Jesse Felder: Breadth divergences signal caution warranted on new all-time highs

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Erik: Joining me now is Jesse Felder, author of the Felder Report and, from time to time, also the producer of an excellent podcast.

Jesse, it's been too long. It's great to have you back on the program. Let's start with the stock market. Here we are, much to my surprise at least, not quite all-time highs today but within the last several sessions we've been at all-time highs. I don't know about you, but the economic message of *everything's rosy and it makes sense for the stock market to be at all-time highs* is not resonating in my mind.

How do you see this market?

Jesse: You know, it's actually been, I think, a year since you had me on. And back then I shared a bunch of charts with your audience showing the breadth divergences. And, really, the number of hidden Hindenburg Omens was the thing that really stood out to me. And we had that steep fourth-quarter decline right after that last time we talked.

I think we're at another similar point right now where stocks are kind of still trickling higher but valuations are extreme, almost no matter how you measure them. And I'm seeing that kind of deterioration under the surface again.

We're seeing – Stan Druckenmiller gave an interview recently where he talked about certain sub-sectors of the stock market are the best economic forecaster he's ever come across. And he specifically mentioned small caps, retail, transportation, those types of things.

And when you look at the relative performance of those sectors – metals and mining was another one – it's horrendous right now. I think small caps recently just hit their lowest relative point to the S&P since the 2009 bottom. So these subsectors are sending a pretty serious message about where the economy stands and also just the overall breadth of the market as it hits these new highs.

Erik: We talked about breadth last time when I had you on the show. I can't believe it's been a whole year. We need to get you on more frequently. It seems to me like we've got a different kind of breadth now. It's the international breadth issue, as Danielle DiMartino Booth pointed out recently in one of our All-Stars interviews.

Look, the message is really clear. The decline in equity values is already happening and has been happening for a while now, internationally, on a global scale. But somehow the US has managed to stay immune. And Danielle's comment is, look, the US can't be immune forever.

There is another argument, though, that Brent Johnson has posited, saying, look, what's going on is normally, under normal circumstances, in every little economy, every little market around the world, when the stock market takes a dive to the south side, what happens is people pile into sovereign bonds in their own country. That's their safety trade.

The thing is, those markets are deeply negative yielding in many cases and it doesn't make any sense to pile into those. Brent thinks what's going on is there is this international safety trade that is holding the US market up.

What do you think about that theory? Because, frankly, Jesse, I don't think you and I were wrong when we thought this market should have topped out a long time ago. But it hasn't. And it seems like it behooves us to figure out what the heck is going on, why it has been so resilient.

Do you think Brent's ideas make any sense? And, if not, what other ideas do you have that would explain why the market has stayed so high for so long in the face of so many reasons that it shouldn't?

Jesse: I'm a huge fan of Brent and Danielle, both their work, I pay attention to what they write and discuss. But I do think that makes a lot of sense. And I do think that does help to explain it. I think there's been a lot of foreign money that's poured into our markets here in the US just fleeing negative yields.

But I think this probably comes back to the currency discussion. I think you you have to be a dollar bull to think that the stock market is going to hold up. I'm not bullish on the dollar. And we can get into that if you like too.

But I do think that, yes, if you look at just relative yields, relative returns around the world, there's been this flight out of Japan, out of Europe, out of negative yields, and it's gone into our sovereign bond market here in the United States, it's gone into corporate bonds here. Junk bonds have done really well.

Look at these big Japanese banks buying leveraged loans, as much as they can get their hands on. So yeah, there's been this kind of hunger for any type of yield.

But reaching for yield never ends well. And that's exactly what's going on right now. You look at junk bond yields with 5-6% nominal face value yields on them – you know at that time when there's no covenant on these things and leverage among corporate America is at record highs it's going to end badly.

So they might think they're getting a positive return today. There's going to be a fleeing out of these assets at some point.

My friend Helene Meisler said that her mentor taught her the last people to buy are always dentists and foreigners. And I think that's what's going on in the market. And it's funny to me, too, that when you talk about the US stock market, we've essentially gone nowhere for 18 months.

And this is how markets top. They take time to build kind of a rounding top. Bottoms are a point in time and tops are a process. And I think we're still in the middle of this topping process right now for the US stock market.

Erik: Let's move on then and go a little deeper on the US dollar. Lots and lots of fundamental reasons that I can see to be short. In my mind they've been outweighed by the global dollar squeeze argument.

How do you see this whole thing? And what are your views on the dollar?

Jesse: I think when you look around – to me, I try to keep it simple in terms of my currency views. And I look around and I see the fiscal situation in Europe, led by Germany, is much, much better than our fiscal situation. We're running a budget deficit of 5% of GDP right now and growing – trillion-dollar-plus fiscal deficit.

And you look at the zeitgeist in Washington right now, there's no worry at all about the growing deficit, the growing debt pile. In fact, we have on the Democratic side, people talking about forgiving a trillion and a half dollars of student loans, or giving every American $1,000 free every month. We have – you know these kinds of policies that are being discussed.

And, at the same time, a real effort on the part of the Fed to rethink its policies towards inflation in order to stimulate inflation – or at least stimulate inflation expectations. And you have the president also pushing for that type of policy, weak dollar policy.

Everything I look at in terms of macro here in the United States is pointing at a lower dollar. And, to me, when you look at currencies, you look at the dollar. It's very highly correlated to the deficit.

The deficit is widening and the dollar hasn't really responded yet. It did peak a couple of years ago. We've had that rally so far, over the last nine months or something.

But I do think this is a bear market rally. We haven't made new highs in the dollar index. And I do think it needs to catch down to the fiscal situation.

So that's my view on the dollar. And if you think about it, it fits well with this move. Japanese investors, European investors have been very comfortable coming and buying our assets and not hedging their currency risk because of the fact that, once they hedge, they lose all that pickup in yield.

And so they're very exposed that if the dollar does begin to turn south, they don't have that currency hedge on. They're going to have to sell assets and move back into their home currencies.

That to me is the trade that's on the horizon. And it's a bearish dollar, bearish US financial assets in total.

Erik: Let's talk about bond yields. Because, as much as it seems like the stock market is not taking the message, I think it should be taking and moving lower. Bond yields sure seem to be sending a message that the bond market gets it. What do you make of this divergence? And what do you see on the horizon for bond yields?

Jesse: The way I see what's gone on in the bond market is just a panic into bonds. It's panic buying. Yes, the economy is slowing. But if you look at inflation, I just think it doesn't make any sense. Warren Buffett was talking about this recently and Charlie Munger.

Howard Marks wrote about it recently too, saying that all of these things together, the worsening fiscal situation, and low bond yields and a strong dollar – you can't have all three. Historically they've not been able to coexist. So it doesn't look like the fiscal situation is going to change any time soon. To me that suggests that interest rates must be higher.

And if you look at the term premium on long-term Treasuries right now, it's the lowest in history. To me, that is the ultimate sentiment signal that investors are willing to accept very little if nothing at all in terms of the duration risk that they're taking right now.

What I think is probably the biggest risk for the markets right now is that – there was an article in the *Wall Street Journal* earlier this week where they interviews a bunch of just retail investors who were – some of these people pouring money into the bond market. And they said, I don't even care what it yields, I just want the hedge against a stock market decline.

I think probably it's not difficult to imagine a situation where stocks and bonds decline together in a period, a stagflationary environment. And I really do think that's what we're headed for: slowing topline growth, slowing economic growth, and rising inflationary pressures as a result of a number of factors.

And that's just probably the worst possible environment for financial assets, both stocks and bonds.

Erik: If both stocks and bonds start selling off together, one of the theories out there, and certainly it's one that I subscribe to, is really we're in almost completely uncharted territory as far as what could happen with an unwind of –

There have been times before where bonds and stocks both sold off together, but not in an environment where you have this massive, massive institutional allocation to this risk parity strategy which basically has to be unwound if that starts to happen.

So it seems to me like, if there is a recipe for a really, really big 2008-sized *what's the crisis that nobody saw coming?* (and of course there is always somebody who did see it coming), it seems to me like it is the self-reinforcing nature of both bonds and stocks selling off at the same time resulting in a mechanical unwind of that institutional risk parity trade.

Have you done any analysis of that? What do you think of that theory? How much does that resonate for you?

Jesse: It's all guesswork. You know, obviously it's something that I have thought about. I think that risk parity, to its credit, has volatility triggers, so that prevents them from just riding those trades into the ground.

And I don't know if this is – you know, stagflation would kind of strike me as less of a one-time trigger event like the Financial Crisis and something more that's maybe just a slow, slow bleed or slow burn where you just have kind of a longer, more drawn-out market, bear market in stocks and bonds together. And maybe they don't move perfectly correlated the whole time, but the general trend for both is to the south side.

I'm more worried about individual investors who today think that buying bonds is going to balance out their portfolio. And the only reason they believe that is because over the last 30 years it's worked that way. But if you look back further in time, you needed to have other assets in there. Financial assets do move in tandem. Stocks and bonds aren't negatively correlated for, actually, most of history.

And so the risk parity question is really difficult to answer.

But I do think that this 10-year period of ultra-low volatility and rising asset prices that I've been calling "the everything bubble" for two or three years now, at least, has really given people incredible confidence in a number of really risky strategies – whether it's leveraging up bonds through risk parity, or selling put options or volatility targeting. Short selling volatility. Selling catastrophe insurance. Investors got into buying catastrophe bonds, essentially selling catastrophe insurance.

There is just too many of them to count. And who knows how they're going to unwind? But history shows that whenever people become way too confident like this it does end in some type of a painful thing.

And, really, I do think passive investing in both stocks and bonds, saying I'm going to buy financial assets and I'm going to dominate my portfolio with financial assets, regardless of the price that I pay, is one of those systems, strategies that I think is just built on overconfidence generated by 10 years of wonderful returns.

Erik: I know that your personal favorite style of investing is value investing. How do you do that when, by your own description, almost everything is overpriced?

Jesse: There are good values in the markets to be found. I think one of the stocks that I like right now is Bed Bath and Beyond – the stock trades at two and a half times free cash flow and has almost no debt. I think it's $500 million in debt and about $750 million in free cash flow every year. So that's a stock that's extremely cheap.

The short sellers have gone crazy in this thing. I think roughly 50% of the float is now short. So if this company just stays in business it's going to triple in price.

Those are the types of things that I look for to own on the long side. And I sell short other names on the other side to try and ameliorate just general market risk.

Erik: So even in your value investing strategy, you're still running a long-short equity interpretation of value investing where I guess –

Would you consider overpriced stocks that you can short a form of value investing?

Jesse: Yeah, I try and pair value with momentum. And so I look for things that are cheap that I want to buy that have waning momentum on the downside. They're usually typically in downtrends. But I don't want to buy something that has strong downside momentum. That's the classic catching a falling knife. Things I want to avoid.

And same thing with selling something short. I don't want to short sell something that has strong upside momentum. I want to find something that's –

I think Nvidia last year was a perfect example. I'm still short semiconductors pretty heavily. They're extremely highly valued right now.

Momentum has been turning for – just like the broad stock market for the last 18 months – and so I think the combination of those and the fundamentals are deteriorating rapidly. I mean, these companies are seeing sales declines 20-30-40% year-over-year and the stock prices are still holding up.

So investors are essentially gambling that this semi-down-cycle is going to rapidly reverse itself to the upside and these insane valuations are going to be justified.

But Nvidia was a great example last year where it was pretty obvious with the implosion of the crypto markets that mining was going to take a hit and that was all of their incremental demand for chips. And so Nvidia was trading at its highest valuation in company history, even higher than it traded in the peak of the dot-com mania. And a lot of it was built on that excess demand that was just evaporating along with the bitcoin price.

So those are the types of things that I look for on the short side. And I will qualify that by saying I don't put on huge positions on the short side. I use indexes a lot for hedging and my short positions I keep relatively small compared to what I do on the long side. When I find ideas that I like on the long side I feel pretty comfortable putting on big-sized positions.

The other factor that I use, besides valuation and momentum, is insider buying and selling. So when I see insiders buying three four times their annual salary in stock in a company that I see as very cheap, that's something that gets me really interested.

And when I see insiders on the other side – Nvidia insiders were selling massively, talking a good game during the quarterly conference calls and then as soon as the conference call ends, let's go dump half our shares, 60-70-80% of our stake in the company. And that's usually a pretty good sign too that it's confirming my other ideas about the company.

Erik: Let's move on to gold. I have to admit that I was caught off-guard by this breakout. I do believe very strongly that, as central bankers paint their way into a corner they can't get out of, that gold is going to be the asset to own in the long run.

I didn't think we were quite at the point where it was going to be time for gold to take off. But this $1,350-1,375 resistance level has been there for five solid years. So far it's been, what? At least two or three weeks now that we've sustained a breakout above it. And we haven't gone super-high to the upside; we're not ripping higher. But we're not retracing down lower either.

I'm guessing that you probably were bullish before that happened. But what's your take? And how has this breakout changed it?

Jesse: I've been really bullish gold since mid-2015, I Think when the *Wall Street Journal* published Jason Zweig's article – and I'm a big fan of Jason, I think he's a brilliant financial thinker – but he wrote an article suggesting that gold was a pet rock. And when that gets highlighted by the *Wall Street Journal*, the biggest financial publication in the world, you have a pretty good idea where sentiment stands towards something.

And after it peaked in 2011, four-year bear market, created tons of pain. Meb Faber has done research that when you see an asset class decline, whatever it is 20% a year for three years in a row, it's usually a good buy.

Gold did that for four years in a row into '15 and it became a great buy at (whatever it was – $1,050?) back then. And I've been really bullish on the gold price since then.

I love the fact that it's essentially $1,400 now. It's up 350 bucks and people are still skeptical about gold. It's up (what is that?) 30%-plus in the last several years. It's probably – I think it's roughly equal to the stock market over that time.

People are extremely bullish stocks and extremely skeptical towards gold. And to me those are just wonderful sentiment signals that when the stock market goes nowhere for 18 months and people are still bullish, that's kind of what happens early on in a bear market – people don't give up on it until prices really break lower.

Same thing with an early bull market. The bull market in gold to me feels like 2010-2011 in the stock market when people were still – even 2012 –

It wasn't until 2013 when stocks really broke higher – the Russell 2000 broke above a really important resistance level, just like gold did recently – that people started figuring out, okay, now it's time to go buy stocks.

And I think that's where we are in gold. Paul Tudor Jones recently said if it breaks above that $1,350-1,400, it's going to $1,700 pretty quickly. And that's just the technical target that makes sense with that projecting off that rounded base that it's made.

And I think the way we get there is from people realizing this desire to create inflation, this desire to create a weaker dollar, is something that almost has to happen. It's something that we're seeing in the White House, we're seeing Elizabeth Warren talk about it, we're seeing the Federal Reserve talk about we need to create more inflation. And they're going to do whatever it takes to make it happen.

And if they do, the dollar is going to tank and everyone's going to realize we have to have a ton of gold in the portfolio. A significant allocation. Once that realization happens, that's how you get $1,700 gold.

Erik: Now, a lot of gold investors are also – at least the speculative gold investors – are also really big on silver. And something that surprised me a little bit is I would have expected that when you saw this very strong technical confirmation signal that says, hey, gold really, clearly has caught a bid here, something is going on.

I would have expected silver to just be crazy up at that point as all of the really speculative interests said, okay, we've got our confirmation. Let's pounce on silver. It seems like silver is lagging a little bit.

What's going on?

Jesse: I've thought about this. I think it might just be, like I said, the semiconductor industry is really hurting right now. And silver does have some industrial applications that people might just be worried that if we are headed into recession, the demand for silver might collapse and that might be what's holding it back.

But it hasn't been this cheap relative to gold since I think the early '90s or something. It's ridiculous how cheap silver is.

But then again, you look at the gold mining stocks, and they're as cheap – they haven't been this cheap relative to the metal since early 2000s. 2000-2001, something like that.

To me, those are all signs. Another sentiment signal I look at for the metals is – it used to be the Central Fund of Canada; it's now the Sprott Gold and Silver Trust – it still trades at a discount to its net asset value.

And to me this is amazing because Sprott, when they took it over, announced a conversion fee. So they will convert your shares in this closed-end fun to bullion whenever you want. And so there's no reason it should trade at a discount. I'm surprised somebody hasn't just bought up shares and converted just to arbitrage the difference.

And so, to me, all of those signs – you know the silver relative to gold, the miners relative to the gold price, these discounts in the closed-end funds – still all suggest to me that people really just haven't embraced the bull market yet.

Erik: Jesse, I had a conversation recently with Pippa Malmgren about surveillance capitalism and this change that's going on.

You know, when Silicon Valley got into the software business with, I don't know, I guess it was Microsoft and Apple and Macintosh and Windows and so forth, these things were cool. Everybody liked them. There was no threat that anybody thought was a bad thing about computers, other than maybe young people spent too much time on them and were under-socialized.

Now we've gotten to the point where Facebook has material influence over elections in multiple countries. And something that I've become even more concerned with – in fact I produced a video recently which is at macrovoices.com. (For people who only get MacroVoices, by the way, in your iTunes feed, there is more content there. We haven't figured out how to get the video into the iTunes feed, so that's at macrovoices.com on the home page.) But I did a 45-minute video on this subject about digital currency and where it's headed and my concerns about Facebook.

You've been writing quite a bit about this subject for years now.

We talked a little off the air, and you said you think it's maybe coming to a tipping point. What did you mean by that? What's the tipping point? And what can we expect?

Jesse: Well, it's interesting. Malcolm Gladwell wrote his book *The Tipping Point* in the early 2000s, really before we had this idea of things going viral. Really before social media and all this. Before network effects and these kinds of things really became the jargon for the internet industry.

And then you had companies like Facebook and Google and they really became what they are today because of these network effects and viral spread of information. I really do think now that this backlash against big tech is going viral. And they are at risk of these viral effects being as negative for them as they were positive in the beginning.

Gladwell in his book says you need three different things to get to a tipping point where something, a trend, goes viral.

The first is you need a handful of really insightful and influential people to take up the message.

Then you need to have a message that resonates strongly with other people.

And then it needs to be spread in an environment that's fertile for that type of a message to gain traction.

I think we have all those things today. We had somebody like Lina Khan who wrote about how Amazon had created such anti-competitive business practices that we really need to think through the anti-trust framework. And now that's being discussed by the Department of Justice. And there are state attorney generals all over the country that are looking into this.

So you had a handful of people like Lina. Roger McNamee was somebody who I interviewed in my podcast who came out and said Facebook was maybe my greatest investment ever, but now I'm absolutely frightened at what it's become and it desperately needs to be regulated.

So you have a handful of these people. They're spreading this powerful message that these companies – maybe they're not hurting consumers in terms of raising prices, but they're hurting people in other ways. And they're actually severely and demonstrably hurting competition within their industries.

And the third thing is you need this fertile environment. And I do think, when you think about what's going on with populism and why we're seeing these populist uprisings around the world, it's due to wealth and power inequality.

When you look at these companies, they are the poster children for wealth inequality. You look at Jeff Bezos, the richest man in the world, and the workers in his warehouses are some of the poorest-treated workers in the country.

So the dichotomy there just makes them the perfect target for these sentiments, these sentiments that are the backlash towards wealth inequality and power inequality. I think all of these things are coming together right now.

And we're seeing at the Federal Trade Commission and at the Department of Justice, they are saying this is not a political issue. This is bipartisan. It's people in both parties and people from all walks of life saying that we need to figure out how to regulate these companies because they're hurting competition.

They are potentially the poster children for what's gone wrong with capitalism over the last 10-15 years too. So I do think this movement, this backlash against big tech is growing and it has major implications for these companies – and, as leaders of our stock market over the last 10 years, has major implications for the stock market too.

Erik: It's very interesting, as you were talking there, I couldn't help but think it seems to me like Malcolm Gladwell maybe left out a fourth bullet point there. Which is you've got to have influencers and the various other things that he said. But I think you also have to either not be taking away something that was really cool or you've got to be providing an alternative to it that's safer and better.

And what I see in this public discussion is there's a lot of people – and I mean a lot of people – in society who are fighting mad at Google and Facebook because of these things that have come out about how they mine our personal data and use them for reasons and purposes that we never consented to and so forth. And they're just absolutely bitterly angry.

But do they stop using social media? No. Why? Because that's what keeps them connected to their friends and it's really cool. They like it. And I guess what I fear is, unless you're going to replace these things, and maybe regulate them in a way, I would like to see it resolved through free market enterprise, for somebody else to come along and do a Facebook that comes with promises that they're not going to misbehave the way Facebook does.

But it seems like once Facebook is entrenched, it's very hard for someone else to come in and compete with them.

So I just wonder, are we really going to expect people, even though they get angry, are they actually going to delete Facebook and close their accounts? Or are they going to just gripe about it and keep using it?

Jesse: That's a really good question. And I think we've seen a little bit of both. I saw something this week. I think it was the *Telegraph* reported Facebook engagement in the UK is down 40% in the last year, since the Cambridge Analytica scandal.

This is why Facebook stopped breaking it out and they started putting it together and reporting WhatsApp, Instagram, Facebook together. Because I think they are afraid that, yes, the Facebook brand is dying on the vine and people are abandoning that platform. Maybe not everybody, but there's definitely signs that show engagement here in the US and in the UK is down dramatically over the past 12 months.

I think one of the things that regulators are talking about doing, which would really be perhaps detrimental to Facebook and Amazon and Google, is to simply just bar them from making any more acquisitions.

You look at how important the Instagram acquisition was to Facebook. If they had not bought Instagram for a billion dollars – and it's probably worth more than the Facebook platform is today – that would be a completely different company today.

And you look at Google. They've made billions and billions of dollars of acquisitions in just the last 18 months. DoubleClick was an acquisition. These companies, if they were just the original platforms, if it was just Google Search, it would be a totally different business.

Same thing with Amazon. If Amazon were not allowed to go in and buy up competitors – and this is the thing. The real anti-trust argument that I think that the regulators have is that these companies have such a great hold on the data they can see where their consumers are going.

They can see where their users are going. And they can say, wow, there's already a nascent viral shift towards this new platform, we'd better buy it. And that's what's allowed them to dominate their markets.

And so I think if regulators say we want to really spur competition in these areas, the way to do that is to prevent these companies from making any more acquisitions. If they do that, then that potentially – you know better than anybody, Erik – in such a fast-changing world as technology and these things, if you can't keep up you're going to be left behind.

I think that's something that's already being talked about. And, in fact, people are speculating that these companies are already going to, just of their own free will, slow down their acquisition spree just to try and get regulators to not pay so much attention to them.

That's just one area of it, but I think it's a really important one.

Erik: I see your point. But it seems to me that mergers and acquisition also play a very valuable role in growing the economy and in growing efficacy of businesses that do good things. Is there a way to address this with disclosure?

I mean, when you apply for credit or something, they have to tell you certain things about how information is being used.

It seems to me like what we really need is a law that says anytime anybody on the internet is collecting any information about you, they have to do two things by law.

They have to (number one) disclose what it is that they're collecting, even if it was something that was being collected in an unobvious way that you might not have noticed otherwise.

And they also have to tell you what they're going to do with the information that they've collected. It seems to me if you had a law about that –

Yeah, compliance with that would be expensive, it would be a burden. And I hate to see businesses burdened with regulatory compliance. But it seems to me that would more directly address the real issues than something like a ban on acquisitions.

Is there a downside? Am I missing something? Or do you think that wouldn't be practical? Or what?

Jesse: I absolutely agree with you. And I think it's probably a combination of these things. Europe has really tried to lead in this direction with the GDPR [General Data Protection Regulation] legislation. And I think it's probably coming here.

There was a great article in the *New York Times* this week about this very topic that these companies rely so heavily on data that the only way you're really going to be able to rein them in is by regulating the data. And I agree with that completely.

I think we should have the right to tell people to stop tracking us or to delete our data and all those things. But it's really, really difficult to do.

There have been ideas about breaking up the companies and separating platforms and data collection from if you want to be an advertiser, if you want to be selling advertising, you need to separate yourself from the platform.

So that would apply to Amazon, Facebook, what have you. That they have too much power in trying to create the platform and then also use the data and then sell the advertising to that data.

So there's a lot of different ideas there. I don't know where it's going. But I do know that I think we have reached a tipping point and I do think there is going to be regulation coming down the pike. It's probably going to be a combination of all of these things in some way or another.

If you look at the history of regulating trust-busting anti-trust history, the sector that's been at the center of it has always gone from being the most powerful and the most profitable in the market to becoming an also-ran within the market. Once Washington turns its eye on a sector in this respect, it usually means the end of the leadership of that sector in the market.

So I think people need to pay attention to this in terms of their equity portfolios and say, what kind of exposure do we want to have to this right now?

And these companies are already beginning to price it in. Google is not extremely overvalued. Amazon probably is. Facebook's valuation has come in. But everything depends on what this regulation is going to look like.

And if you look at even Microsoft, once they reined it in the stock didn't do much. And also the other thing to point out with that episode was that the lawsuit against Microsoft really coincided with the bursting of the dot-com mania.

And I really do think this new bipartisan regulation could represent a similar type of catalyst for the broad stock market right now.

Erik: Something I thought was very interesting was that as soon as Facebook announced Libra, first of all the reaction of Congress was kind of unprecedented, I thought. They didn't really cite any authority or *according to the powers vested in us by the such and such act we ask you to stop doing this*. They just said, look, we don't like this. This is really not cool. Please stop doing it. It seems to me that they're not going to stop doing it.

And, if anything, I think the message is out that governments are starting to recognize what I've said all along, which is digital currency is going to change the world completely. And it's going to be a question. It's going to be a challenge as to how much control government actually has over it.

What do you make of Facebook's Libra currency? And some of the other things that are going on in the digital currency space? How do you interpret all of these thing?

Jesse: I have to say I loved your conversation with Pippa. And your book informs a lot of my thinking when it comes to these things. You know, when Libra was announced I put out a tweet, I said everybody should go back and listen to my conversation with Erik because it was so relevant to what's going on.

I do think – I mean, all the central banks are looking at creating their own digital currencies right now. I think the Bank of China was the last one who came out just yesterday, or this morning or something, and said that Libra does pose a risk to – it's a systemic risk to the global financial system.

So there is no way that central banks are going to allow any kind of currency like this that crosses borders and whatever and completely makes them impotent in terms of their abilities to manage the financial system. And I do think this is another horrible –

I mean, I try and think about what is Facebook's thinking here? Obviously, if they can pull it off, it would make them incredibly powerful in terms of the additional data collection that it would give them. It would essentially make them their own central bank.

And so, to me, they have to realize that in this current environment in terms of the perception of Facebook, them announcing this right now is – like, wait a second. After Cambridge Analytica and all this kind of stuff, you think we're going to trust you to run the world financial system? You've got to be crazy.

So, to me, this really smacks of desperation, that the Facebook platform is dying on the vine and they need something like this in order to try and save that platform. Otherwise they would have held off and wait until there's a better environment PR-wise for them to come out with something like this.

So I think, in the end, there is no way the powers that be are going to allow something like this to have its own autonomy over financial transactions and what have you. It's going to be regulated somehow.

And, more likely, I agree with your idea that central banks are going to come up with their own cross-border digital currency that they're going to be able to keep control of.

Erik: That's fascinating, Jesse. We actually disagree pretty strongly on this. And I just want to run my thoughts by you because they've evolved since I wrote the book. I'd love to get your reactions because I know you do a lot of thinking about this.

When the cryptocurrency guys, the bitcoin maximalists talk about how bitcoin is going to change the world and replace the US dollar as the center point of the global financial system, I just don't know what these guys are smoking. Because, as you just said, there is no way governments are going to allow that to happen. And whether the crypto community wants to admit it or not, governments very much are able to stop that from happening.

I think what's going on here is I think the Silicon Valley giants, the Googles and the Facebooks are saying, you know what? There is no way that the crypto guys could ever pull this off, but we could. If we want to create a currency system and use all of the weight of Google or Facebook, these very, very influential large companies, I think they think they've got a shot at basically beating central banks to the punchline.

If central bankers had their act together, they would have benefited from the invention of double-spend-proof digital cash and they would have created their own central-bank-issued digital currencies.

And, yes, we've seen – there was just a conference in Sweden about central-bank-issued digital currencies that our friend Steve Keen spoke at. And there's a lot of thinking going on.

But I think that Silicon Valley is saying, wait a minute, governments are thinking and acting at government speed. We can act at Silicon Valley speed. We can design a currency system that is so much better that governments can't do anything to stop it.

And they won't do it the way the crypto guys did it, trying to intentionally alienate and frustrate law enforcement. They'll take a very different approach that will allow them to be compliant with taxes and so forth.

But I think they want to get market share behind a currency system that works so much better than paper money that there's enough public will that it's very hard for central bankers to compete with it. And I think that they have a very real chance of doing that if they're not stopped. And I'm not really sure what could be done to stop them.

I know you haven't seen the video that I have out yet that talks about a lot of this. There may be another coming behind it. But, just based on what I said there, any reactions to that?

Jesse: I agree with you in terms of I think Silicon Valley thinks they can accomplish this. Yes, somebody's going to do it.

The Bank of China said that the problem with Libra is they still haven't solved the – they said the code is buggy, it's not going to work, they tested it. And they still haven't figured out how they're going to process that number of transactions on Blockchain. They think that it's probably not going to be Blockchain-based entirely because they still haven't solved that problem.

But I do think if you look at the letter that Congress sent to Facebook, they basically – it was almost a *cease and desist*. It wasn't technically a *cease and desist*, but it was basically saying if you guys move forward with this we're probably going to have to shut it down while we investigate it.

So I just don't think that central banks around the world are ever going to say we'll allow Mark Zuckerberg to have this kind of power. And I do think they do have the power to shut it down.

And the other side of it, too, that I think about, is, when I look at this tipping point against big tech, I think most people probably would look at this and go do I really want to give Mark Zuckerberg that much information about myself and that much power over my funds and what have you?

And I do think that the majority of people today – you look at the polls right now where they're polling trust in Facebook and trust in Instagram and these platforms, the majority of people say I don't trust Mark Zuckerberg. That's probably why he's not branding it Facebook Coin.

But, at the same time, I think it's a pretty big stretch to get people to see – you know with 30-40% drops in engagement on Facebook – to say that they're going to come back to the platform in order to spend money is a stretch.

If it were a different Silicon Valley company with a different brand, I might see it differently and they'd have a better chance of succeeding. But with Facebook's brand so tarnished right now, like I said, I really see this as an act of desperation on behalf of the company more than anything else.

Erik: Jesse, well it's really going to be interesting to see how all of this plays out. Because I really do not want Mark Zuckerberg to be in charge of how money works. I think that's the scariest thing that I've ever heard. And that's what I said in the video.

And I may do another video just for central bankers to try to explain some of these concepts to them a little bit better. In any case, we're out of time.

I want to touch on what you're doing.

The Felder Report is one of the best free newsletters in existence. Tell us about that. But also, you have taken a little hiatus from podcasting for a while. I believe you have resumed the Superinvestors Podcast series. Tell us what's going on there as well.

Jesse: Yeah, the free weekly newsletter I put out, it's basically I just do a ton of reading and research every week and every Saturday I put together the five things I found most valuable. Last week I shared your interview with Pippa because I found that so valuable.

But that just is a free email that goes out on Saturday mornings.

But, yeah, I took a little hiatus from the podcast, but I'm at the point where I have some really interesting people I want to talk to. And, to me, that's where it comes from. If I get really curious about something and say, hey, I've got to talk to this person.

I just interviewed Michael Oliver of Momentum Structural Analysis. That podcast is going to come out, I think, this week. And what a brilliant guy. I'm just so excited to share his unique methodology with my audience. And I have a couple more lined up, probably going to be on a once-a-month schedule going forward, just because that's about all I can manage.

Erik: And that's all at the thefelderreport.com.

Jesse, 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.