



## Grant Williams: Gold's rise has just begun

September 5<sup>th</sup> 2019

**Erik:** Joining me now is [Grant Williams](#). I'm learning to say "Grahnt" and not sound American and say "Graant Williams. "

It's so nice to have you back on the program, Grant. And I want to point our listeners to a download that is available in your Research Roundup email. [If you are not registered, just go to MacroVoices home page and click the "[Looking for the Download?](#)" button.]

Grant, of course, is the publisher of "Things That Make You Go Hmmm..." – one of the most respected newsletters in the industry. There was a piece just a couple of weeks ago on gold, which Grant has kindly offered to allow us to distribute for free to listeners. So this is an excellent chance to get both a free copy of a great piece of writing and particularly on a very hot topic. So don't miss that in the downloads.

Grant, let's talk, before we get to gold – I want to come back to that – but you were one of the first people to raise the flag and just talk about the utterly preposterous notion that, at the time you said it, we had \$13 trillion of negative-yielding sovereign debt around the world. And it seemed crazy.

And at the time it almost felt like maybe it had peaked, because that was just at the beginning of the last time interest rates were bottoming. And it started to go up and maybe that was the end of it.

But now we've not only eclipsed that \$13 trillion, it was \$15 trillion last I checked. And I wouldn't be surprised if it's gone considerably more. I'm sure you must be on top of it.

How much negative-yielding sovereign debt do we have around the world at this point? And, probably more to the point, what the heck is going on here?

**Grant:** Yeah, this negative-yielding debt, I think we crossed \$17 trillion this week. It's remarkable, Erik. We really are again in uncharted territories here.

And the amazing thing is we're all trying to figure this out. We're all being dealt a whole bunch of cards that we've never seen before. You know, we're not getting the king of space and the ace of clubs. We're just being dealt a lot of symbols. We don't know what they mean.

We don't know how to play the hand, but we're all at the table. And everybody's figuring this out as we go along. So you're seeing people do things, you're seeing some crazy articles about

what the pension funds are doing with this negative-yielding debt.

There was a great snippet from a piece that Charles Gave (who you and I both know) wrote about a visit he made to (I think it was) a Dutch pension fund who told him, basically, I have to buy these things. I am being told that I have to buy these things because I have to put this money to work. And I'm being instructed to buy these things even though I know that it's a guaranteed loss in the long term unless I can find a greater fool

So here we are. People are being forced to do things that they know, not just through experience is a foolish thing to do, but through common sense. But they have no choice. We're in this world; there is no alternative. And until the music stops, we go on.

But what's been interesting in the last few months is the profile and (for want of a better word) the tenure of some of the voices starting to call this thing out is getting more high-profile. We've seen luminaries like Ray Dalio and Paul Tudor Jones and Stan Druckenmiller not only call this out for what it is but also talk about gold as being their preferred investment, or their preferred currency in Druckenmiller's case.

So the sands are definitely shifting, if you're paying attention.

But there are some very smart people that make a cogent argument as to why this could go on for a materially extended period of time – from here, even. I'm not sure I buy that, certainly from a risk-reward perspective. But I think Albert Edwards' Ice Age theory is looking more and more like the playbook that everybody should, perhaps, be understanding.

**Erik:** What is your view on the direction, generally, of the US 10-year? For a while, it seemed like there were a lot of people really sold on this idea that that 1.36 (or maybe it was 1.34) intraday – I don't remember, back from 2016, in the summer of '16 – that was going to be the forever low, it could never possibly go lower than that.

Well, we're what? 15 basis points above that right now at 1.50 as we're speaking on Tuesday morning?

Where do you think that we're headed with the US 10-year yield?

**Grant:** For me, it feels like the yield goes lower. I mean, I said a while ago I could absolutely understand it going sub-1. It was probably at 2-1/2, maybe 3 when I said that. And I still stick to that. I think we could get a real panic into dollars, and into Treasuries particularly. And it could conceivably go down to those sort of levels that people just thought were impossible.

But the more you look around the world, the more you realize that the impossible has not only become the possible, it's become the probable. And that's a material shift for people to try and understand what to do about that.

I don't see the Treasury market losing the bid any time soon, even though I know that a lot of the holders are very, very nervous because we are in these strange uncharted waters. But if I'm looking to play something for the blow-off, Erik, I would frankly much rather play the Treasury market blow-off than the equity market blow-off, to be honest with you.

**Erik:** Grant, I want to talk about where this is really headed, because years ago when I first heard you talking about the \$13 trillion of negative-yielding sovereign debt, I thought, okay, this is crazy. It's irrational. It's not sustainable. Surely it has to reverse.

But my thinking has evolved completely from then. What I've realized is, if I look at the social climate, whether I personally agree with it or not it seems that modern monetary theory is really very, very quickly gaining a huge amount of political clout.

And it seems that, as we're headed into an election year in the United States, that probably what's going to happen is a lot of politicians are going to be calling for, look, we need to stop bailing out Wall Street with the last form of QE, and we need to look at QE for the people in the form of MMT.

And as much as \$17 trillion of negative-yielding sovereign debt sounds crazy, it seems to me that we really need to think about what would actually stop it.

And if we get to negative-yielding US sovereigns and deeply negative-yielding European sovereigns, what's really to stop any of this? And where do you think it's headed? And what do you think the political climate is going to deliver in terms of monetary policy being affected by these political agendas like MMT?

**Grant:** Yeah, it's a great question, Erik. And, again, we're in uncharted territory. But I think there's two questions around MMT. One is, will it happen? And two is, will it work? And they're very important because they're not mutually exclusive but, kind of, they are in some ways.

I think it, or something like it, will happen. Because, as you said, it's become incredibly popular. And as soon as these ideas are floated and they gain some sort of tailwind, the other politicians are going to latch on to them.

Forgiving student loans is another perfect example. I'm pretty sure that's coming at some point. It's going to be a really tricky one to work out how to do it.

But all of these ideas – whether it is student loan forgiveness, whether it is MMT – are basically band-aid solutions to the problem that's been created. Which stems from the fact that they've desperately tried to keep this expansion going to avoid a recession at any cost to avoid the downward half of the business cycle that you and I have spoken about so many times before.

And, as those natural forces try to assert themselves, it's a question of, okay, what can we do now to stop this? We've cut rates. We've done QE. We've done Operation Twist. We've come

up with every scheme imaginable and it still hasn't worked. And so maybe it's time to just print money. And maybe it's time for MMT.

To me, it's just symptomatic of the problem here, which is, again, too much debt in the world. We're once again going to try to cure too much debt with more debt. We're going to come up with a way to justify it. We're going to come up with a way to explain it.

It's a horse of a different color. There is a day of reckoning that is due.

And maybe we can push it off into the future. Maybe we can. But I think every day you push this forward into the future, the more seismic it's going to become and the bigger problem it's going to become. Look where we are now.

And what's been fascinating to watch, actually, if you look around the world at some of these bond markets – my friend Peter Atwater calls these the “no skid marks charts.” And we see bond after bond – we saw Steinhoff in South Africa, we saw Toys R Us in the US, we saw Argentina's 100-year bond recently – the bond markets haven't sniffed out the defaults coming.

These things have hit a wall and the bonds have just cratered. That's not supposed to happen. It didn't used to happen. But it's happening now because everybody is under this assumption that everyone is going to be made good and the bond market is going to be fine and there's always a bid because there's so much money chasing the bonds.

At some point that's not going to work.

And I suspect that if we do go into recession or, God forbid, it's proven later that we actually are in a recession now, none of this stuff is going to matter. I honestly don't think it's going to matter. I think we're going to be into interest rate caps, we're going to be into all kinds of desperate measures.

So MMT may not seem like the craziest idea out there at some point. You know, mandating pension funds to buy Treasuries, that's a very simple solution to a complicated problem. I think the crazy is yet to come. I think the crazy will be desperate. And I think MMT will absolutely be part of that toolbox.

**Erik:** Well, I couldn't agree more, unfortunately.

One of my predictions is I think MMT will appear, on the surface, to be wildly successful at first. It's going to look absolutely beautiful. Because you create a whole bunch of liquidity, you give it to people, it stimulates the economy, everybody feels good. Of course, it's going to appear to work at first.

And, eventually, I predict that a very, very dire consequence will result.

But it's something I've gotten wrong consistently. My experience is I always think these things are going to happen faster than they really do. And it could take quite a few years for this to play out.

**Grant:** Well, Erik, the other thing that's worth pointing out is that when you give money to people, if you start giving money directly to Main Street – it used to be that Wall Street were rational actors, and if you start funneling money to Wall Street you have a pretty good understanding of what they're going to do with it. You knew when QE was coming that Wall Street was going to front run the Fed bid for bonds. You knew if the central banks were buying corporate bonds that the professional investors were going to front run that.

When you start giving the money to Main Street, there's sometimes some strange things. You know, if they take that money and they start saving, God forbid they start saving money so they can pay down their debt. That's going to be a major problem.

And you know we have seen that, if they start doing that at a time when the public are frightened – as we saw in 2008 – look at the savings rate in the US in '08. It jumped through the roof.

So you might find that the man in the street starts hoarding any liquidity that's thrown his way. So it's not a guaranteed outcome and you're giving it to perhaps the most unpredictable market actor out there. And that could surprise a few people, I think.

**Erik:** It's very interesting to hear you say that because what I would have said – and it sounds like we disagree on this – as soon as you take it to the public as opposed to bailing out Wall Street with QE, I would have said it has to be wildly inflationary because that money is going into the real economy. It's being given to people who are likely to spend it.

Do you think that this possibility of people surprising us and saying, no, we'd rather save it causes there not to be the inflationary reaction to MMT that I'm expecting? And I don't predict it overnight. I think it's a long lag time. But I think that eventually there would be a risk of runaway inflation.

Do you have a different view about that?

**Grant:** I think if you look at it as a cold, hard idea, yes, absolutely. What happens if we throw a lot of money into the economy? I agree with you, it should be wildly inflationary.

What would happen if you put a load of money into Main Street's pockets in October-November of 2008? They were not going to go out and spend that money. Every headline was telling them this was the Great Depression Mark II and they would have saved it. Or they would have paid down debt as they do *in extremis*.

So I think if MMT comes at the wrong time, if it's a reaction to another massive leg down or

another big leg in this deflationary vortex we seem to be stuck in, I think there's a very good chance that people save it or pay down debt with it instead of going out and spending it on another car or some more white goods.

I think the public's actions are dictated by how they feel. And you can feel the tension, the anxiousness ratcheting up all the time.

And so, for me, there's a big question of timing here.

They would have to do MMT before things got really bad in the economy for it to have the effect you're talking about. If they do, then yes, I agree with you. But if it's the response to another '08 type situation, then I think the reaction probably could be wholly different.

**Erik:** Let's talk about where that recession or worse comes from. Because something that you and I have discussed on this program – and you've certainly gone to great lengths on it elsewhere for years now – is, hey, we're really long in the tooth in this economic cycle. It's time. Recessions are a natural part of life. We're overdue for one.

Well, Grant, we're overdue for one five years ago and it hasn't happened yet. Do you think that this recent plunge in bond rates and the inversion of the yield curve is telling us that finally we're going to get that recession? Or do you think that maybe that's another false flag?

**Grant:** Well it's interesting, Erik, because this is a metric that has been almost infallible over the years.

So it's fascinating to me to see people talking instantly – they say, well we've had small inversions. It hasn't stayed inverted. It hasn't been inverted for a long period of time. We've had these little inversions, a lot of headlines, and kneejerk reactions intraday.

But it's interesting how quickly people are now coming out and saying, you know what, this doesn't matter anymore. This indicator doesn't matter because of negative rates, because of zero interest policy. It's a false flag now.

And that's fine.

But if you're in the business of investing, you're in the business of handicapping probabilities. That's what you're supposed to be doing here. And if you want to take an indicator that's been a really, really good – as good an indicator of anything forward-looking that we can hope to see in what is, let's face it, a big game of read the tea leaves.

Or you can look at the New York Fed's recessionary gauge indicator which, every time it's gone above 30 has been 100% correct there's been a recession. And guess what? It's above 30. But people are very happy to say this doesn't matter anymore. And you know what? Maybe it doesn't. Maybe it doesn't.

But if you want to give me an indicator that is right 8 or 9 times out of 10 – or 100% in the case of the New York Fed benchmark – then I'm going to at least listen to that and start thinking, okay, what does this do to my portfolio if this is correct once again? How do I need to change up my allocations? How do I need to buy insurance? How do I need to protect my positions, protect my profits? Do I take some profits?

That's what you're supposed to be when these flags get triggered. No, it's not a guaranteed assurance that we're going to be in recession. None of us know what the future is going to bring.

But it tells you there is a heightened probability that we are going to go into one. And so then you have to decide, okay, what's my handicapping? Do I think there is a 50% chance this is right? A 70% chance? If you do, you have to take action.

Lacy Hunt has been calling this brilliantly, this bond market, for the longest time now. David Rosenberg has been calling brilliantly all the data points we're seeing. And he's adamant that we are if not in a recession we're going into one.

These are two very, very smart guys who don't make outlandish calls often. And when they do, you should listen to them. They could be wrong. That's fine. There's nothing wrong with being wrong.

It's about putting out the reasons why you think something's going to happen and allowing people to judge for themselves whether they believe it or not. There's too much store, I think, [in] who's right today and who's wrong today. And will you be right tomorrow?

Predicting the future is not a game that any of us can claim to be able to do. We're all guessing. We're all trying to make educated guesses. And time-tested signals of recession are tools you should use to make better guesses. That's all. That's all they really are.

And right now there is a preponderance of evidence that suggests it's time to factor in recession to your base case and understand how it would impact you. And if you think it's a big enough hit, make plans and make adjustments to your positioning.

**Erik:** Well, Grant, I am very strongly of the view that we are headed into a recession, so I think I'm in David Rosenberg's camp. But the place where I'm not so convinced is what the implications of that really are in markets.

Because we always used to assume, hey, if you know you're headed into recession or if you think that's going to be the outcome, it's got to mean that the stock market goes down and probably goes down a lot. But the reason for that was because the bond market was so much more attractive in those recessions than the stock market.

Well, guess what? We just talked about (what is it?) \$17 trillion now of negative-yielding. So it seems like the artificial manipulation of these markets by central bankers is maybe changing the rules.

And one of the ways I look at this is, I think the recession signs are so clear that, if the market was going to sell off dramatically in the next recession, it would have started by now. But it hasn't really started in any meaningful way.

And so it makes me start to – I thought Brent Johnson was crazy the first time he told me he thought that things are really bad and stocks are going to go up as a result.

But I'm seeing the argument now that, if other people around the world start to view the US equity market as a safety trade because the choice if they want to get out of their own stock markets is to go into European negative-yielding sovereigns or into the US stock market as a safety trade where you've got also the FX benefit of this dollar squeeze, all of a sudden it makes it seem like maybe the US stock market could be recession-proof this time around.

Is that a possibility?

**Grant:** Of course it is. I mean, everything is a possibility. There is nothing that you can categorically say, that cannot happen. Who would have said that negative interest rates cannot happen five years ago? Most people. We would have said that. Of course the scenario you've laid out could absolutely happen.

But I think if we go into a recession, if we start seeing poor numbers, we start seeing companies cutting jobs, we start seeing the human side of a recession, it's going to be very tough to just jump in and buy the US equity market.

I think people, if they see a recession, will close their eyes, hold their nose, and buy more Treasuries. I think that's the safety trade, the real safety trade.

Because it's amazing how, suddenly, if there are signs that we're in a recession, it's amazing how, suddenly, these valuation metrics that we've kind of forgotten about start to matter. You know, price-to-sales, price-to-book, all the valuations that have just most of us shaking our heads who've had any kind of longevity in these markets, understanding not for a second why they're being up to the places they are.

In a recession, those things do matter. And it won't just be a case of, buy me stocks for the safety. It will be, buy me Treasuries.

You know, Albert Edwards and, I think, Raoul were talking about minus 4% on the US 2-year as a possibility. Now think about that. We're at what 1.4-ish now? Just think about what a move that would be and what it would take to drive that down there. And that will not happen in the face of a soaring stock market.



So is it a possibility? Absolutely it's a possibility; it could get there. Brent, as you said, laid it out very well and very clearly as to how it might happen.

To me, I think that's a very dangerous assumption make. To trade long stocks with that as your base case, I think is a very risky thing to do. I really do.

**Erik:** I agree with you completely on that. I guess what is different for me is I'm the kind of trader who wouldn't be bashful based on what I see in this economy about shorting the S&P with some leverage. And I'm not doing that this time around, just because the game has changed and I don't know what the rules are.

**Grant:** Erik, I think that's a great point you make. Because you are experienced, you see things that previously you would know how to react to them. You know in your heart, okay, I know what the right positioning is here. But I don't have the courage to do it because the rules have changed.

Let me ask you this. What would it take for you to see to have the confidence to do that again?

Because there's a lot of people having exactly those thoughts that you are out there, sitting there on their hands. Experienced guys going, you know what? I need to see – just show me something. Show me something that tells me that everything I've learned [up] to now is actually going to matter again.

It will be different things for different people. But I'm sure there is something out there that if you see it, it will give you the confidence to put the trades on that you know you want to do.

I think that kind of realization, that kind of confirmation, will come from different places for different people. And you'll start seeing people finally have the courage to put those shorts on that you're talking about.

That's what I think we're missing. It's that, okay, if I see the market – maybe some people it will be technical. Some people will want to see reversals and all kinds of things on candle charts. So, to me, people will want to see good news sold. There will be all kinds of things.

But, little by little, that confidence that everything they know in their gut to be true actually matters again, I think that will bring people like you back to the table. And it won't be on the long side.

**Erik:** Oh, absolutely. But I think the problem is that a lot of really smart people will get caught wrong-footed along the way to that eventual outcome. Because there's been plenty of times so far where it looked to a lot of us like, okay, this thing is finally over. It's rolling over. It's time to be short now. And we were wrong each of those times to date.

And I think that, as you say, it's left a lot of us to where we're not going to jump on the short trade until it's really clear. And then everybody piles in at once and it really gets ugly really quickly.

But, you know, at the same time, I look at everything that's going on here and I think, well, what do we know about the really big picture here? We know that none of the problems that led us to 2008 were ever solved.

What we've done is we've papered over our problems in a way that I predict, ultimately, it's the higher you climb, the harder they fall. So eventually things have to get really, really bad to clear the system.

But I used to think, oh, you can't just conjure money out of thin air with QE and solve everything. Well, boy, you can paper over problems for decades at a time with money conjured out of thin air. That really does work to at least address the symptoms in the short term. And it works incredibly well.

And I think it creates a complacency level that is going to make this thing go on for longer than anybody thinks possible until eventually it turns really, really ugly, really quickly.

**Grant:** You know the poster child for this, Erik – if you look at Bill Fleckenstein (I know you've had Bill on before), Bill closed his short fund in March '09 because he knew what they were going to do and he figured it was no time to be short. And a couple of times he's made noises about starting his short fund again and a bunch of people have jumped in and said, hey, if you start short funding I'm in, I'm in, I'm in.

He's never pulled that trigger. He just hasn't seen what he wanted to see. And, you know, with Bill it's feel, it's there will be little nuances that he's waiting for. He's waited 10 years patiently for that. But I know when Bill sees what he wants to see, he'll go for it.

And he's not alone. There are a lot of experienced traders like yourself who are just waiting for a setup they feel they can manage the risk effectively. And when it comes, I don't think they're going to be shy in taking this market on. Because we all know that if you get the short right, it's probably going to be the biggest short win you have in your career. It's just about being patient.

**Erik:** Grant, I couldn't agree more that that's where the challenge is going to be is the short trade of a lifetime is coming and those of us who can see it coming have jumped early too many times. And Bill Fleckenstein has probably done a better job than I have. I've thought it was game on for the short side.

And I've decided that we really need to wait until it's very clear because there's been a lot of false signals.

But I want to move on to something where I think there is a very, very clear signal right here,

right now. You have been an outspoken gold bull for as long as I've known you. I have always agreed with you that, in the long run, gold is the place to be. I'm convinced it's going to be the asset to own for the next decade.

But, at the same time, the place where we disagreed was tactical. And I thought, boy, Grant, you've got to be able to see this global US dollar liquidity squeeze. It's got to drive the dollar higher, and that can only mean a headwind for gold.

Well, I got half of that right. It has driven the dollar higher.

And I think, to give you credit, when we talked about this before you said, yeah, yeah, I see the dollar liquidity squeeze argument, that's a good point. But I still think that being long gold, not waiting for it, is the place I want to be.

I thought you were going to be proven right in the end. I thought I was going to outsmart you a little bit by waiting for a better entry price a bit lower. I definitely got that call wrong.

So what's going on here that we're seeing not only has the gold breakout occurred, but the dollar breakout occurred too?

And on Tuesday morning that we're speaking, we're seeing the dollar, particularly, breaking to new all-time highs on the trade-weighted dollar index, a recent cycle high on the US dollar index.

And you'd think that would be a headwind for gold. And gold is up dramatically on the day.

So what's going on here? Why is it suddenly now that you're being proven right?

**Grant:** Well, look, Erik, that sound you can hear is me rolling my sleeves up. So let's talk about gold. Thank you for using the term "bull" and not "bug." I appreciate that.

When you talk about gold being something people should own, when it doesn't go up they talk about you being wrong. But it's really not that. Because, to me, it's never been an instrument you trade with. I'm not a gold trader. I want to own gold for what I believe is going to happen and for what I think is starting to happen now.

And this is the fact that the dollar and gold are going up together is not a good sign. It's not a good thing. Trust me. It has happened before, which is why it wasn't that difficult to predict that you would eventually see gold and the dollar rise together.

This is as big a screaming signal that people are worried, as I think you can see.

And when we talked earlier about, do we buy bonds? Do we buy equities? I think gold is about to kind of shove its foot in that door and enter that conversation. Do people allocate a couple

of percent of their portfolio to gold? 5%, maybe, some of the pension funds. And if they do, you better get ready to see some fireworks.

I gave a presentation recently, which is the letter that you're going to link to in the downloads file, just talking about the similarities between the 1930s, the Roaring Twenties, the blow-off top there, and what we've been going through recently. There are all kinds of parallels in society and politics. It really is eerie how history rhymes. And you and I have spoken about history's tendency to do that numerous times.

But the point I was trying to make there was gold really performed in the **aftermath** of the crisis. It wasn't in the lead-up. In the Roaring Twenties, everything was great.

But once the uncertainty rose and once we entered the Great Depression – at the time, obviously, the price of gold was fixed – once they had to let gold off the leash, if you like, you saw the price increase dramatically. And it was after the pain happened.

And that's what worries me about gold rising so strongly now and really starting to confound a lot of the people that said the move is over and it needs to break out, but then it really needs to consolidate.

Well, it's gone straight through that \$1,480 level. It's gone straight through \$1,500. We're closing in on \$1,600.

And, as I said, when you've got Paul Tudor Jones saying it's his #1 investment for the next 12 to 24 months, you've got Ray Dalio saying everybody should have an allocation to gold, and you've got Stan Druckenmiller saying it's his single biggest currency position, these are people you should listen to.

And it's not about putting 70% of your assets in gold. It's not about that. It's about, is it time to have gold as an insurance policy for my portfolio?

Well, if everything I talked about with the bonds and the equities is correct, and both of them are very dangerous places to be, then why wouldn't you take 5% of your profits and put it into something like gold – which has no counterparty risk, which is a currency, which is incredibly liquid, and offers solutions to all the problems that we've spoken about?

So I think gold is about to make a move that we've been talking was a possibility for a long, long time.

I very rarely talk about the price when I talk about gold, because it really isn't why I own it. But I think the action recently suggests that a lot of people are going to be looking at gold, are going to start to understand why it makes sense to own it. And if they decide to pull the trigger, even if it's just as a precautionary tactic, that will have a massive effect on the gold market.

And if this fear of the dollar shortage continues, and it is aligned with fear of a recession, fear over market tops, fear over negative-yielding debt – you know, the chart of that \$17 trillion of negative-yielding debt is identical to the gold price. As negative-yielding debt increases, gold goes right along with it.

So I think gold has broken out. I think you'll see it move quite quickly towards testing that old \$1,900 level in US dollars.

But, again, when we talk about gold and talk about how it's still \$300 below where it reached in 2011, the dollar is just about the only currency you can say that. It's a new all-time high in Aussie dollars, in Canadian dollars, in British pounds, in Japanese yen, and, as of yesterday I think, Europe.

Anybody who's ever bought an ounce of gold in any of those currencies is in the green now. Throughout history. I mean, think about that.

And it's only picking up speed. You're starting to see a lot more coverage of it in mainstream media. And it's such an emotional asset that if it starts to be written about emotionally, it starts to be talked about emotionally, and it starts to become an apparent alternative or an apparent hedge or an apparent insurance policy, it doesn't take a lot to get this thing moving.

And I think you know I've been consistent about this.

I think everybody has needed to own gold for some time now. The people that started buying it in the early 2000s, they could care less. They haven't watched the price, really. They saw it go up to \$1,900, some of them maybe sold out. I don't know.

But they certainly sweated the \$1,900 to \$1,100 fall over that painful four years between 2011 and 2015.

But owning it is an important thing to have done. And I think if you've got it, it's a very comforting asset to hold in a very turbulent and troubled environment.

And, again, you're not going to put 100% of your money – it's not a 60/40 gold/bonds portfolio we're talking about here. We're talking about an allocation for protection, for insurance, whatever you want to call it.

But I think the gold market has changed. I think the fact that it's going up in concert with the dollar is a big, big signal. And I think it really is time for people who've thought about it and haven't done anything to at least go back and consider the argument for it. Understand what you want to own it for.

And, again, then decide if you want to pull the trigger. If you don't, that's absolutely fine. But there's a lot of reasons why you should, I think, right now.

**Erik:** Let's talk a little bit about how you own it in this environment, Grant. Because when you talk about gold and the dollar moving up together at the same time, I think that's a really important point. And it seems like it's a game changer in what some of the drivers are.

So do the old rules of – you know, a lot of people used to be more comfortable with mining shares because they felt that was a comfortable way to get leverage on the gold price.

Is that still right? Or are we in a situation where the metal itself is more likely to be where the action is?

**Grant:** I think the beauty of the gold universe is that it is actually, when all is said and done, pretty simple. It's volatile as hell. You need a cast-iron stomach to trade these things. But when the metal goes, for the most part, the miners will go right along with it. And they will outperform because they do have that inherent leverage.

So it's actually pretty simple. If you believe that gold is going to go higher, and you want to trade it, and you want a leveraged exposure to the price, then great. I mean, the gold mining stocks are a great place to be.

And the point I was making in my presentation was, you don't need to get too cute with these because, as much as you could dig through and you could find some companies that will be stellar outperformers from the rest of their peers, if the public decide to come for the gold miner stocks, they will come for the ETFs they'll come for GDX, they'll come for GDXJ.

So you don't have to be too cute. You don't have to expose yourself a stock that we all know from experience, could have a mine collapse, or a permitting problem, or a hostile government come in. There are so many things that can wrong with gold mining stocks.

But if this is a mainstream trade, and gold becomes the hot topic and gold miners become the hot stocks, you just have to own the ETFs, the GDX and GDXJ, because that where people that don't really care what they do, they just want exposure to where the price will go.

So, for me, owning physical gold just for those insurance reasons is always something you need to do.

If you are trend chasing, if you just think this is going to be a great trade for me, then absolutely you can get the leverage from the mining stock.

And, let's face it, you can get even more leverage from silver. And we should definitely talk about silver. That was one of the charts I had in this thing showing as perfect a 50-year chart as I've seen that suggests silver is going to have a massive breakout.

And if you look at the gold/silver ratio, it's hugely skewed towards gold right now. Silver is

gold's more volatile cousin. And so if it's leverage you want, if it's volatility you want, and exposure to potentially big upsides in a precious metals bull market, then silver is a great thing to look at right now.

And, again, you've got ETFs that will do the job for you without you having to dig through company reports and trying to ascertain the quality of the company management, which is always one of the really difficult things to do with mining stocks.

**Erik:** Does silver now represent in your mind one of those rare second chances for people who maybe have missed the big move in gold? Is it really as simple as, hey, silver hasn't caught up yet, you've still got a chance to buy silver? Or is there more to the picture than that?

**Grant:** I think if you look at that ratio, if you're worried about it, you can go long silver and short gold and just look for that ratio to come back into line. It's got a long way to move in your favor. So if you're nervous about it, it's a great trade.

We should talk about platinum as well. Platinum looks hugely undervalued here. If people are going to come for the precious metals, it's a very illiquid market.

So if this is a new precious metals bull market, which I sense that it might be, even though gold has performed incredibly strongly and broken through these levels, I'd love to see it go through \$1,600 before I feel, okay, this really is game on, as you said earlier on.

But there are so many ways to play it. And if you want leverage, the precious metals market will give you it in spades. But you have to have a stomach for it. You have to understand just how wild these horses are to ride. And really know what you're doing.

But I think, if you believe that we are in a new precious metals bull market and you want to trade it, then it's not so much about the metal, about the gold price. It is about these mining stocks.

And, look, you've got the triple-leveraged gold miner ETFs. There's all kinds of ways to add leverage on leverage. I don't do that because, again, I'm not owning gold for trade even though I think there is a great trade to be done here in the miners.

But there is enough leverage in those. I don't need to try and time it and be so cute with NUGT and things like that, which are just things you have to keep an eye on 24 hours a day.

**Erik:** Grant, let's come back to the equity market. We already talked about the big picture macro drivers.

But I want to talk specifically about these unicorn companies like Uber and particularly WeWork, which you've written about – not in the issue of your newsletter about gold, which we have linked, but I think it was the most recent one just last week. You wrote about WeWork

and these unicorns in general.

What's on your mind there?

**Grant:** Well, look, we've been looking at these unicorn companies and some of the crazy stuff we've read about the valuations that they've been afforded by the markets. And, look, many of us have been looking for top. We all know that trees don't grow to the sky.

But with each crazy new IPO, each crazy valuation, we've kind of scratched our heads and said, well, where does it end? And I just get the feeling that we may well spell the top, particularly if this IPO does coincide with this recession. Because a recession is kryptonite to WeWorks' business model of taking on long leases and leasing them out short term to people.

So when you look at it – I looked at Uber and we saw this phenomenal loss that Uber came up with in their most recent numbers. What was it, \$5.2 billion they lost in a quarter? I mean, a lot of it was related to their IPO.

But when you look at the performance of these IPOs recently, not just Uber but Lyft and Xiaomi, the big Chinese IPO, they've performed horribly. The numbers – I think Xiaomi is down almost 50% since the IPO. Uber is down 20-odd. Same as Lyft. Slack's down a similar amount. Dropbox, Spotify. They're all down.

In fact, the only that's gone up significantly from its IPO is Pinterest.

And so, if this is really the private equity guys and the private investors cashing out and taking out their stakes and selling them to the public, which it really does look like, then WeWorks' valuation is going to cause, I suspect, all kinds of problems.

The S-1 they filed was roundly laughed at in the media and there were all kinds of scathing articles about the stuff that was going on in there. I mean, you really have to look at this thing. We don't have time to go through all the fanciful stuff in there. But I look for changes in attitude, changes in tone.

And the media coverage, which had been very salutary and lauding all these unicorns as they've filed for IPOs and saying what incredible companies they were and the wealth they were creating etc. etc.

They're now being picked upon for things like community-adjusted EBITDA, which is a WeWork metric that they came up with. They're being picked apart for some of the family connections. They're being picked apart for the fact that the CEO has borrowed a lot of buildings and then let WeWork use them to lease out to tenants.

There's so much hair on this thing. And it's never mattered before.



All these big unicorns have got away – even though we’ve written about this stuff and people have talked about it quietly in little corners of the market, it hasn’t really impacted them and they’ve been bullet -roof.

Well, I think WeWork is going to be a real test of this because the coverage I saw was almost universally scathing of this company and scathing of a lot of things in that filing. So it’s going to be very interesting as they go through this process to see what the chatter is, to see if they can get it away.

Now, they may well be able to. But, you know, everyone I know who’s looking for a way to get short this thing at the IPO – I just have this horrible feeling that the public is going to be left holding the bag again.

But to see the change in tone for WeWork, the change in narrative around the unicorn stocks, and the fact that this recession does loom ever larger in the background, I’m worried that we may have seen the top of the unicorn era. Which, incidentally, will coincide almost precisely with SoftBank raising their second Vision Fund, which will be another bell going off.

So everywhere I look I see signs that this unicorn era is going to struggle. And for a \$47 billion valuation for WeWork, that’s a long way to fall if people decide it should be valued as a real estate company and not as what they call a “space-as-a-service” company, instead of a software [company] as a service company.

You know, things like that, just cute ways of trying to spin your valuation and call yourself a tech company, they’re fine when everything is going well. But they’re the sort of things that people call out when the turn happens and everybody is calling this stuff out.

So I’m very nervous and I think WeWork is going to be a clanging bell.

**Erik:** Where does Tesla fit into this story? You did quite a bit of work on Tesla. And it was such a ripe short when you looked at it more than a year ago. It hasn’t crashed yet and it has had an up and down history.

But it is still way overvalued from my perspective. And it seems to have that investor loyalty that’s just unshakable.

What’s going to finally break the grip of something like the investor loyalty you see in Tesla?

**Grant:** You know, I’m way too fascinated by Tesla for my own good. I openly admit that. It’s the thing that I am most focused on in terms of looking for signs that we’re seeing a crack.

It’s not really investor loyalty, Erik, it’s certain customer loyalty. A lot of the customers have bought a few shares here and a few shares there. And they’ve really been evangelists. It is fascinating. This is something we could spend the entire hour talking about.

I think, flippancy aside, and the pantomime that is Elon Musk and Tesla aside, I think it's a very, very important stock. Because I do think it's a fraud. I do think it will end up being an absolute unmitigated disaster. And I'm starting to see the fraud unravel in front of my eyes.

If you look at all the things that are going on with the cars exploding, and today we've seen an assemblyman in Buffalo who gave \$750 million to Tesla to build a factory on the promise of a certain amount of jobs and a certain amount of effect on the local community.

They've suddenly started saying, you know what, we want to audit them and see what we got for our \$750 million, and it comes out today that Tesla won't let them anywhere near the facility. This is a facility paid for by Buffalo taxpayers and they won't let Buffalo lawmakers inside.

Little things like that. Tesla's insurance product they put out recently to try and lower prices. There are all kinds of things going on with this company that just don't pass the smell test.

And you can be an evangelist and – I have nothing against electric vehicles. I promise you I'm not in the pocket of big oil. No one has written me a check to bash electric cars or bash Tesla in general. I'm a huge fan of electric cars. I think the future is electric cars. But that's not to say that Tesla are going to be the ones to do it.

And this is all without even getting into the solar roof debacle, which I suspect when this plays out in the fullness of time, that's where you'll be able to go back and talk about where this turned into a fraud.

But the Walmart lawsuit and everything that is cascading off the back of it. There is so much hair on this company and I'm watching it unravel by the day.

And I think when Tesla goes – because, as I've said before, it's the poster child for zero-cost capital, it's the poster child for the climate change argument, it's the poster child for the millennial generation, the Robin Hood investment, you know, people buying stocks because they love the companies not because they have any experience in the stock market.

It's so representative of so many things. Celebrity culture, whatever you want to talk about – our society today, markets today, capitalism today – Tesla has a place in that argument. And I think that this is why it's so important.

If Tesla goes, and I fully expect it to, and perhaps in fairly short order, I think that is going to be a huge wakeup call for inexperienced investors, for people that thought that there was nothing wrong, for people that didn't think a scandal of this size could happen.

I think it's all going to come out and I think it's going to be a massive bucket of cold water thrown over the markets.

**Erik:** I love the way that you express that and I couldn't agree more.

I really think, as you said earlier, what we've got to do is figure out what are the signals you look for that tell you that we're back to "economic reality matters" again. And we're out of fantasy mode in the markets. And it's time for indications that shorts are prudent across the board.

I think Tesla falling would be an indication that reality has taken effect again and we're out of fantasy mode in the markets. So it's probably an important signal to watch to tell us when it's time for game on with a big cycle that I think is long overdue.

Grant, it's hard for me to believe that anyone anywhere doesn't know who you are and know your relationship, first, to "Things That Make You Go Hmmm..." – one of the most respected newsletters in the industry. Again, listeners, there is a free issue for you in your Research Roundup email. You can get that download.

And, obviously, you're one of the founders of [Real Vision Television](#).

So, for anyone who might not be familiar, give us the backstory on what the things are that you're involved with.

**Grant:** Thank you very much. Real Vision has been a passion project of Raoul's and mine for five years now. It's an online platform, where we just interview the smartest investors we can find anywhere in the world and just get their thoughts on markets.

It's been a hell of a ride and we've had a lot of fun doing it. And it really is something that people seem to have latched onto and really appreciate. So we're very proud of that.

And "Things That Make You Go Hmmm..." – I've been writing it for 10 years now and it's something I write every couple of weeks. I just talk about, as we've gone over here, gold, or Tesla, or Uber, or government bonds, or Germany.

Whatever it is that I find interesting and I think is important to really dig into in financial markets, I write about it and I offer my thoughts and why I think it's important.

They're both passion projects and I love doing both of them equally dearly.

**Erik:** Well, Grant, I really appreciate another fantastic interview. We look forward to having you back on the program again soon.

Patrick Ceresna and I will be back as MacroVoices continues, right here at [macrovoices.com](#).