be on the sine curve for something as simple as growth or inflation – well, I guess it's not simple, but for something that's as integral as growth and inflation – the last thing you wind up with is these big bang risk calls.

In fact, I would say one of the betters calls we've ever made as a firm is taking the other side of the yuan devaluation in early 2016. But, again, much like Europe and the US, China is kind of in the wrong place from the perspective of its sine curve.

What we show on Slide 43, the whole world effectively responded to the bottoming of the Chinese economy, and the massive acceleration we've seen that persisted from the early part of 2016 all the way through the early and mid part of 2017. On the left chart we've got global industrial production on a GDP-weighted basis. And then the global corporate profits. And what you see is that everything bottomed on a lag to China and accelerated on a lag to China's acceleration.

Why did that happen? On Slide 44 – if you go back, I think a lot of investors probably missed this. We definitely didn't nail the bottom in this. But I think in hindsight – hindsight being 20/20 – you can see exactly why that happened.

If you look at the Fed dot plot, the Fed turning dovish multiple times in the latter part of 2015 into peak deflation periods in the early part of 2016. That alleviated a decent amount of the capital offload pressure that we had seen in the Chinese economy because that capped the upside in the dollar from a broad trend rate perspective.

That allowed the PBOC and Beijing to combine fiscal and monetary easing that was at peak – that was basically the biggest easing package that we've seen in modern Chinese history, if you combine both the fiscal and monetary impulse that obviously had a pretty material impact on the Chinese economy (which we show in Slide 45).

The red line in the chart on the left is really what investors should focus on. Nominal GDP – this is nominal GDP in secondary industries in China: manufacturing, construction, heavy industry – fell to almost 0% by the end of 2015. We would argue that's one of the causal reasons for deflation. But, again, everything is reflexive.

So all that stimulus that Beijing and the PBOC imparted upon the Chinese economy caused that red line to hook up all the way back to 14–15% by the beginning of 2017. What's important about that is that we've gone back to levels of investment growth that policy makers in China have previously identified as a level that creates a tremendous amount of financial instability.

So we definitely don't see them responding quickly to any sort of downturn associated with this, reverting back to some more normalized mean. We don't expect it to crash, because we definitely think Beijing is very keen to avoid a 2015-style collapse. That's certainly something that they have learned their lesson from. We definitely think the impulse of these charts is lower, not higher.

And a lot of the reflation we've seen over the past couple of years, particularly across emerging markets, has been a direct function of this recovery in Chinese demand. We show that on Slide 46, showing Asian export growth. That chart, much like the global industrial production chart and global corporate profit chart, they all mirror this progression of the Chinese economy on the way.

Erik: Your third and final theme for Q2 of 2018 is a subject that's near and dear to my heart, which is the US dollar. It sounds like you see it bottoming. That has been my general prejudice. But, boy, there's a lot of really smart people who are predicting a dollar collapse here.

What do you see on the horizon for the dollar?

Darius: Again, it's all about sequencing. It's where you're coming from and where might you go based on changes in momentum and changes in base FX. Think about both the economy and the financial markets that way.

Starting in Slide 49, the sequence here is that investors are incredibly bullishly positioned on the Euro. They're at all-time highs from a net length perspective and non-commercial futures and options positioning.

Then if you look at risk reversals, 25-Delta risk reversals, just isolating two-month contracts as a proxy for general hedging demand, investors are about as bulled-up on the Euro as they've been in almost ten years. What you typically see is a deficit here. You know, calls minus puts by vol points.

But we've been trending at this very, very positively oriented surplus over the past few months. So, both in positioning terms and also market pricing terms, investors are incredibly positive on the Euro. Obviously, you'd have to get the Euro right in order to get the dollar right, given its weight in the DXY and on a broad trade-weighted basis.

Why is that important? If you look at Slide 51, the number one causal factor – even beyond this widening of US fiscal deficits, the deepening of our twin deficit issue – we would argue the number one factor for why we've seen such a pervasive and steep decline in the dollar over the past year, 12–15 months or so, has been this globally synchronized recovery.

Going back to that chart we showed previously, this table, isolating your listeners' focus on the left side of this chart, you look at all that green there from the perspective of the GIP model signals for all of these major economies. We've been accelerating sequentially on a second derivative basis in the global economy for two consecutive years.

Much like the chart we showed on Slide 21, we're in No Man's Land, if you want to think about how positive the global economic backdrop has been for investing and taking risks in risk asset markets. Not to geek out too much on our modeling premise, but what we're seeing picking up is trending decelerations and a lot of core high-frequency indicators that have predictive value for growth and inflation into steepening base effects.

The confluence of that – and something that really causes this trend of this globally synchronized recovery narrative to run out of steam – and it certainly has regressed through the year – you are starting to collect a series of threes and fours which are bad, which indicate growth is decelerating from a sequential perspective. So this is definitely something that, historically, should be very positive for the dollar.

On Slide 52 and 53, we show the culmination of our backtesting data. We backtested every relevant major macro factor exposure, every equity sector and factor vis-à-vis these GIP models and vis-à-vis their own geographies.

And what we've learned historically is that a globally synchronized recovery is actually really bad for the dollar. So i.e. when the world economies in Quad 1 or Quad 2, both of those are growth-positive environments, the dollar tends to be one of the worst assets in the world.

Well, if you think about where we're transitioning to for the second and third quarters of 2018, and certainly by the fourth quarter of 2018, we would anticipate that the dollar finds its bottom here in the middle of 2018 and actually starts to make a series of higher lows into the back half of the year and potentially beyond.

I think that's actually a pretty material risk that investors obviously aren't positioned for, as I highlighted in those charts at the start of this theme.

Erik: I noticed that you used the words "one final leg higher" for the US dollar on Slide 55. Is that a prediction that it's all over for the dollar after that? That this really is the final leg? Or do you just mean a final leg this year?

What are you referring to there?

Darius: From a structural perspective, we actually have a fairly positive bias on the dollar. If you look at Slide 56, actually, what we're showing is the summary of our demographic analysis. On the left side is the spread between the growth rate of the US's 35–54 year old population. What our demographic analysis has found out is that, if you track that cohort, what that tends to be is the highest income earners and the highest spenders in any given economy, in advanced economies.

If you track that cohort as a proxy for potential growth in inflation pressures, what you learn is that, as we progress from 2017, 2018, and into 2020–2021, the US is increasingly positively disposed – or, saying it more succinctly, the dollar has increasing tailwinds.

These would be these aging European economies that actually could potentially be in a fairly precarious spot from the perspective of their potential growth and inflation. Certainly with central bankers that are leaning hawkish in these economies, potentially at precisely the wrong times.

Erik: So your view, at least based on the information available today, is that the backdrop is dollar bullish for at least the next five to ten years to come?

Darius: If you isolate demographics as a factor. Now, again, we would be remiss to isolate any factor on the world's reserve currency and on a market that trades 4 and a 1/2 trillion dollars in daily liquidity. I think there's a myriad of factors that shock currencies.

One of the factors – and, in fact, going back to this globally synchronized recovery narrative, we show this on Slide 54 – one of the things that I think confounded investors and even confounded us at the beginning of 2017 was the fact that the dollar wasn't responding to traditional interest rate spread analysis.

What it had been responding to the entire time is something you guys have discussed at great length here on MacroVoices, this alleviation of global dollar funding pressure that we see in Eurodollar markets. And, as a proxy for that, we're showing cross-currency basis swap spreads trending back towards covered interest parity over the past 12 to 18 months.

And that's something that's been very negative for the dollar. Because all that means is investors are increasingly comfortable speculating, carry trading, taking risks on the global economy as a function, again, of the globally synchronized recovery.

We would expect the deviation from covered interest rate parity to resume, we would expect the global dollar funding pressures to resume, and we would expect the dollar to trend higher from here.

Erik: Darius, you just referenced the traditional macro conventional wisdom that says that as the interest rate that can be realized on Treasuries in any country improves over its competition – in this case it would be US Treasury yields are offering a better return than something like German Bunds – that's supposed to create an inflow. And that, for probably the last year or so, that normal effect that should have been dollar bullish actually seemed to be operating in reverse.

What do you guys make of that breakdown in the usual relationship between the currency and interest rate differentials?

Darius: Again, we would never isolate any one factor. I think at any given time you have to have a keen eye on all of the factors that affect currencies. So, obviously, changes in policy expectations, interest rate differentials, the supply and demand for dollars in global capital markets, demographics, deficits, debts – all these things can matter at any given moment. And it's our job as investors to identify what's driving returns at any given moment and how likely that is to persist.

What we've identified in this analysis is that investors are no longer seeking just the traditional carry pickup and more – it's more advanced economy markets. What we've learned is that investors are very keen to go speculate in more risky securities and riskier assets abroad. Probably as a function of the recovery in global growth and domestic growth. And also as a function of having to move further out on the risk curve to take advantage – or at least to protect their portfolios from Fed tightening.

At some point – which we highlight on Slide 55 – at some point that all ceases to be the case. So, historically, what we've seen during Fed tightening cycles is that the dollar tends to trade down during that cycle, I think for some of the reasons I just identified.

But as you get to the latter parts of the cycle you start to see some degradation in the global economic scenario. You start to see some capital calls and whatnot. The system really starts to reverse on itself.

So that's the number one risk we're calling out is that, as you progress throughout 2018 and the globally synchronized recovery is no longer intact, you could actually start to see reflexive covering and closing of these carry trades that investors have been keen to chase over the past couple of years.

Erik: Darius, before we close I want to talk about what you guys do at Hedgeye. Because, frankly, I think you're kind of unique in the industry. As I understand it, Keith McCullough basically, after the hedge fund that he was working for as a portfolio manager shut down, found himself unable to start his own fund because of a no-compete clause.

So he decided to create what is both an institutional research firm and, at the same time, it undertakes to teach individual investors how to be pros, how to trade like a hedge fund using a long-short strategy, and teaching people things like second derivative of growth which is not something the average retail investor really hears about.

Tell us a little bit more about the vision for what Hedgeye is and what products are offered.

Darius: I guess the number one thing that Hedgeye stands for, or at least we have as a core value, is this belief that research should be democratized across the spectrum. You know, we don't subscribe to the belief that there is information that retail investors or investment advisors should be kept away from. We don't subscribe to the belief that they can't understand higher-level research.

Obviously, we have a very large and growing institutional research business and that's sort of our day job, Keith and I and the rest of the guys on the team. But, where we can and where it makes sense, we do like to democratize the conclusions to our institutional products so that we can help listeners like those who subscribe to MacroVoices, or those within our own community, to generate higher rates of return and higher rates of risk-adjusted returns in the financial markets than otherwise would be if they listen to legacy financial media sources. Which, in my opinion, don't offer a tremendous amount of value from a risk management perspective.

Erik: And I know that our friend Dan Holland has asked us to mention that you're running a ten-year anniversary special on some of those products. So tell us, what is Hedgeye Pro and Hedge:IQ? And what's on offer in terms of the ten-year anniversary special?

Darius: The last slide in this deck shows some of the details behind this ten-year anniversary. We're ten years old and, hopefully, keep going from here. I guess the difference between Hedge:IQ and Hedgeye Pro is IQ is more market essentials, ETF recommendations, and a quarterly investment outlook, sort of bigger picture stuff.

Hedgeye Pro is more for anyone who's actively trading risk in financial markets. That includes our daily strategy piece, the "Early Look." You have access to the Hedgeye Macro Show where you can watch Keith and I and Ben and Christian rant about markets and economies. You also get to access questions about some of our conclusions. And it obviously includes everything you receive in Hedge:IQ as well.

So there's various subscription levels. We obviously wanted to put together an attractive package for your audience to kick the tires on. I think the one thing to end with is that the difference between what we offer and what a lot of other people offer is active risk management.

I think a lot of people sell trades – big picture ideas, or even these trade ideas where there's no real active risk management. We are effectively a hedge fund that doesn't run money. We run our mouths, obviously. And sometimes get in trouble for that on places like Twitter. But definitely what we want to do is, again, help investors make actively informed investment decisions at every step of the way. And that's something that we have a passion for at Hedgeye.

Erik: As you see here, folks, on the last slide Hedgeye is offering MacroVoices listeners a special deal. If you want to take advantage of that, the process is to sign up and then email Hedgeye tell them you heard about it on MacroVoices and they will refund you the appropriate amount depending on which product you select.

Darius, I can’t thank you enough for a fantastic interview. Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.