Peter Boockvar: Inflation is Not a Prerequisite for Central Banks Changing Policy

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Erik: Joining me now is Peter Boockvar, Chief Investment Officer for Bleakly Advisory Group, Bleakly Financial Group, and the editor of the Boock Report, a very popular market newsletter.

Peter, thanks so much for joining us this week. I want to start with the big-picture macro. You know, we've had so many conflicting signals and so many different viewpoints.

How would you summarize this big picture? It seems like, on one hand, there's a lot of good reasons, if you look at bond yields and so forth, to think that we're seeing recession signals. Boy, the stock market didn't get the memo if that's the case.

How do you make sense of all these conflicting signals?

Peter: I think the growth story still points to moderation. Obviously, manufacturing related to the trade tensions has impacted global trade, which is now impacting capital spending and is now beginning to spill over into services. And this seems to be a global thing.

I mean, you look at, starting in Asia where this really started – again, on the manufacturing and trade side – and the consumer in a lot of these countries still hung in. Unemployment rates were low. Debt levels were high but savings rates were high as well.

You look at Europe – look at Germany for example, I'll just use that as an example – 40% of their economy is exports. And that's certainly been negatively impacted by the trade tensions in Asia, with China being their biggest trade partner.

But their unemployment rate is at their lowest since reunification, still pointing to a consumer that has their jobs, actually saw improving wage gains. And consumer spending actually hung in. But we're beginning to see signs that that weakness is beginning to spill over into services.

And we're certainly seeing it in the US, where three months in a row of a below 50 ISM manufacturing number has negatively impacted the services side, which makes sense. I mean, the manufacturer makes something, and then it's a transportation company, which is a services company, that then has to transport it somewhere else. And then all the businesses that cater to the transportation side and so on and so forth.

So then you shift to, okay, when will the US consumer get impacted by this slowdown? And that will be determined by the state of the labor market. Well, recently we're seeing a slowdown in the pace of hiring. The question is, okay, when do we see an increase in the pace of firings?

And last week we did see initial jobless claims rise to the highest level since June. Now, I don't want to overreact to one number. It could be related to timing with Veterans' Day, and that being a bank holiday. We'll have to see how that number is in the coming weeks. But maybe that's a sign, at least on the firing side, that there is a sort of change.

With respect to the consumer, we did see retail sales come out for October that was softer than expected and pointing to, while the consumer is still spending, it's not really at a robust pace.

Home Depot reported numbers that missed – I did listen to the conference call. They did try to differentiate between the state of consumer spending and what they blamed some of their capital spending initiatives not taking hold yet as being the reason for their miss. But on a ticket basis, on a traffic basis, trends are only about 2% for Home Depot.

Then you had Kohl's. Now, Kohl's obviously is impacted by their department store exposure, but that stock is down sharply because of the missing comps.

So I think the consumer is okay, but there's some holes in that story. And that is what concerns me if it were to continue.

Erik: Let's talk about interest rates and Treasury yields. I remember when we had you on for our special with Danielle DiMartino Booth, you were not of the opinion that the US would get to negative interest rates. Is that still your view?

And I suppose another related question is, has this backup in yield that we've seen from 1.50 or so on the 10-year back to about 1.80 as we're talking today. Has the trend reversed? Or are we just looking at a little correction here?

Peter: Okay, a few things to answer that. I do not think we go negative. I think the most important thing we're seeing right now, the main reason which led to a rise in longer-term US rates was a change in the mentality towards the extreme monetary policy of the Bank of Japan and ECB.

So let's start with Japan. You have, after 20-plus years of extraordinary easing, you have Kuroda now saying he wants higher long-term interest rates. Because they see what's happened to the banking system.

Now, throughout this incredible extraordinary monetary experiment that we've seen over the past 10 years, the thought was, okay, how does this end? When does this end? And I think the natural response was, well, it will be a bout of inflation that would sort of take away the printing press from the central banks.

And it occurred to me, from seeing comments from a bunch of central bankers over the last couple months, is that it's not going to be inflation that does it. It's going to be the realization of the damage they've done to their banking sector. And the Japanese TOPIX Banks index is down 90% from where it was in 1989.

So I think you're reaching a point where the regional bank stocks in Japan are literally going out of business and that the Bank of Japan realizes they need a steeper yield curve.

So the story on the day of our interview here from Bloomberg is saying "an unprecedented level of concern about damaging side effects of Japan's multi-decade experiment with ultra-low interest rates has gripped policy makers, regulators, and legislators."

So here we are in what I believe is the endgame of this monetary massive activism.

And then you shift to the ECB. On September 12 Draghi pushed it again, went further negative interest rates, tiered it to somewhat mitigate the impact, and then reinitiated his monthly QE of €20 billion a month.

Well, we had an internal revolt within the European Central Bank in response to that with not just behind the scenes criticism, but vocal criticism on the outside, literally the next day after that meeting.

So that tells me that Christine Lagarde is at her endgame in what she can do on the monetary side. And that's why she'll be much more vocal in trying to encourage more fiscal stimulus with a lot of the eurozone countries.

Since those two changes of mentality and behavior in Japan and Europe, I think that was sort of the tinder for the rise in longer-term interest rates in Japan, in Europe, and in the US.

So you add on the possibility of the Brexit deal. Obviously, the hopes of a China-US trade deal, which is what the stock market of course is riding on on a daily basis, and this belief that three rate cuts from the Fed can generate faster growth that would lead to higher long-term rates. I think this all came together.

But I will argue, though, that those August lows in yields – because, again, the change in mentality within the BOJ and the ECB – are yields we are not going to see for a long time.

Now, that said, there will be this tug of war between a day when Treasuries and yields respond to the data and then days when you get comments from the Bank of Japan that says we want higher long-term interest rates. And that then leads to higher long yields.

So there is going to be a tug of war. But I think those August lows could be the lows for a very long time in yields.

Erik: Now, Peter, I just want to clarify. You said you don't think that a resurgence of inflation will be the factor that changes central bankers' minds.

Does that mean that you don't think that inflation is coming? Or just that you don't think it will have the effect that people think it's going to have?

Peter: No. I think the initial effect of the change in central bank behavior is what they've done to the banks. On the inflation side, that still could come. That still could be a factor in popping this bond bubble of ours.

And on the inflation side, people like to look at inflation as black or white. It's either up, it's down. But inflation is services and goods.

You look at the US for example. Services inflation has remained at a 2-1/2, I would say closer to 3%, year-over-year rate of gain for years now. The only thing that's keeping inflation in check has been this goods deflation.

So the question is, how long can goods prices stay depressed to offset that services inflation? And I'm not necessarily sure of the answer.

I originally thought that the tariff situation we're in right now would reverse that and we'd start to see some more goods inflation. But, at least right now, that's sort of getting lost.

And whether it's the Chinese that are eating it, it's US manufacturers that are eating it, and not enough filtering through to the consumer, I still think more will filter through to the consumer. And that you will get some goods inflation that matches up with services inflation. But the timeline, I'm not sure yet.

But, just statistically, we have the Atlanta Sticky Fed CPI, which takes out all the volatile components which is running north of 2-1/2%.

We have core CPI, which is running 2.3%, which is a 10th off the highest level in 11 years.

We have the Cleveland Trend CPI, which is running at an 11 year high.

It's only the PCE, which the Fed has isolated as their inflation gauge, that is giving them the belief that inflation is low relative to their 2% target.

But, digging even deeper, to differentiate the PCE from CPI – and I don't want to get too far in the weeds here – is that PCE, the biggest component of it is health care. And the way that it measures health care is Medicare, Medicaid reimbursement rates, which, if you talk to any doctor, you know that those are artificially suppressed to uneconomic levels.

In a sense, the government is price-fixing the cost of health care at a very low rate. That's being captured in PCE. That is what is suppressing PCE. Unfortunately, that is the inflation gauge the Fed is relying on in making monetary policy.

You go to CPI, CPI is actually measuring out-of-pocket health-care expenses. Well, in the October CPI print, medical care rose 4% year over year. And that's why you see such a large spread between CPI and PCE.

Then you add on CPI has a larger housing component that PCE. So I don't think –

I guess my point to all this is that inflation is not dead, for those that say it is. Inflation is still there, particularly on the services side. And all you need is just a cyclical upturn in goods inflation and we have a completely different inflation story globally.

Erik: Okay, so to summarize, you think we may be about to see a resurgence of inflation. But your real critical point is, even if we don't, there are other good reasons to think that the bond bubble may be ending as a result of central bankers realizing the errors of their ways, if you will.

Peter: Yes. Right now it's more the latter. If you look at the Swedish Riksbank, which had minus 50 basis points for years as their benchmark rate, they raised rates this year to minus 25. And in their last meeting they basically said we want out of negative interest rates. We are going to raise rates in December. So let's put aside the weaker data, we need to get rid of negative interest rates.

It's a small country. It's a somewhat irrelevant central bank when you compare it to the others. But it's another repudiation of negative interest rates.

I think that in itself creates a bottom in how far yields can drop. And that's why I think the $17 trillion of negative-yielding securities that we saw in August, that's a level we're not going to see again.

And that we've seen a reduction in that number, a lot of it, again, because we're seeing, finally and hopefully, a continued repudiation of negative interest rates because of the damage it's done to the banking system. Particularly in Europe where about 80% of the loans given in Europe are from the banking sector.

The European bank stock index is down 80% from where it was in '07. How do you have a healthy economy? How do you have a functioning transmission mechanism for monetary policy if you kill the profitability?

And the ECB says, oh, well, volumes are up. Loan volumes are up, so it's therefore working.

Well, it reminds me of, like, techs dot-com in 1999 selling a lot of stuff. And volumes went up every month. But they were losing money on every sale.

Well that’s the same thing with European banks. They may increase their loan volume but, if their margins are shrinking, well that’s not necessarily profitable loan growth.

Erik: Peter, you mentioned Europe. We’ve got Christine Lagarde taking the helm of the ECB. And, of course, we still have the Brexit situation on the horizon.

How do you see that playing into your overall macro view?

Peter: I think Boris Johnson wins handily. And I think I’m stating the obvious if you just look at the polls. And I think that is going to be resolved very soon after.

And I think that whole drama, after 3-1/2 years, resolves itself. And that will certainly be a positive for the UK economy and those trading partners, particularly in Europe.

Now, what happens after in terms of what new trade deals we get, there is still going to be probably a period of uncertainty. But I’m actually pretty bullish, and I have been on the pound and pound-denominated UK stocks that have suffered over the last bunch of years.

I think with Lagarde and I think that Brexit resolution could lead to further upward pressure in gilt yields, just for the sole purpose that that uncertainty has been resolved.

Lagarde is just in a really impossible situation because, as I mentioned, her hands are completely tied in terms of her ability to maneuver a monetary policy to an extent that would actually stimulate growth. I mean, negative interest rates, I believe, is not easing. It’s actually restrictive policy because you are damaging your banks.

So she is going to do her best to try to encourage governments to employ fiscal stimulus.

But then you get into the question of, okay, fiscal stimulus. Is it just Japanese-style Keynesian spending where we’re just going to pave some roads and redo some bridges and hope that that leads to some sort of virtuous cycle of economic growth? No, it never does.

So the question then is, well, what other types of fiscal stimulus? Well, maybe cutting the corporate income tax rate, some tax-related stimulus.

Yeah, that can work. But you look at Germany, for example. As I said earlier, the unemployment rate is at the lowest level since reunification in the early 1990s. Are tax cuts going to help? Yeah, maybe. Maybe that will make them spend more.

But that’s not the issue. And fiscal stimulus, I don’t know if it’s going to be the panacea that so many people think it will.

You look at Japan. Japan has been doing Keynesian-style fiscal spending for 25-plus years. And they have nice bridges and nice roads, but that doesn't mean that it's led to a handoff to the private side of the economy.

So it's all a very difficult situation.

And, you know, sometimes – if I was in places of power in these countries, sometimes doing nothing is actually doing something. Because it lets a cycle work its way through. Particularly with all this debt out there, if somehow you can encourage less debt accumulation, that would be helpful to growth in and of itself.

Erik: Peter, let's talk about the US-China trade negotiations. So many people seem to think this is really what it's all about, that it's when we get a resolution and some kind of trade deal that everybody's going to jump for joy and markets can only go up at that point.

Is that the right way to think about this? And what's your view in general about the US-China trade relationship?

Peter: Well, at least the stock market – not so the bond market – the bond market seems to be focusing actually on the economic data – the stock market is betting on the hopes of a deal. And they're looking at this in [a] very binary [way]: There is either a deal of some sort or there's no deal. There is either some tariffs taken off or not.

But let's just say there is a cosmetic deal of some sort. If the December tariffs don't go into place and the September 1 tariffs come off, well, yeah, that's a good thing.

But Trump has put himself into such a tariff corner that there will still be tariffs on the existing $250 billion worth of industrial goods that will stay in place.

Now, maybe they will lay out thresholds that the Chinese have to meet next year in order to roll back those tariffs. I don't know. The wording of that will have to be very nuanced because the Chinese are not going to want to be humiliated and thrown over a barrel about how to get out of these tariffs.

But I think that the damage being done by the tariffs doesn't just go away if some of them don't get implemented. So I think that that sticks around for a longer period of time than the markets are making it seem.

The markets are expecting this economic inflection point where manufacturing, global trade, capital spending all move higher the day we get this trade deal.

And I think it's going to be much more complicated than that because it's clear that there is still going to be a big chunk of these tariffs that are going to remain in place. And also the sword is going to hang over –

Let's just say the Chinese don't adhere to the things we want next year in terms of I/T protection or whatever. Well, you know, those tariffs can come right back on again. So there is still going to be that level of cloudiness in terms of visibility with respect to business and these tariffs.

Now I'll take a trade deal of some sort. I'll take a detente and a truce and some of these tariffs going away. I just think that the stock market is being overly aggressive in thinking there is going to be this big steep curve upwards in economic activity once it gets put in place.

Erik: Well, Peter, I could not agree with you more on that point. I think the market is really pricing in more than is really there in terms of the importance of this trade deal.

But let's come back to US monetary policy now. The Fed has given us three cuts that they've described as insurance cuts, if you will. There were mid-cycle adjustments that we should not interpret as the beginning of a new rate-cutting cycle, according to FOMC-speak, if you will.

Where is this headed? Can the Fed engineer a soft landing that will undo the recession so many people have predicted? And where do we go from here after these insurance cuts?

They've kind of backed themselves into a corner, I think, where the messaging they've given makes it pretty hard for them to make a fourth cut without admitting that it's a change in policy direction.

What happens next?

Peter: The track record of the Fed in terms of engineering soft landings – since World War II we've had 13 rate-hiking cycles and then 10 put us into recession. And the three that did not were earlier on in an economic recovery that it was easier to pull off.

Here we are obviously in the 11th year and still dealing with legacy hikes and legacy balance sheet decreases, obviously now trying to be offset by the three rate cuts – and we can get into a discussion about whether this is QE or not QE – with all the T-Bill purchases that are now in place at a pace of $60 billion a month.

Now the Fed and Jay Powell are under an extraordinary amount of pressure from the president, who wants them to be, obviously, very aggressive with their rate cuts. But the Fed, they want to be able to pull off the soft landing.

They don't want to send – a lot of the whole mid-cycle adjustment and the insurance cuts is also a messaging thing.

You know, we keep hearing how the US economy is in a good place, a good place, a good place. But here we are with a Fed funds rate of only 1-1/2 to 1-3/4%. How good of a place does the Fed think it's in if they think that we can't handle a Fed funds rate north of 1-1/2 to 1-3/4%?

I mean, the Fed, in their rate hiking cycle, they wanted to get to 3%. And they were dead stopped in their tracks at 2-1/4 to 2-1/2%, which is where they got stuck.

And that is because the macro environment changed on them. And you have the tariffs. And all of a sudden they realized that there was no way they were going to get to 3% without doing serious damage to the US economy and the global economy.

Now, I think we're at a point where – I'll give them their three insurance cuts, okay. Not that I thought that or I think that this is going to work. I don't think lowering interest rates from an already low level is very simulative.

I mean, when you think about what monetary policy or even fiscal is supposed to do, it's supposed to stimulate behavior to happen today rather than waiting till tomorrow.

Well, when you already have low interest rates, a cut further to a lower rate of interest doesn't stimulate anything because the original level of interest rates wasn't a binding constraint on your decision making.

Now, yes, the housing market has improved. But I more attribute that to the drop in longer-term interest rates because of worries about growth. And as a follow-on from the early part of this year when the Fed backed off, and the ECB initiated more QE, and this and that. So it's the longer end that's helped the housing market rather than the Fed's cuts in short rates.

I don't think that the cut in short rates is going to really help auto buying. I mean, that's another interest-rate-sensitive thing.

The current average rate of credit card interest rate is 17%. That's a record high in data going back to 1994.

But a lot of that is not related to interest rates on the short end. It's related to a lot of regulatory issues. So we're not going to necessarily get a help to consumers in their credit card interest rates.

So pushing on a string – any student of history knows the saying that pushing on a string is the end result of cutting rates and it doesn't stimulate anything. And I think that's the point where we're at.

Now, the Fed will rely on going further, deeper with respect to interest rates. But if they cut again, this is no longer an insurance cut. It is no longer a mid-cycle adjustment. If they cut again from here, whether it's in December or it's sometime in 2020, that would be to address a deeper economic slowdown.

So if you are a growth bull, you better hope that they're done cutting interest rates.

If you are on the bear side, you're saying, you know what? This is just going to be a replay of the last two rate-cutting cycles where they tried to offset the initial weakness. That weakness then continued. They got caught into continued rate cuts. And the cycle basically took them over.

Right now the market seems to see the Fed as being in control. They believe in that soft landing scenario. Then they are like Pavlov's dog believing that we're in the midst of another round of QE, therefore how can stocks go down if the Fed's doing QE?

You know, I do think eventually the fundamentals will take over for better or worse, and that good news will be good news and bad news will be bad news.

But, at least right now, it's this China trade deal will solve all problems. The Fed will engineer a soft landing. And, you know what? We've got some QE. Therefore, just keep driving stocks higher.

I would tell people to focus on jobless claims every Thursday. And look at the 10-year yield – if the 10-year yield can't get above 2%, then at least the Treasury market has a lot less confidence. And that soft-landing scenario. And the economic benefits of a light deal between the US and China.

Erik: Peter, let's translate these macro views to how we position portfolios, starting with the stock market.

Do you like the stock market at this juncture? I think you said it already seems to very aggressively have priced in a lot of things that you and I both aren't really sure it should be believing in.

What do you do in this environment? Are there still appealing sectors?

Peter: I look at the broader market, just for perspective on valuations.

But, you know, trying to pick a direction in the stock market has obviously proven to be a fool's game over many years and many decades. So I do my best to find interesting stock-specific stories within the context of my macro views. And be less sensitive to trying to figure out where the S&P is going to go.

But, as a value investor, you still have to pay attention to, where is the S&P priced?

And, as of this week, being the week of the 18th of November, the price-to-sales ratio –

I like to look at that within the S&P because it sort of takes out a lot of the shenanigans that companies go through with respect to earnings – whether that's due to tax rates, or the level of interest rates, and how they can refinance debt and lower their interest expense, or it's nonrecurring stuff that they take out or whatever.

Price-to-sales, at least the sales part you can't really manipulate.

So the price-to-sales ratio in the S&P 500 is basically exactly where it was in early 2000. This is not a timing tool. Valuations don't matter until they do.

But I think it's a good valuation gut-check, I like to call it, on where we are in the cycle. That here we are, at least from that valuation metric, back to where you were in early 2000.

And I think what we're seeing in the IPO market – the WeWorks, the Ubers, the Lyfts – that there is a valuation rethink going on here. And that valuation all of a sudden does matter. And that maybe there is a difference between a software stock that's trading at 30 times sales – not earnings, but 30 times sales – maybe that's a little too much.

Maybe companies that don't make any money shouldn't be valued at the same level. So I think the valuation rethink is certainly happening in the private space. Because you can imagine the entire VC community is getting marked down in terms of valuation.

But now it's now beginning to show up in the public markets. And even stable big-cap companies, whether it's McDonald's – before they reported their last quarter earnings was trading at 25-26 times earnings, and that got marked down. Or Home Depot, which I mentioned earlier, was trading at 23-24 times – no room for error there. All of a sudden, these valuations begin to matter.

So to your original question of how do you find situation, how do you find opportunities?

And as a value guy who has suffered the last couple of years in terms of the underperformance relative to the growthy things, I think value all of a sudden looks more attractive, because embedded in a value stock is low expectations. Well, if there's low expectations, the asymmetry comes in beating those expectations.

Whereas a growth stock, the asymmetry is, well, if you miss, you're going to be in deep trouble in terms of your stock price. Because the growth is expectations are already high and they're already embedded in that valuation. Therefore, if you keep beating, there is only so much upside from there.

So the value side is where I think you need to look.

And it's not just in the US. There are plenty of value opportunities outside of the US. And the international performance relative to US stocks over the past 10 years has been rather dramatic. And part of that is for a reason.

Returns on equity are lower in companies doing business that are domiciled overseas. US returns on equities tend to be higher, therefore we're going to always have usually higher multiples than overseas.

But there's still a lot of attractive opportunities in emerging Asia. I think even in Europe, where you actually get dividend yields that are attractive, low multiples.

If everything falls, if the global economy goes to recession and markets respond, no one's going to be immune.

But I just think of, when you look out over the 5-10 years, you really need to broaden your time horizon. You need to widen your geographic scope. And I do think value starts to outperform growth.

Erik: Now, you said you were not convinced that there would necessarily be a resurgence of inflation. Are commodities attractive at this valuation level, in your opinion?

Peter: My favorite is gold and silver, even though I sort of look at them as currencies rather than commodities. To me, that's my favorite asset in this topsy-turvy world right now.

And that's notwithstanding my belief that we're in a shrinking pile of negative-yielding interest rates, because I still think that inflation is going to be rather sticky.

You look at this jump in 10-year yields of about 40 basis points off its lows. Well, the embedded inflation rate in the TIPS market rose by a similar amount. So real rates actually haven't risen much at all. Only the rise in nominal yields has taken place. But gold has corrected because people sometimes look at the nominal rate.

So I think that the Fed will continue to cut rates because I think we will cross the Rubicon of what's insurance and what's addressing a deeper softness. And that will be negative the dollar. And, to me, the dollar has already topped out. I think we're seeing that against a variety of currencies.

Outside of gold and silver, my favorite long-term commodity is copper. And I happen to own copper stock as a play on that.

Now, copper of course is an industrial metal. It's going to be subject to China's economy and where the global economy goes. But I think there is also a secular shift in the demand for copper in electric vehicles, in the whole renewable, solar, wind thing, that's going to consume a lot of copper. An electric vehicle consumes in multiples of copper that a car that's just run on internal combustion engine does.

So the reliance on construction and autos I think is going to start to shift.

And there is also a big supply issue with copper. There are deficits now. And I expect the deficits to remain in the coming year.

So, yes, maybe we get a moderation on the demand side if the global economy continues to slow. But I think it's very possible that the supply side is so crimped that copper prices will hold in. And when you do get a pickup in global growth in the next couple years, I think copper is going to be a main beneficiary.

When I look at oil prices, I do pay attention a lot to what's going on in US shale. And we're seeing essentially a collapse in investment that's driven by investors that want profits. And an oil price that, while it's still pretty healthy, mid-50s, I don't think it's enough to drive cash flow for a lot of these middle- and third-tier shale companies.

So relying on US shale to be that big production source, I don't think it's happening. So the supply side I see in global oil is actually, I don't think, is going to meet expectations.

Now, if the demand falters, then oil prices could stay around these levels. But if demand hangs in, and what I'm seeing on the supply side, I wouldn't be surprised if oil prices moved higher.

Now I think any sharp move higher could be the last gasp because, structurally, there's going to be less demand for oil over the next 20 years. But, as least in the short term, I have a feeling that there is probably one last-gasp rally in oil prices in the next couple of years.

And one last thing. I've been pretty bullish on agriculture. I think that corn and soy bean prices have bottomed out here. I think that, even with a trade lite deal, China will be back buying US ag.

And I wouldn't be surprised if soy beans went back above 10 and corn went back above 4. So, without having to play that directly through those commodities, I've been pretty bullish on the fertilizer companies.

Erik: Let's come back to precious metals and talk about gold versus silver. By historical norms, we're not quite at historical extremes. But certainly the gold-silver ratio suggests that silver is undervalued relative to gold here.

What's your take on the gold-silver ratio? Is silver the better play?

And, in general, if you were advising someone on a precious metals portfolio, between the metals, the mining stocks, how would you divide the pie in terms of if an investor has a certain amount of money they want to allocate to precious metals? How much goes into gold, how much goes into silver, how much goes into mining stocks, how much goes someplace else?

Peter: I still tend to have more in actual gold and silver. My allocation and my client portfolios are more shifted toward that.

Now, mining itself is a really crappy business. And all you have to do is follow the mining stocks over the past 20 years to realize how difficult a business this is.

Now, I do think that a lot of these companies have gotten religion in terms of not empire-building, and focusing on cash flows, and limiting your debt and acquisitions, and so on. But it's still a tough business. You're still relying on getting stuff out of the ground. That is never easy and it never seems to be done in a cost-effective manner. And if you're doing business in countries that have unstable governments, that adds a whole new wrinkle.

But I focus more on those companies in stable geographies, stable governments, that have more of a line of sight in terms of their reserve base.

But, again, because it's such a tough business, it's always a smaller portion of my allocation to gold and silver. I still want to have that allocation, because there is certainly a lot of leverage in the model.

And if I'm right that these companies have gotten religion, that if this is – and I believe it is – the beginning of a short bull move higher in gold and silver, there's going to be a lot of leverage to be had in these gold and silver companies. And I do expect a lot of potential upside in that space.

But it's still a smaller portion of my portfolio because, again, the difficulty in that business.

Erik: Well, Peter, I can't thank you enough for a fantastic interview.

Before I let you go, please tell our listeners, first of all, for anyone who is not already familiar with it, what exactly is the Boock Report? What does it contain? How often does it come out? Where can people find out more about it?

And also what services do you offer at Bleakly Financial Group?

Peter: The Boock Report is my daily newsletter, a subscription-based business that just writes daily on all the global macro market and economic things going on of relevance. It's spelled boockreport.com and it's a modest cost for an annual subscription.

And Bleakly Financial Group is a wealth management firm where I play the role of CIO and manage two portfolios and advise on portfolio strategies for clients and all of our advisors that are here.

Erik: Well, Peter, thanks so much. Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.