Martin Armstrong: There is no alternative to the Equity Market

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Erik: Joining me next on the program is Martin Armstrong, founder of Armstrong Economics.

Martin, I've really got to hand it to you. Last time we had you on the program, a little more than a year ago, the S&P was at 2,385.

And, to summarize approximately what you said: You could easily make the argument that we're already way overvalued on a fundamental basis. But it doesn't matter. The market could easily double from here.

And, of course, as much as everybody was calling for a crash at that point, your words were proven quite prescient. It was all uphill from there.

Now we've had a few hiccups. Are we finally at the point where, maybe, we're running out of steam? Or do you think that we're going to get past this correction and continue to move higher?

Martin: This is really a consolidation. And what you have to ask yourself is, really, if interest rates are definitely going higher. There's no question about that. So, effectively, you've got the bond market going down. You've got people concerned about government on all levels. You have Europe – honestly, Italy may end up in a revolution within a couple of years. You have the euro in trouble. You have Brexit going on. You've got chaos from Malaysia on.

The safe haven, actually, is equities. And the amount of money in the bond markets versus equities is – everybody knows it's close to 10 to 1.

So all this nonsense about the stock market is going to crash 50%–60%. That's when it's overbought. You had a real big retail speculative position in there. We don't have that.

In fact, a lot of the fund managers have been selling equities. Yet, the market keeps going higher. So it's going to be more of an interesting situation where they're kind of flat. And it's like, well, if this thing starts to take off you're going to have a lot more people rushing back into it.

There are certain times in history when the stock market is the problem. And then on the other side of the coin is when government is the problem.

And that's what we have.

Just look around at the states in the US. We have Illinois, California, New Jersey. I moved to Florida. My lawyer basically told me, if I died to tell my family to drag my body across the river before they told anybody. Taxes are going up crazy.

Effectively, the real problem is government doesn't know how to manage even a bubblegum machine. To them, it's always, like, whenever they need money, well, we'll just raise taxes. Clearly, they are incapable of managing anything. Otherwise, they would never have to raise taxes. But they constantly always have to raise it.

So we're reaching that point where it's really getting quite critical. And you have all these people bashing Trump all the time. But, really, it is the Trump revolution. And, not that he created something, you have the 28-year-old Alexandria Ocasio-Cortez who won in New York on the Democrat side.

Effectively, they were all like, well, maybe the people really want socialism. That's not it. I mean, Trump beat 17 career politicians. She just beat the career politician they thought would be the Speaker of the House.

So what you really have going on is people are just fed up with politicians in general. It's a global, systemic problem that we have a crisis in the political side around the world.

You have Italy throwing out all the career politicians. You have the same thing starting to brew in Britain. It's everywhere. You had Mexico just overthrow the president down there. You had the same thing in Malaysia.

At this stage in the game, career politicians have been lying to us since World War II. And they're just fed up with it.

Erik: I want to come back to the political subject in just a minute. But I noticed that on the equity question your first and strongest conviction was bond yields are definitely going up, bond prices definitely going down.

Let's elaborate on that. Tell us your view on bonds.

Martin: It's amazing how people just don't look at history. I mean, if you look at the DOW – all this stuff about, oh, higher interest rates, the stock market should go down. Just look at the data and you'll see that is absolutely false. The Federal Reserve doubled interest rates between 1927 and 1929 and the stock market doubled.

In fact, when I did research on that, it was very interesting.

The thinking process before socialism was quite different. As long as interest rates were going up, it was viewed as bullish for the stock market because it showed there was still a demand to borrow, which is correct.

What is the problem with the ECB and lowering interest rates? They keep going lower and lower and then went negative, because people were not interested in borrowing.

We've done correlations on these things. It's very simple. If you think the stock market will double, you'll pay 10% interest rates. You'll pay 20%. If you don't think it's going to go up, even 5%, you're not going to pay 5%.

It has nothing to do with the empirical level of interest rates. It's, basically, the expectation., because the stock market has never peaked in history twice with the same level of interest rates. Sometimes it's been 200%, as in 1899. And other times, 1929 was the lowest level of interest rates.

I don't know, it's some sort of thing that talking heads have made up on TV and everybody repeats it constantly. And they think if you repeat a lie long enough, it just becomes the truth. But it just does not hold up historically with any correlation.

Erik: Martin, you have been very quick to say, look, there are a lot of people who are claiming the stock market is going to crash. There is going to be a horrific crash on the stock market. And you are explaining, for very good reason, why you don't think that is true.

But I've heard you on other occasions make reference to a major monetary crisis at some point in our future being inevitable. And I think, maybe, people confuse that idea of a monetary crisis with a stock market crash.

Please clarify. What is the difference? And what do you actually see on the horizon?

Martin: A monetary crisis is where you're talking about a decline in the currency. For example, the German hyperinflation or something like that. Or Zimbabwe.

When you get into a crisis like that, all tangible things rise in value because they have an international value.

If you look at the currency that Germany issued after the hyperinflation, it was backed by real estate. Real estate will hold up, gold will hold up, equities will hold up. These are the things that, basically, are tangible assets. They have a value to them.

So a monetary crisis doesn't mean a stock market crash. It means the basic problem is more on the currency side. And you can have, what is typically confused by a lot of people, but you have, effectively, currency inflation versus inflation from demand.

For example, in 1985 I lived in London, when the pound went all the way down to $1.03. And I ran out and went to British Airways and asked them how many tickets they would sell me on the Concorde. They looked at me like I was kind of strange, and they said maximum 25. I said, fine, I'll take them.

It was costing $1,000, because the pound went down so far. And a first class ticket on the TWA back then was $3,000. I thought it was a great deal. I got on the Concorde, and it's absolutely full with Americans and they're all bragging about this is a great deal.

Of course, they raised the price after that. And the pound snapped back and then it all of a sudden became an $8,000–$10,000 trip.

Erik: So, does that mean that you are presently bearish on the US dollar? Or is this a longer-term view?

And what is your outlook for the US dollar?

Martin: The US dollar, honestly, it's going nowhere but up. What you have to understand is what's going on globally. We have a major, major crisis in Europe. I can't emphasize how bad it really is. They're pushing Italy to, effectively, triple its inheritance tax.

And you have to understand Italy is more like China when it comes to real estate. Italy has had – before, there was no property tax. They just put in a stamp duty tax in 2017. So now if you want to buy your primary home you pay, basically, a 2% sales tax.

If you want to buy a second home, it's a 9% sales tax. That's tremendous on the price. Brussels and the IMF are telling Italy they should triple their inheritance tax, because Italy's is 4%. Germany's is, like, 17%.

That's why I say Italy is on the verge of a revolution. Because this is where people have saved their money. It's not in the banks. There are people that have multiple houses and they rent them out just to break even. So you're looking at a real estate crash in Italy that's going to be monumental.

If the banks aren't bad enough now, this is it. It's pushing everything over the edge.

And the politicians just don't get it. They see no end to this taxation. And every revolution has been over taxation. Remember the American Revolution? "No taxation without representation." It's the same thing.

It's systemic everywhere. And, unfortunately, what Trump doesn't understand is he is still old school in the sense of this idea of trade. And he wants a lower dollar so he can sell more goods overseas. And that's going against him.

The dollar is being pushed up because the Euro is lucky, really, if it's going to survive past 2021. The pound is seriously in trouble because they still don't understand this whole issue of trade.

And it's everywhere you go. China is going to eventually be the financial capital of the world. But we haven't gotten there yet. They still have currency controls and things of this nature, so it's not a free currency to be able to invest in or trade yet. Yet it is the third largest bond market in the world.

Erik: So where does this go next, in terms of the situation in Europe? Because between the refugee crisis, the economic problems, Brexit still pending, the situation in Italy, it seems to me that this can't end well.

But I think the big question on investors' minds is, okay, it can't end well, but how does it play out?

And how does it play out in markets? Where is the trade? If you see the picture in Europe, you know it's an ugly picture. But that's very clear. But less clear is what's the trade right now?

Martin: Basically, the trade is long dollar, long US assets. You're seeing a lot of major capital throwing the poor out of Europe and coming over here. You have the US fund managers that keep selling the stock market saying, oh, it's overvalued, overvalued. Well, the foreigners are buying it.

You have [Mario] Draghi coming out and saying, oh, we're going to end the quantitative easing. But he doesn't. There is no way he is going to possibly do that. He's just trying to get out the door next October, in 2019. He knows he has created a major crisis.

You've got pension funds that are going belly up everywhere. They need 8% to break even. It's the pension crisis that's causing Illinois to go down. And California wants to put a tax in to cover state employee pensions.

It's all just coming to a head.

Draghi realizes what he's done, which is why he's not going to back off of the quantitative easing. He can't. He's really destroyed Europe tremendously, because there is no bond market. Nobody's going to buy a bond at even 2% for 10 years. They are just not going to do it.

It's been the ECB that's been buying all this stuff up. And he can't stop. Because there is no private purchase of the bonds.

Japan is kind of in the same boat. You actually had the central bank brag that they bought 97% at auction. You think that's good? You're wanking out the free markets. And that's what it was all about.

You went to these auctions to, basically, raise money. Here you've got the Bank of Japan and the ECB just printing money just to buy the government debt. And you've wiped out the private bond markets on both sides.

So how are you going to go back? Our computer is showing that the interest rate is going up three, four, five times. And very rapidly.

Erik: Would you go so far as to say that the trade here is short bonds and long equities?

Martin: Oh, sure. But that's another issue with the ECB. They, basically, effectively, make it almost illegal to short the bonds.

I was in Brussels in meetings and they wanted to take the euro trading away from Britain, to punish them, basically. But, also, they think that if the euro starts to get hit they can just shut down the market and they can illegal to short it, like they do with the bonds.

And I asked them, are you going to take it away from New York, from Chicago, from Hong Kong, Tokyo, and Shanghai? And they look at you with a dumb look. Well, no, we were going to take it away from Britain. I said, you're not going to be able to.

You're dealing with politicians who have no clue as to the private side of how markets function or anything of that nature.

I don't know if you're going to be able to short the European bonds. I mean, you may be more on a synthetic, basically, by European equities versus American equities, something along those lines. But that's why the DOW has been going up.

And if you look at the DOW, that's what foreign capital goes in there first. The Nasdaq is more of the domestic retail market. S&P will be professional. But big money from foreign investors –

It's like what they do in real estate. The Japanese came in and they bought Rockefeller Center. They don't go down the street and buy $150,000 bungalows in the local community. They want the trophies. That's basically what they do.

And they do the same thing in equities. You'll see that the DOW led all the way up. And it backed off a little bit. We're still in this consolidation period. And a consolidation can possibly even last into 2020.

If it does, that's where it's just going to explode, because there is no other place for capital to hide. We've wiped out the government bond markets. You can go into the corporate, but I would definitely not go into long-term. I mean, we're at 5,000 year lows in interest rates.

Erik: Speaking of debt, let's talk about China and the massive credit expansion that has occurred there. A lot of people have said that someday that bubble has got to burst. And when it does it could potentially send a shock around the world.

What are your thoughts on Chinese markets? Particularly, credit. But also with respect to their equity market.

Martin: They have a problem with the credit side, because there wasn't really enough analysis, or expertise, in even how to manage some of these things. You have one of the coal companies finally go bankrupt there. But what is different is the central bank is making cash directly available to the companies.

That's the way the Federal Reserve was originally designed. I know you've got a lot of conspiracy theories and all this stuff, but the original structure of the Federal Reserve was, yes, it was owned by the banks, because it was a bail-out fund, and they were going to fund themselves.

When the Fed was going to look at stimulating the economy, it didn't give the money to the banks. They would buy corporate paper so that, if the corporation couldn't get a loan from the banks because the banks were in trouble, then the Fed would lend that money out to the corporations. And that would prevent massive unemployment.

That is what is happening in China, which is much better management than we have in the West.

What the Fed did, and ECB etc., it just handed banks money. And hoped that maybe they would lend it out properly. And they didn't. And the banks went back and said, gee, we don't make this money. Why don't you create excess reserves? Okay, fine.

So these people who were talking about hyperinflation – it's complete nonsense. Yeah, okay, fine, the Fed created $4 trillion. Then look at the excess reserves. Almost $3 trillion went back, sitting there. It never went into the economy.

Erik: Some people are starting to say inflation is about to make a major resurgence. What is your view there?

Martin: Yes, but you have to define what kind are you talking about. You have inflation, which can be – most people think of demand inflation, where people are rushing out and buying things. That, not so much. Then you have currency inflation, where the assets rise in proportion to the decline in the purchasing power of the currency.

So you have different types of inflation. You can also have inflation that will cause – not necessarily by demand, but by a shortage in supply. For example, a major storm happens and wipes out the wheat crop. All of a sudden, there is a shortage of supply and the price will then rise.

So you have different types of inflation.

We're definitely looking at more on the side of inflation outside the US. Don't forget, as the dollar rises that creates deflation. So, whatever your inflation rate is, you then have to subtract the rise in the dollar. And this is why it's also been very difficult for the Fed to reach its targets.

So we've had massive deflation going on.

I can tell you, a lot of our banking clients in Europe, I mean, they're not stupid. You're going to have a negative interest rate. If you're going to have excess funds at the ECB, you're going to have to pay them to hold your money.

So, quite simply, what they did was they opened up branches in the US. They sent money to their US branch. And the US branch, basically, posted the money at the Fed in excess reserves.

They're not stupid. It's just the politicians that are stupid. And the media, basically, I think a lot of them are just journalists that are 23-year-old kids that just put out whatever they are told to put out.

Erik: And what do you see on the horizon for gold? We've certainly seen some weakness here. Is it going to continue as the dollar strengthens? Some people think the dollar and gold will eventually decouple. Do you see any truth to that argument? Or is the inverse correlation likely to persist?

Martin: For the near term. But eventually what will happen is that it's when the confidence, basically, begins to shift. We're not at that point yet. All these people with gold and, you know, all the nonsense, the hyperinflation and all this stuff.

Look, it's been the same argument since 1970. And gold went down for 19 years. That's not the issue.

The issue is people will run to gold when they question the validity of government. And that's where the politics comes back in. It's a question of your faith in government.

And we're seeing such a polarization in the United States. The press is all on the side of, basically, anti-Trump. And so they are really creating this, no matter what he does it's basically always negative.

It has really turned into an unbelievable witch hunt. It's quite dramatic.

Now, my concern is – I understand why Trump is there. It's the people who are fed up with the career politicians. It's not Trump, the person. So you really have to wonder, what's going to come after Trump? All of these people that are anti-Trump, and a lot of the politicians in Washington I talk to, they think if they just get rid of this guy they'll get it all back to normal.

And it’s just not going there. They have pushed the envelope way too far. And people are fed up.

Erik: Let’s stay on that topic of US politics and where they’re heading. Because we’ve got midterm elections coming up. And, as you’ve said, it seems to me, Martin, if I think back when I was a kid – when I was a little kid, we had the Nixon/McGovern campaign going on and that whole debate, and very heated, a lot of different opinions. We had Carter/Reagan, lots of very strong opinions in society.

When I was in my 20s, and there were a lot of heated debates between my friends and I about politics, nobody thought it was their duty to their country to get a baseball bat and beat somebody’s skull in if the other guy disagreed with them. And we’ve somehow gotten to the point where that’s actually happening. It’s isolated in certain incidents. It’s not everywhere. But we’ve got between the extremes. And there are such extremes.

As you mentioned, Alexandria Ocasio-Cortez in New York – outright declared socialist. You’ve got the Trump people who are just vehemently behind Trump. And there’s even a much more extreme right wing with people coming out proudly saying that they are Nazis and espousing white supremacy and all of these very, very extreme views.

What is driving all of this? And where it headed? And where is it going to leave us in terms of being able to find a rational government? It seems like everybody is on one extreme or another.

Martin: The socialistic dream we were all sold is falling apart. Forbes has come out – I think it’s 65% of kids who graduate can’t find a degree in what they have a job in. And then you had the Clintons made student loans non-dischargeable in bankruptcy. I mean, it’s just, everywhere you look, it’s just really bad.

Even UPS and the postal service, yes there are jobs available, but only up to 33 hours a week. It won’t go to 40, because if they go to 40 then they have to give them pensions. And they can’t afford the pensions, so they’re basically just hiring people up to 33 hours a week.

The system is not sustainable. And that’s what is causing all of these problems.

People are working into their 80s now because they were told to save money, etc., for your retirement. They saved, and that’s it. The value of the house is down. The savings earns nothing in interest. So what do they do? They have to go out and work.

So the whole socialistic dream is gone. And, as the pensions continue to decline, you have so many groups that are affected in different ways, from students to the elderly. And they all have a valid reason. But it’s effectively economics that’s causing this.

And then everybody wants to blame everybody else.

This girl from New York, Alexandria Ocasio-Cortez, she was a waitress, all right? That's okay, but she has no experience and doesn't even understand what she's saying. She was asked a question – well, gee, unemployment is at historic lows under 4% back to the 1960s. And her response was, well, that's only because everybody's working two jobs.

Excuse me? She doesn't even understand what she's talking about. And this is the problem. We're getting into a situation that people are just getting mad. They're just getting violently mad at what's going on. They are lied to all the time.

When I go to Asia, I had three governments say, what is wrong with CNN? And I said, what do you mean? And he said, they're just bashing Trump all the time. And he said, we think he's doing a great job. He's the first one that ever got North Korea to cross the line. He at least has everybody talking about trade.

And the difference in this nonsense with trade is that, yeah, you can have tariffs, but then they can put on duties for everything. So you can pretend it's free trade. And then you try to mail something to somebody and it's, like, they're taxed up for crazy just for mailing something to them. I sent a gift over to a friend for Christmas, and they sent back – thank you very much, please don't ever send me anything again.

It's just crazy.

When I travel internationally, all the time they're not looking for trinkets and T-shirts that you bought. And I get pulled over – how much money you got on you? First question. Not just the US. Britain even asked me.

I took the train from Brussels over to London. I left a meeting in Brussels, so I'm in a suit and tie. And I hopped on the train, everybody else is in jeans and sneaks. Now I'm going to go check into a hotel in London for my meetings over there. I'm the one pulled over. I said, look, I'm an American. That's not good enough. I could be an expat. I had to show them where I bought the ticket and I had to show them that I had an airline ticket back home from Frankfurt. Then I was okay, I could leave.

France stops the train between Switzerland and Luxembourg. Searching bags for money. They're just, basically, a little desperate at this stage in the game.

There is a big case going on now that's been on for over a year in Canada – an executor of a will just got a bank check, put it in the mail, for half a million dollars, to the heirs in the United States – it was seized by Customs. They said, this is money laundering. It's cash. You can't mail cash. You can wire it. But, apparently, you can't get a bank check and mail it. They confiscated half a million dollars. It's still in the courts.

Erik: While we're on this subject of politics, the situation in Russia seems to be escalating, and I was just shocked at not so much the fact that people have different views, but how extreme the views were out of that press conference with Trump and Putin. Literally, senior officials from the US government calling for the impeachment and prosecution of the President for treason.

It seems to me that, we're dealing with a nuclear superpower, which has recently gone out of its way to show the world through a series of videos that it has hypersonic weapons systems that are capable of overcoming the missile defense capabilities of the United States. I don't think it was an accident that they showed us that they've got this stuff.

And we continue to see a tremendous amount of very angry rhetoric directed at Russia.

Where do you think this is headed? And what are the implications for markets?

Martin: It seems, honestly, that there are just people who want war and that's it. If you really look at what Putin said, he said, fine, Mueller wants to send people over here or come himself to interrogate the "Russians" – please do. He said, no problem. He said, let us do the same thing with the American intelligence people.

I know for a fact that the very reason Putin is in is because there were shenanigans going on and they got Yeltsin to effectively steal $7 billion from the IMF loans. They wired it through Bank of New York. And as soon as that happened, Republic New York went to the National Bank, went to the government, and then said, oh, Bank of New York just did a money laundering.

They run into there and then they basically were trying to blackmail Yeltsin not to run. That's how Putin got in. He realized he was set up and he wasn't going to put in the patsy that they wanted, Berezovsky. Berezovsky flees to London. He ends up hanging himself, supposedly. It's just a mess.

You can go online and look at a documentary that was banned in the United States. It's called the *The Magnitsky Act: Behind the Scenes*. We have been interfering in everybody's elections. We did it to get Trudeau in, in Canada. We were even caught, basically, tapping Merkel's phones. Merkel was then caught tapping, basically, the French.

This is standard operational procedure. The way it's being presented here is, like, oh Hilary lost because of the Russians. And they want to, effectively, just create World War III over this. It's insane. But this is what they do.

You can look up for just about every war known – Johnson came out on Vietnam and he said for all he knew they were shooting at wells that night. We were never attacked by Vietnam. The Lusitania, the Germans even put in an ad and said, don't sail on the Lusitania because they're using it to sneak weapons into Britain.

The weapons of mass destruction, they haven't told the truth about anything. The Spanish–American War, started by Pulitzer and Hearst. I was taught that in school back then.

I don't know, just every war has always been for the benefit of somebody. And it's always some sort of propaganda to get everybody riled up. And I think that's what's going on with Russia. They want a war.

Erik: And is there a market implication or a trade angle here, other than buy defense stocks? What are the market implications of all of these trends?

Martin: Historically, capital tries to move away from wherever the event is. So I think you're probably looking more at the Middle East and not really Asia. But I think it is building up and the real crisis is going to be with Iran.

And you have to understand what is in the Middle East. We're talking about, really, a religious war between them. The Sunnis and the Shiites. The difference is that one is that the government should be run by the religion, and the other one is there should be a separation of church and state.

Along those lines, you have Iran vs. Saudi Arabia. And they both have different people on their sides. That's what's happening.

Syria, it's fairly well known. Basically, Qatar wanted to get a pipeline through there to Europe for gas to compete with Russia. Syria said no. And then Russia comes in to support Syria. Of course. It's economics.

Erik: Well, Martin, on that lovely note, we need to wrap it up here. Tell us a little bit more about Armstrong Economics and what people can find there. Particularly, I know you just recently did one of your conferences, which are extremely popular with the institutional community. I think you just did one in Singapore, and I believe you've still got one coming up in Orlando. Tell us what the story is there.

Martin: Well, we do absolutely every market around the world. The computer is always writing reports itself. They're not written by actual individuals, so they're not biased or anything like that. We call it our Socrates system. It's really the only fully functioning artificial intelligence computer at this level in the world. It is reading research reports on thousands of instruments around the world every day. So we have institutions coming in from everywhere.

And these conferences – we put it all together so you can see what's happening globally. Because, as I said, if there is a war in the Middle East you will see capital come rushing in to America, even from Europe.

The only time – when the Cuban missile crisis, for example, then the capital left the United States and ran to Europe. World War I, World War II, the capital came here.

If you know your history, JP Morgan had to bail out the US Treasury back in 1896 because we were bankrupt. So after two world wars, what happens? We end up with 76% of the world's gold reserves. And that's what made the dollar the dollar.

It's always capital flows and war has been one of the major factors in sending capital rushing around the world. So, anything in the Middle East, expect the capital to be coming in this area and you're going to see equities rise, the DOW will rise, etc.

These conferences, we put everything together so you can see it coming. These things are like a train coming down the track. It's not looking at a forecast of one individual thing, because it's all collective.

Our forecast on the DOW was correct from '11 on because we were also forecasting the high in gold at the time. Everything really dovetails into one to the other. That's really how the world economy works.

I would say, briefly, I've watched it myself over my career. In the early '80s, everybody was in Geneva dealing with the OPEC money.

Then, all of a sudden, Japan was rising. I went over to Japan. I didn't think I would really know anybody. And all the brokers I knew from Geneva had all moved over there.

Then, when Japan peaked and that was it, where did they go then? They went to Southeast Asia.

The talent and the capital always shifts. Basically, you've got about four-year trends and then it shifts again. And then they go, oh, let's run over there.

Erik: And our listeners can find more about it at armstrongeconomics.com.

Martin, 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.

Postgame Interview with Brent Johnson

Patrick: You know, Erik, what a great interview with Martin. Now, before we discuss the interview, we're joined in the post-game by Brent Johnson from Santiago Capital. Welcome to the show, Brent.

Brent: Thanks for having me. It's great to be here.

Patrick: Now, Erik, I just wanted to comment quickly on Martin's interview. I thought it was incredibly interesting, overall, how he has a pretty negative view about how the world is emerging.

What did you take away from the interview?

Erik: Well, as you say, it kept coming back to politics, with a fairly dim outlook. And I thought about trying to steer the interview in a different direction. But I think he's right, that that really is the big issue facing the world.

We are in a "fourth turning" as in Howe's generational theory. And it's a time when a lot of stuff is really pretty crazy, politically. And I think that's going to continue to be the backdrop behind markets for some time to come. So it was an interesting interview.

But I'm looking forward to asking Brent a few questions. Patrick, do you want to kick things off?

Patrick: Absolutely. Brent, we invited you to the show because you have some unique views on the long-term bullishness of gold. But you're not a normal bull, because your perspectives on the US dollar differ dramatically from most gold investors. I mean, you're actually bullish to the US dollar.

So, before we get into gold, please give us your core thesis behind your bullish US dollar view.

Brent: At the heart of it, it's really a dollar short squeeze, for lack of a better word. The demand for the dollar, despite all arguments to the contrary, is still incredibly high.

And you get into a situation where dollars are no longer being manufactured. And the ones that exist are no longer being exported to the rest of the world. So you get into the Triffin dilemma a little bit here, for lack of a better theory.

But at the end of the day, the dollar, for all its flaws, is still the global reserve currency. It is still used for the majority of global trade. It is still used as the main funding currency. When emerging markets need to raise debt, a lot of times they do it in dollars.

They've done that en masse. And those dollars need to be paid back in dollars. You know, those loans don't get to be paid back in yen or euros or cotton balls or Twinkies. They have to be paid back in dollars.

And when you have a situation where demand is steady, and potentially even rising, and supply is falling, or at least not increasing, that's a pretty big factor for the price to rise.

So, at the end of the day, it's a dollar short squeeze that I don't think that we can escape.

Erik: Brent, I couldn't agree more with that view. We've heard very similar things from Jeff Snider. But it makes me curious about your short-term view on gold. Because, obviously, we understand – and I happen to agree with you, by the way, in the long term – I'm very bullish on gold as well. But in the short term, it seems to be: The dollar going up has to mean the dollar going down has to mean gold went down or is treading water.

Do you still have a bullish view in the short term here? Or, let's say, in the next 6 months to 12 months, where do you think gold is headed?

Brent: I've been saying since 2016 that I didn't think gold was ready to break out, because of the strong dollar. Attempts since then, but ultimately it's turned back down. Earlier this year, I said, while I would love to see gold break out, I just didn't think it was ready to do so.

And, unfortunately for those of us in the gold world, we've seen it turn back down pretty hard here in the last six weeks. It's turned down so hard that I think it's due for a bounce.

Just about everything I look at says it's completely oversold. Whether you look at the Commitments of Traders positioning, whether you look at the technicals – the short-term technicals look bad, but they've kind of hit a key support level – we've had a really bad run for six weeks.

Usually you get some kind of a relief rally. And it's set up to where we could have a potentially pretty strong relief rally. Potentially, back up into the $1,250 to $1,300 range would not be a surprise by any means.

But I don't think that we're ready yet to break out to a brand new bull market. So I would expect, as we get into 2019, that the dollar bull market starts to take hold – as I believe it will – I think that will provide a headwind for gold. It may not. It really depends on how quickly the dollar starts to do damage to the monetary system.

But I think, initially, the strong dollar is going to be tough for gold. It could trade up, down, and sideways for the 12 to 24 months before ultimately breaking out with gold.

Patrick: Now, Brent, many gold investors anchor themselves on this idea that gold is being manipulated. And that narrative is something they anchor themselves on. What further feeds that story is when you see such strong correlations of gold to things like the Japanese yen or the Chinese yuan.

What's your take on what's happening here? Is gold manipulated?

Brent: The great thing about conspiracy theories is there is always enough truth to make it compelling. And I'm of the belief that all markets are manipulated to some extent. I mean, what is the Federal Reserve setting interest rates if it's not manipulation? So I think it would be insanely naive to think that gold is not manipulated in some form.

That said, I'm not somebody who thinks that's it's been manipulated en masse every day for the last 50 years as part of a global conspiracy.

Has it happened? Absolutely. Does it happen? Absolutely. But to think that governments, who can't even manage their own office budgets, could manage the gold price for 50 years is a little tough for me to get to.

That said, there is, no doubt, influence. Just influencing interest rates influences gold. So when you see things like the correlation of gold with the yuan, or correlation of gold with the yen, or even inverse dollar, it is a function of governments acting.

And those can have strong influences. And correlations can last a long time. They can break for a certain amount of time. But, ultimately, whether gold is manipulated or whether gold is not manipulated, the manipulation will eventually break.

I think that a lot of this stuff, as far as gold being correlated to the yuan recently, can really be also attributed to the dollar being strong. The reason that the yuan has been going down is because the dollar has been strong and China has a credit problem. You can say it's manipulation or you can just say it's the credit market acting as it always does as you get to the end of the cycle.

So I certainly don't throw stones at anybody who holds the gold manipulation theory. That is part of being in the gold world. You can't get away from it. But I'm also not somebody who comes in every day and when gold is down it's because of manipulation.

Erik: Brent, you said something a minute ago I want to pick up on. You said at some point you see gold and the dollar decoupling from their inverse correlation and both moving higher together.

Now, we've heard that view from a couple of guests. But I think different people have different reasons for holding that view. Why is it that you think at some point we're going to see the dollar and gold – which, historically, have been inversely correlated – move into a positive correlation where they both go up at the same time?

Brent: I guess long story short – going to your comment earlier about we're in a fourth turning, that book probably influenced my thinking as much as anything. And that's where I think we're at. I think we're at the end of a fourth turning, we're at the end of a debt super-cycle. All the debt in the world is a problem. Even the US dollar debt is never going to be paid off.

But if you think about Exter's Pyramid, and the way it funnels down, at the bottom of the pyramid is base money and then gold. That really helps to explain my dollars and gold theory.

If you understand the way the system is designed, and you understand the plumbing of the system, and you understand that when debt gets defaulted on, supply of money disappears as well. You get into a situation where it's a short squeeze.

And, while chaos starts to pick up around the world, and we get some of these chaos trades into the dollar, it will also start to leak into gold too.

I don't think in the first place it will be as good as gold. But, as we start to have problems, I think the dollar gets it first. I think dollars to gold gets it second. And then, ultimately, I think the dollar falls and gold stands all by itself.

But it's really kind of a lack of confidence. When people start to worry – I think, initially, when people start to worry overseas – whether that's in Japan, whether it's in Europe, whether it's in China – those flows, I think, will initially go to the dollar.

And even if, let's say, 80% goes to the dollar and 20% goes to gold, it's still going to go to both. And it's not until those problems have hit Europe, have hit Japan, have hit China, and now they're coming home to the US, that I think people will start to leave the dollar and favor gold over the dollar. I think up until that point they favor both.

So, I think, initially they favor the dollar. Then I think they favor both. And then I think, when it finally comes home to roost, the US is – while it may be the cleanest dirty shirt – it's in a hell of a lot of trouble as well. Then gold stands alone.

Erik: Brent, thanks so much for joining us on the program today.

Before we let you go, please tell our listeners your Twitter handle and websites so they can follow your work.

Brent: My website is santiagocapital.com. It's just a landing page, but it has my email and phone number on there. My Twitter handle is @SantiagoAuFund. I'm happy to communicate with any and all of your guests in whatever manner they see fit.

Erik: Okay, thanks so much for joining us we really appreciate it.