Jesse Felder: Pent-up bearish forces were in place before COVID-19

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Erik: Joining me now is Jesse Felder from "The Felder Report," which, without a doubt, is one of the most popular subscription newsletters in the marketplace.

Jesse, it's been way too long. It's great to get you back on the program.

I want to start with the market because you have been a voice of reason for years now, saying, hey guys, it's great that the stock market is making money for people. But it's 10 years straight up. It's too much, too far, too fast.

The question on my mind now, Jesse, obviously the COVID-19 situation is the proximal catalyst that's caused the recent selling. But is this the extent of what's going on? Or is it more likely the case that COVID-19 is the catalyst that was needed to bring about a change in market direction that might have been overdue to start with?

Jesse: Well, first I've just got to say thanks for having me back on, Erik. It's always an honor. You are by far one of my favorite podcasts to listen to, let alone have the opportunity to chat with you like this.

But this is kind of what extremely overvalued markets do. You have these kind of periods where they continue to move higher. But then, I guess, we saw the fastest correction in history last week.

And that's what they do. They quickly give back those gains.

We've essentially gone nowhere now since January of 2018. It might feel like stocks have done really well over that period. But, essentially, we've spent a lot of time doing nothing.

I do think this is probably the beginning of a larger bear market. And, really, what was astounding to me was to watch stocks – really since August, September of last year – soar to these new highs despite a lot of things that were becoming increasingly obvious and problematic for equities.

I think I mentioned valuation extremes. This is the most extreme the stock market valuations have ever been in history. We're higher than the '29, higher than the 2000 peaks in valuation. And that's been the case for quite some time, that stocks have been expensive.

But what we were starting to see – early this year, we saw stock buybacks drop off dramatically. I think in January we saw buyback activity announcements drop to $10 billion from an average of $50 billion over the last four or five years.

And that, amid earnings growth, that was looking to be zero at best for this year. Outside of the FANG stocks, it's negative.

That is a big reason why buyback activity is not picking up or at least even sustaining. Because earnings is dropping off and companies are just having to retrench.

But we also saw the growing signs of recession. Not just the yield curve, which a lot of people dismissed. My friend Tom McClellan has shown that the yield curve is a good forward predictor of recession, but it leads by about 15 months.

So the bottom, when the yield curve bottoms, you usually see a bottom in economic activity 15 months later. Which would kind of put us into the fall of this year for weak economic activity or a bottom in economic activity.

But that wasn't the only thing. I look at the Conference Board Leading Economic Index. And when that moves below its 18-month moving average, it's almost – I think every time has been an indicator of recession a month or two later.

That happened in December. We saw the Leading Economic Index cross below its 18-month moving average. And then of course job openings numbers were horrible, even as the stock market was hitting new highs.

Kind of recessionary numbers.

So these are all the things the stock market was kind of ignoring and relying on this liquidity injection on the part of the Fed, which was, by some measures, the biggest liquidity injection we've ever seen in history.

But even this – you look at the numbers. They peaked in, I think, early February and were rolling over in terms of the amount of liquidity the Fed was providing. And markets were ignoring that.

There was also deteriorating breadth from the market. One of the things that – a blog post I put up I think in mid-February, we saw another big cluster of Hindenburg omens, which is just a sign that there were a lot of stocks hitting new lows at the time the market was hitting a new high.

And another way that kind of manifests was something I look at – I think Stan Druckenmiller called his economic predictors index, the best economic predictors he's seen in his career are the relative performance of cyclically sensitive sectors.

And you look at things that he's mentioned retail, metals and mining, and these types of sectors. The relative strength of these things were plunging from last fall into January, February this year. Along with risk appetites, you know, people pouring money into utilities and other things.

So the market was ignoring all of these signs of deteriorating fundamentals before the coronavirus came along and really played the catalyst.

Erik: Jesse, I want to pick up on what you said about Fed stimulus.

I should let our listeners know we are recording this on Monday afternoon, a few days before you're going to hear it. So what's going on as we are speaking is the central bankers just came riding in, like the cavalry to the rescue, late Sunday night.

The Bank of Japan I think was first to announce that they were going to launch stimulus. Then the Royal Bank of Australia. So far, the Fed has only intimated that they are about to do something. Probably by the time our listeners hear this interview they will have done something.

And it's no surprise at all that markets are rebounding. Because I think we have an entire generation of traders who have been conditioned to know that central bank stimulus always, always just seems to recover markets.

But I kind of think, wait a minute, Jesse, hang on. The reason that central bank stimulus had been able to save the day in 2008, is that was a problem with the financial system itself. The credit market was melting down. They needed liquidity.

This is a virus that there won't be a vaccine for, for a year. I don't see how central bank liquidity can do anything meaningful to actually address the problem.

So how long do you think that this bounce – which I think is only beginning as we're speaking – how long do you think it lasts before maybe markets realize that you can't cure a virus with central bank money printing?

Jesse: Well, it clearly got oversold on Friday and it looked like the markets were primed for a bounce. And they are bouncing now. That does coincide with anticipation of some kind of coordinated stimulus.

But you're absolutely right. I don't think that even a combination of fiscal and monetary support right now is going to be able to prevent recession when you see what's going on in China in terms of quarantines, and they've had the worst economic numbers coming out of China in history in some cases.

So the virus is now here in the United States. We're already seeing conferences cancelled, air travel cancelled, vacations cancelled. All this kind of stuff. And I think we were already seeing – like I said before – signs pointing to recession.

The Fed cut rates dramatically in 2008. They did in 2001 also. And, you know, just weren't able to prevent a recession in both of those situations. And this, as you point out, is even more difficult for central bankers to respond to.

So I think a recession at this point is pretty much a slam dunk. And corporate earnings could be horrendously bad. We've seen a lot of American companies say that their earnings for China or sales in China for the whole year, for 2020, could be down by 50%. And this was numbers that they were saying last week, before we even knew the extent of the economic damage in China.

So, if that's the case on their Chinese sales, and the impacts here in the United States is even a fraction of what it is in China, we could see some really major declines in both sales and earnings for companies here.

Where this becomes, I think, the most problematic, is corporate leverage is off the charts. We've never seen corporate leverage as high as it is today.

So there are a bunch of companies – people have been highlighting companies in China that can't withstand the sort of sales declines that they're seeing and what is going on over there to try and prop these companies up.

But I think we may have a similar situation here, where we have companies that can't withstand the sort of sales declines they may see if people really start staying away from shopping centers and these types of things because they're afraid of contracting the virus.

So I think that's where probably a coordinated fiscal monetary response would have to come in and provide tax credits and things to companies to try and float them through a difficult period.

Because if this leverage, now actually comes to become a problem, it could be this Minsky Moment, I think, that a lot of people, a lot of credit investors have been warning about for a long time.

Erik: Jesse, before we even consider that there is a coronavirus, you, I think ,have been pretty outspoken in recent months and saying, look, there has been so much euphoric buying that there is a lot or excess, a lot of froth built into the market.

If coronavirus was just the catalyst to bring it out, how much froth is there to bring out? How much downside would you expect in order to take that recent froth out of the market?

Jesse: Well, I think that's – obviously the coronavirus was a catalyst for the selling. But a lot of it was just the natural unwinding of maybe some of the most crazy euphoric buying that we've

seen in history.

We saw Schwab go to free commissions and a bunch of its competitors follow, kind of late last year. And that led to an explosion of trading at these companies. We haven't seen trading like this ever, even in the dot-com mania, where you have retail investors going crazy for equity trading.

And a lot of people have said that's really what we're going to have to see before this bull market is over. And, because we hadn't seen it yet, that the bull market wasn't over yet. And I guess those people were exactly right.

But that is what we've seen over the last few months. We saw call-buying activity in a lot of these big tech stocks like we've never seen before.

I think Jason Jason Goepfert from Sentiment Trader had a good stat. In the two-week period right before this crash, we saw 60% more call buying than ever before in history. It was just so massive. And, as a lot of people have reported recently, that is kind of a self-fulfilling thing.

A lot of these trades came from Reddit boards, internet boards.

It reminds me of the dot-com mania where you had a lot of these traders basically decide, hey, if we all go buy tons of call options, it's going to force market makers who are going to be short calls to go in and buy the underlying equity to hedge against being short calls. And it kind of creates a self-fulfilling prophecy.

We saw these crazy parabolic ramps in a number of stocks over the last two years, going back to overstock during the Bitcoin bubble in late '17 , early '18. And then it was Tilray, then Beyond Meat. Then, more recently, it was Tesla and Virgin Galactic.

These stocks just gained billions in value in a very, very short period of time. And it's that type of, I guess, euphoric, manic buying that you only see very near major stock market peaks.

And then, on top of all that, we saw the greatest net long in equity futures that we've ever seen in history, too.

So this manic retail buying pulled in futures traders, it pulled in volatility sellers, and it pulled in volatility-targeting funds like risk parity and all this stuff.

So we had this huge net long position going into mid-February. Probably bigger than anything we've seen in a long, long time – if not ever before.

And so when the virus hit, all of this had to be unwound. And that's how you get the fastest correction in history.

So it was really an amazing dichotomy to me to watch the fundamental deterioration, the deterioration in breadth, and all these things that I was watching and mentioned. And this economic predictors index in those economically sensitive sectors.

And, at the same time, investors going crazy for the riskiest stocks in the market. It's euphoria like we haven't seen in a long, long time.

So I think that this correction has kind of been the beginning of this unwind. But there's a lot of froth that's still out there. And I think it's very interesting.

You mentioned there's a lot of traders that have only been involved in the market and only know it as a buy-the-dip market that when the Fed comes in it's time to buy.

There was a great article in *Bloomberg* last week where they polled a bunch of millennial investors about the mini-crash that we saw last week. And they were all just kind of saying things like *I can't wait, I'm really glad. Now I have something I can tell my grandchildren about. I never imagined the market could do this.*

It just gives you some perspective on – they think a 10%, 12% correction is a crash. It's their 1987.

And the market is still extremely overvalued. And there is still – I don't think we've gotten to the point where you get to panic and capitulation.

I don't think we've gotten anywhere near that kind of bear market where you see the classic liquidation out of fear on the part of passive investors (who believe themselves to be investing when they're really just speculating, as I wrote recently).

So I do think the market is going to roll over, probably, at some point. And we will see that type of liquidation. And it will come as a huge surprise to these investors that have only known a buy-the-dip kind of Fed-driven market.

Erik: And I think that that mentality is very much in play right now.

And, again, listeners, remember we recorded this on Monday afternoon, so it's a few days stale in terms of when you're listening to it. But at this time, the bottom so far in the S&P was 1,275 late on Friday. We're back to about 3,020 as we're speaking on Monday afternoon.

And when I look on Twitter, there's all kinds of geniuses announcing, okay, you dummies, that was 10% down, anybody with a brain bought the dip. We're headed back to new all-time highs from here. It's all over. Everything has to get better from here because you had your 10% down and we know that that's as bad as it gets.

And to some extent, they've been right for the last 10 years. There's been very, very few

corrections of more than 10%. And, generally, buying 10% dips has made sense.

It sounds like you're not in the camp that says the next move is to all-time highs. Would you agree with me that we've probably got some upside out of whatever the central bank response is, just because people are conditioned for that? But after that, what happens next? What do you see?

Jesse: It's really difficult with these things to – you have a game plan and you have to adjust your game plan. After the 2018 selloff, I actually took off a lot of hedges around Christmas time, late 2018. But I started scaling back in spring of 2019, and I've had them on since.

So I thought that 2019 rally was going to fail. And then the Fed came in with its liquidity injection, and stocks pushed to all-time highs.

So with that caveat out of the way, I do think I am looking for a failed rally. You know, we could rally all the way up to – 3,187-ish, I think, would be actually an ideal place for me to put shorts back on again. And I have been scaling back in again today, already.

But it's really hard. Like I said, you have to have a game plan.

My game plan is I'm looking for a failed rally. Because I do think this is only the beginning of a larger bear market which will be driven by declining sales and earnings among corporations. And an unwind of this kind of speculative fever that we've seen.

So that's my game plan. And that's pretty much all you can do is kind of go with it right here and watch how it unfolds.

Erik: Jesse, something I've been saying for years is, so long as the macro backdrop is deflationary, almost any problem, central bankers can solve by just conjuring some more money out of thin air.

It's when you get to secular inflation, and particularly a risk of runaway inflation, where it seems to me that's the end game. Because that's where their hands are tied. They can't print more money because, if they do, doing so just exacerbates the inflation problem.

Most people laugh at me when I even talk about that. Because, I guess in the minds of a lot of people, inflation is something that our grandparents remember and, you know, anybody who's cool knows that that hasn't been part of the market for decades now.

I can't help, as a student of history, but to know that these things are cyclical. It's coming back some day.

Is that day any time soon? What do you think? Do we need to be worried about inflation returning?

Jesse: I love hearing that people laugh when you talk about inflation. To me, that's a wonderful contrarian signal. I think it was (I don't know) *Bloomberg* had a cover piece recently that asked *is inflation dead?* It's another great signal.

I think, you know, there was this short-term dichotomy in the market that I was just talking about before, where we saw investors acting as if things could not be better. They're buying more than ever before, getting super-leveraged long, even while fundamentals were deteriorating in a dramatic, dramatic way.

That was a really interesting dichotomy that kind of unwound, or began to unwind last week.

I think there's another longer-term, probably even a more important dichotomy than that. And that is today – I mean, we're seeing the lowest interest rates in history. We're just over 1% on the 10-year note.

So markets are clearly pricing in deflation. And they're actually pricing in deflation more than they ever have before. Real yields are as deeply negative as they've ever been.

And at the same time, you're seeing some of the smartest investors on the planet start worrying about inflation. I think Harley Bassman wrote an interesting piece recently. (He puts out the Convexity Maven.)

He wrote: *I'll stipulate that a fiat currency cannot be created at a faster rate than the growth of the economy without inflation. Over 5,000 years of collective civilization, we've seen no record of the sovereign printing the coin of the realm at such a pace without the currency becoming devalued. If such were the case, surely there would be legends of how poverty was eliminated with the wave of a hand.*

And you just look at the growth of the money supply over a long period of time relative to the economy, just like Harley was mentioning. And you see that, going back to 1970 or so, typically the money supply has been growing, but growing slower than the rate of the economy. And especially during the 1990s, the money supply was growing much slower than the economy.

But since 2002-03, it started to jump up. And, really, in 2008-09, we saw the money supply grow 2% to 3% faster than the economy. And it even, in 2015-16, got up to about 3-1/2% faster than the economy.

So this is something that doesn't play out immediately. You don't see inflation immediately after this happens. But when it persists for a decade like this, it typically ends up in inflation.

And I guess what's different today that makes this inflationary is, it was really just the central bank that was pursuing QE and printing money.

But what we've seen since Trump took office is that the fiscal situation has deteriorated dramatically. We have now trillion-dollar-plus deficits. This is really the first time in modern history we've had a widening fiscal deficit during an economic expansion.

And so, to me, we are already seeing modern monetary theory. We're seeing MMT right now. And that's why the Fed had to come in [to] the markets and rescue the money markets. Because we are issuing so many Treasury Bills the market cannot simply keep up with the supply of new debt out there.

Fiscal dominance is, I guess, what an economist would call it, where you get to the point where the fiscal authorities get so out of control that the monetary authorities are forced into monetizing the debt in order to try and keep some calm in the money markets. This is exactly what we're seeing right now.

So this is why Paul Tudor Jones in Davos was saying this is the craziest mix of fiscal and monetary activity that we've ever seen in history.

So you have a guy like Paul Tudor Jones saying you have the craziest mix in history, Harley Bassman talking about inflation is inevitably coming. He thinks maybe a couple of years out, 18 months out.

You have Chris Cole I think he was recently on your podcast, talking about how investors have essentially positioned themselves, more than ever they have in history, heavily invested into financial assets.

And the greatest risk to financial assets is an inflationary episode.

And so I think you hear a lot of smart people like Ray Dalio talking about what happens when you get to monetary policy in fiscal when you get to the zero lower bound?

And this is why the Fed is desperate to try and create inflation. Because, when you get to the zero lower bound, they essentially run out of ammunition. They don't have a way to boost the economy anymore.

So this is why they're rethinking inflationary policy, trying to do whatever they can to boost inflation, because I think it's a couple of different reasons.

One, it's to give them some fire power back to deal with economic slowdown like we're seeing right now.

But also because we're so massively and heavily indebted, not just on the sovereign side but, like I mentioned earlier, the corporate America side. That the easiest way to deal with those things is to try and inflate away the debt.

To me, this is a huge dichotomy. You see markets pricing in deflation. And the smartest guys, best investors on the planet, are all talking about the risk of inflation. And positioning themselves at least to be somewhat hedged against inflation going forward.

Erik: You know, you make a really important point Jesse, which is, although it comes in very, very different flavors from the different political parties –

President Trump is clearly badgering the Fed, wanting lower interest rates. He wants to borrow more money. And it's more, as you say, of sponsoring larger deficit spending. And it's in a particular category.

I think the Democrats, if they were to take the presidency in November, have a very, very different agenda. It's much more about social spending. But they're definitely not going to spend any less than President Trump would have spent.

One way or another, you're still getting to the point where eventually you have to face monetizing excessive deficit spending, whether it's MMT because Bernie has put Stephanie Kelton in as the new Chair of the Fed, or it's because President Trump is doing his thing.

One way or another, it all leads in the same direction.

The other aspect of this that nobody seems to talk about, Jesse, is, if you look at things that happen in markets, you always turn to the guy who's been through it before. You look on those institutional desks for the real veterans that have seen it before.

The guys who know about the onset of secular inflation either retired or died a long time ago. Because the last time that happened was the late '60s and early '70s. And those guys are not in the industry anymore.

So I think we get to this situation where there is a return of inflation and the entire industry is kind of like, uh, what? What do we do?

And I don't know where that can take us, other than potentially getting into a self-reinforcing vicious cycle where it tends to exacerbate and feed on itself.

What do you think about the systemic risks of an entire industry facing a risk that it hasn't seen in 30 years?

Jesse: Well, it's a huge deal. I mean, you have so much money – we see money has actually poured out of the equity markets. And I think that's just a demographic shift, people getting older and realizing they can't have 80% or 90% exposure to equities, they have to buy more bonds.

But what people haven't been doing is putting more money into real assets. And that's really

the case that Dalio makes, Christopher Cole makes in his recent paper, is that you have to have something in the portfolio that can do well in an inflationary environment.

And the 60/40 portfolio, 70/30, that's really where problems can arise. Because if you get rising inflation and bond prices go down and so do stock prices, I mean this is also how – you can see a pension crisis coming to the fore really quickly too.

But, also to bring it back in terms of what we're seeing with COVID-19 right now too, is that one of the things I believe is the greatest disinflationary force of the past 40 years was globalization.

We saw the offshoring of labor, and companies being able to cut labor costs and cut production costs, and all these kinds of things by moving the production to China and other places overseas.

And just in the last couple of years, through the trade war and things, we've seen this trend towards de-globalization. And now I think that is being exacerbated by what we're seeing with the virus.

I mean, 90-some percent of our antibiotics are made in China. And this is clearly a risk in this type of environment. If they can't produce meds, then that's a huge problem for the rest of the world.

So I think there's a lot of people in Washington and across corporate America looking at what are the risks involved with this? Yes, it's boosted profits. But it creates a lot of other business risk and health risk and all kinds of risks that we essentially didn't really analyze properly.

And so the extent that de-globalization is now, I guess, kicked into gear because of this COVID-19. That is an inflationary impulse over a long period of time. Or at least it's an end to this disinflationary trend of globalization.

So that's another facet of it, too. I think people are understanding that maybe this leads to de-globalization, but I don't think they understand that de-globalization is inherently inflationary.

Erik: I know from reading "The Felder Report" that you've been focusing quite a bit on the fact that a lot of the greatest investors on the planet are preparing already for this regime shift towards secular inflation instead of deflation.

How are they preparing? What are they doing? What's the change in asset allocation strategy to accommodate anticipation of this change?

Jesse: I think the easiest one for investors is make sure you have some kind of allocation to gold. Ray Dalio has said if you don't own gold you don't know history.

And I think that probably the simplest way to explain it is, whenever a country has gotten over-indebted throughout history, we see inflation and a devaluation of the currency. And the easiest way to protect yourself is through some type of a real asset. I think gold is the easiest.

But you know TIPS would also qualify, although they're not my favorite. And real estate probably to a certain extent does well – especially commercial real estate – in an inflationary environment.

But Christopher Cole has made some interesting points too about trend following and allocation to long volatility and an allocation to trend following.

Anything that's not correlated to financial assets, generally, is a good idea. Because financial assets are – just look at stock valuations since 1980, since inflation peaked. Interest rates come down, valuations have gone straight up – same thing, obviously, with bond prices – when interest rates have come down.

So financial assets generally do poorly in that type of thing. And so I think there's a lot of opportunities.

And I think over the next 10 years these things are going to gain a lot more attention. You know, systematic, long volatility, trend following, especially in things like commodities and currencies, is going to be valuable.

But I think gold is probably the easiest way to add some type of that diversification into the portfolio.

Erik: Jesse, there is always the possibility that maybe this ***is*** a buy-the-dip moment, at least for some issues.

Is there anything that has happened in terms of this selloff that creates a value play for you? I know you're very much a value investor. Is there anything that's actually a buy here?

Jesse: I do think there are some opportunities.

And it comes back to – I think one of the most popular things in the market right now is this ESG investing. And I do think it's pretty problematic for investors and for the markets.

If you look at ESG funds, they're essentially tech funds. I mean, they're overweight, tech, and consumer discretionary. And so, it's – there are obviously underweight things like energy.

So with money pouring out of actively managed funds and pouring into passive, but now even more so, I think the money that's flowed into ESG funds in 2019 was quadruple the 2018 inflows. And 2020 inflows are even on pace to beat 2019.

So essentially that means there's tons of money flowing into tech, which kind of goes along with that euphoric buying theme that I was talking about before. And energy is being left for dead.

And, to me, I think energy is one of the most interesting spaces right now for that reason. It is the lowest weighting in the S&P 500 I think it's ever been. There's all kinds of stats that show the opportunity in energy.

I think for the first time energy stocks now yield – or, actually, they're a lower weighting than utilities in the S&P 500. Energy stocks yield tons more than the 10-year Treasury note or even the 30-year bond.

So I do think there is a terrific opportunity in energy right now.

And I typically prefer the energy production companies. I think the exploration and production companies are the ones to focus on right now.

The Financial Times had an article about the positioning too. It's not just ESG money that's not putting money into energy. We're seeing, I think –

There's a lot of algorithmic short selling in energy right now – I think XOP and OIH, the two energy ETFs that people would mainly focus on – of about at least 40% of their shares borrowed and sold short right now. So there's a huge short position in energy.

I typically prefer, like I was saying, the oil and gas producers. Because I think they're more of that straight play on the sector.

I think the OIH, the service companies, I'm not quite as interested in because there has been a good case made that shale is a bubble in the sector. And these service companies have benefited greatly from the expansion of drilling activity into shale.

If shale companies, if we do run into (like I was mentioning before) some type of a debt, a Minsky Moment in terms of the corporate debt bubble that we've seen, a lot of these shale companies are probably going to go bankrupt.

That's not going to be good for the service companies. But it will probably be good for the producers that survive, when you're taking supply out of the market from these other producers.

So I think in 2000, during the dot-com mania, there were a lot of good value opportunities available. When everybody just wanted to buy tech stocks, there were a lot of other companies that were left for dead.

I don't think the situation is quite as dramatic today. There's still – even some of the cheapest

stocks in the market are fairly expensive, relative to history. But I think energy is one of those sectors in the market right now where there is true value.

Erik: Jesse, are there any other sectors besides energy where you see value opportunities?

Jesse: Yes. And, just to clarify too, that I'm looking for these types of value opportunities in the markets. I own some energy. I actually own a fair amount of energy and some of these other stocks that I'll mention.

But I'm at least fully hedged against general market risk, if not net short, right now. Because of where I think we are in the broader market situation.

But another area where I do think there is value is in retail. I think retail is another sector that has been massively shorted.

And a name that I've mentioned in other interviews is Bed Bath and Beyond. This is a stock that has just gotten absolutely pummeled and trades at an incredibly cheap valuation. It's not pricing in any of the potential rebound. They brought in a new CEO who was one of the top guys at Target who helped turn that business around and turned comps around.

And so he's implementing the new strategy at Bed Bath and Beyond. The company has a billion dollars in cash and literally no debt refinance needs in the next 10 years or something.

So this is a company that I think, if they're even able to stabilize sales trends, this stock could double or triple in price.

And there are things like that here and there. Another stock that I'm looking at, believe it or not – and it kind of gives you an idea of how out of favor things are that I like to look at – is a company called Macerich, which is a shopping center REIT.

And what would be one of the stocks most hurt in a virus outbreak in the United States? It's probably a company that operates shopping centers.

But this stock was approached by Simon Property Group. They offered to buy this company for $100 a share, I think back in 2015 or '16. It now just traded under $20 today. So it's off 80% from the last place where they had a buyout offer from Simon.

Over 80% of their malls are Class A malls. And I think Class A malls, even in this retail apocalypse, Class A malls are going to do really, really well.

Because you have a lot of online retailers and things that want a physical presence, whether it's for order online, pickup at location, or return at a location. You have a lot of these online retailers that are opening physical stores. And they want to do it in Class A malls.

But this stock has probably a net asset value of at least $50 a share. And it's trading under $20. Has a yield in the mid-teens.

And there's been good insider buying, which is something I always look for in stocks. It tells me that management doesn't think that this company is going to be in trouble any time soon. They're in fine financial shape.

It's just, I think, one of these situations where you have a company that stumbles for a little bit. It's in a pretty hated sector. You get some algorithm trend following stuff to start shorting it super-heavily. You have – the short interest on this thing over the last 12 months has just exploded.

Same thing with Bed Bath and Beyond. I think Bed Bath and Beyond had 70%-80% of its float sold short.

So the potential for short squeezes in these things is huge.

Pretty much I look for opportunities like this, where if these companies just survive, the stock price is going to double or triple.

I think there are a handful of these things out there right now. I look to try and own these kinds of things and hedge them against, like I said, the pretty serious general market risk I see out there.

Erik: Now, you just expressly acknowledged that if the virus outbreak gets worse, and I think it probably will, that that's going to put a lot of pressure on brick-and-mortar retail.

So are you saying these are things to watch for a value play on a further dip later? Or do you think that that's already priced in?

Jesse: Yeah, I think it's already priced in.

So, for me, one of my favorite examples is back during the BP Deepwater Horizon spill. Towards the end of the spill, I was buying BP stock hand over fist.

Because, to me, you look at what is the stock price? What is it pricing in right now? And BP was pricing in bankruptcy like the stock was going to go out of business.

And it makes sense because, you turn on the news anywhere – I think it was 2010 or '11, I can't remember specifically – you turn on any news channel, and 24/7 they were showing underwater footage of oil just pumping into the Gulf. And so the sentiment against BP had become so extreme that it was pricing in the company going bankrupt.

Now, if you had looked at, okay, what is the worst-case scenario for BP? Let's look at all the

different analysis. The worst-case scenario for BP was that it was going to cost them $30 billion in damages and cleanup and whatnot. And that would probably be spread out over about 10 years.

Well, take a look at BP's cash-flow statement. And they were generating I think $30 or $35 billion a year in cash flow. So the company, out of one year's cash flow, could have paid off the entire liability of the spill. There was no possibility at all the company was going to go bankrupt. No chance at all. Even in the worst-case scenario.

So, for me, that's – these stocks, a stock like Macerich, is pricing in the virus hitting and shopping going nowhere for a period of time. And all this worst-case kind of stuff is already priced in at this stock price of $20 a share. It's worth $50-$60.

It's not hard to imagine that Simon would come in and say, okay, we offered you $100 five years ago. What do you say we buy the company for $50 today (that half-off sale) and use this distressed economic period driven by the virus as a chance to buy something on the cheap.

To me, absolutely, this is absolutely priced in. And so investors paying these prices today are getting a really good margin of safety in a stock like either Bed Bath and Beyond or Macerich.

Erik: Jesse, before I let you go, you're best known perhaps for "The Felder Report," which is one of the most respected newsletters in the industry. Tell us a little bit about that. And also, I know your podcast is kind of intermittent, it's not on a firm schedule. But tell us what's going on there as well.

Jesse: So with the newsletter, I basically write a weekly market comment. I do tons of reading during the week. And it's really focused on trying to understand what's really driving markets and where are the opportunities. That weekly market comment is focused on what the trends are that I am seeing develop in the markets, like we talked about inflation and this euphoric buying. So I kind of outline that stuff in the market comments.

And then the trade ideas, I have kind of a pro version of the newsletter where I come up with these trade ideas like Bed-Bath and Macerich.

But the podcast has really been, I guess, hit or miss lately in terms of – there's been a lot of miss. I haven't had a lot of hits in terms of nailing people down to interview. But I try and do it – it's not so much on a news-driven basis as more it is on a process-driven basis.

So I try and interview people when I find someone who I think has hit upon something in terms of their process that is unique and worth sharing with the audience. And so I maybe did 8 or 10 episodes last year. But I really try and focus on quality over quantity. So for that reason it's just not a regular thing. I've tried to make it a regular thing, but it's just not to be.

But it's been a blast doing it, and I've had you on a couple of times, Erik, which has been terrific.

I really enjoyed that.

Erik: Well, I've done lots of interviews with lots people and you're one of my favorites. So whenever you're ready to fire up the podcast again, just give me a shout and we'll find something to talk about.

Meantime, we're going to need to leave it there in the interest of time. Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.