MACRO Voices
with hedge fund manager Erik Townsend

Larry McDonald: Dollar Down & Gold, Oil, Uranium Up

May 27th, 2021

Erik: Joining me now is Larry McDonald, the man who wrote the New York Times best selling book on the collapse of Lehman Brothers. These days, Larry writes ***The Bear Traps Report***. Larry, it's great to have you with us. Let's start with a question I've been asking just about everyone because everybody's changing their story, which is inflation versus deflation. So many of our formerly devout deflationists have turned inflationista on us. Where do you stand? What do you see on the horizon?

Larry: Yeah, I'm in the inflation camp as well. It's, you know if you think about the previous decade, and the investment community globally. I think that, you know, we're looking at $100 trillion of bonds there below 2% in yield, and close to $17 trillion in the NASDAQ 100. And so net, net, net the entire investment community of the planet Earth is essentially in a 2010-2020 portfolio allocation. And I think what's been happening over the last like 60 days to 90 days is we've had these tremors. These growth-to-value tremors in the market, and they've been just like tremors before quake, they've been picking up with intensity. And it's clear that to me that there's just literally trillions of dollars that's misallocated, that's going to have to migrate. And right now, there's probably already a trillion that's already moved. But you know, three, four, maybe five more trillion has to move in the next six months. And so that's where, you know, the system is buckling a little bit.

So now as we look forward, we're looking at a Biden administration that is so determined. I mean, they lost the 2010 midterms by 63 seats. Obama-Biden and they're going to spend, like there's no tomorrow, especially in the third, fourth quarter of this year with the new, you know, enhanced powers of reconciliation, which you only need 50 votes. And at the same time there's just more fiscal largest around the world. And so the pressures on inflation are substantial, much more substantial than they were 10 years ago and then especially if you look at the Fed as well.

But what we were looking at is the previous decade, we had Brexit, trade wars, obviously COVID, austerity in Europe, austerity because of obviously, Greece. We had a Grexit and a Brexit. Massive austerity in Germany, you know, with incredible surpluses, and austerity in the United States. We had a sequester that took the deficit from 1.1 trillion to 500 billion over three years between 2011 to 2014 or so. So I mean, this is just, we have supply chains that were as smooth as silk. And so we have like 10 or 20 things from 2010 to 2020 that foster this incredible deflationary period is just mind boggling bull market and bonds to the point where in the fourth

quarter 2019 bonds were bid without in September, October no offer. I mean just an incredible that was before COVID.

Erik: Let's talk about what this means for Treasury yields because some people have been saying, hey, if we've got inflation coming, it has to mean that we're headed toward a regime of higher bond yields. Other people say no, wait a minute. It's nothing about inflation that causes higher bond yields. It's policymakers reacting to inflation that cause the higher bond yields. And there's a lot of reasons to think they're not going to do that this time. So how should we think about the relationship between the coming inflation if you think inflation is coming, which I certainly do, and what it's going to mean for the regime of Treasury yields that we have?

Larry: So the Fed is doing 120 billion a month of QE. And there's some talk, we run a Bloomberg chat with about 650 institutional investors on the buy side, so pension funds, mutual funds, hedge funds, and I'm hearing more and more talk about a shift toward because the mortgage, the housing market is on fire and they're buying, you know, 120 billion a month of mortgage backed securities and treasuries. So I think one of the surprises looking forward, that will. If yields get out of control, which they should, but toward the end of the year, I think with passionately and with the highest conviction that politicians are going to force the Fed into some type of yield curve control. And, you know, we're talking about another 2 trillion, two and a half trillion of spending. And we're talking about a $5 trillion fiscal plan that's already been passed. So interests on the debt now is almost 10% of the budget, and entitlements and interest is close to 70% of the budget. So there really isn't a lot of room for the Fed and Treasury.

So at some point in the, you know, I think within the next six, nine months. The Biden team and their quest to win that 2022 midterm, and really spend the way they didn't spend in 2010. They feel like they didn't go big enough, they're going to force the Fed into some type of yield curve control. And the first stage of that will probably be they just pull back on the mortgage purchases and put that allocation over treasuries. And that should be very supportive of metals, gold, silver, and I think that's why we've had this big turnaround in gold and silver. Clearly, growth expectations have come down, because we've had, you know, tough jobs report and but at the end of the day, the markets starting to look forward to this more fiscal globally and the Fed. If you just look at all the Fed speak, Richard Clarida is, you know, talked up "Operation Twist" type operations. And this would be like a new type of Operation Twist. So yes, I see real yields going much higher later in the year and then the Fed trying to pull creative levers to arrest that ascent.

Erik: Larry, let's talk about where we stand with respect to this global pandemic that is upon us. On the one hand, it seems like at least the pandemic is starting to come under control. But the other side of this, which not too many people are talking about is the US government has finally come out and officially recognized something which I think has been obvious from the beginning. Which is that the most likely explanation for where this virus came from is a lab leak not a natural source. And it's not a crazy debunked conspiracy theory, it's actually the most likely explanation for how this happened. That seems to me to set the stage now that we have the US government officially saying that this virus may very well have been leaked from the

Wuhan Institute of virology possibly from research that was being funded by the US government. Boy, it just seems to set the stage for maybe another round of significant geopolitical tension with China and coming years. How do you see this unfolding? As I know, you're something of an expert on US-China relations.

Larry: Yes. I mean it's amazing. If Trump says it, it's poo-pooed. But now, it's kind of gone mainstream. And it's almost better that Trump's not saying it because now people are taking it, you know, much more serious and you know there's two things really. There's that dynamic around the COVID origination and then this. I think another backdrop to this is the insults that are that, that China is put forth on the Paris Climate accord, or just, I mean, just off the charts. We're talking about 1000 coal plants that are, you know, operation now in China and another 25 to 30 that are in planning stages. And you're talking about a substantial, you know, whatever Europe's done around. Europe last year, took 17 gigawatts off the global stage in terms of carbon and China just put that on and then some.

And so there's a real conflict coming up here where I think we're going to have to have like. In the Trump days, we had the trade war. And at some point, there's going to be, and I think over the next year more sanctions toward green sanctions on China, and you know, the big winner there would be US nuclear, power, or uranium. But that's one thing that I think is becoming very, very, you know obnoxious. It's in India, China, especially China. The amount of coal plants that are coming online relative to their promises of 2016. And then, this COVID situation around this new cycle around information coming out of Wuhan. Both of those things set up for, you know, a much higher level of tensions between the US and China.

Erik: So let's translate all of this backstory into a market outlook. What is the big picture macro outlook in terms of equities, bonds, everything else? What do you see? What do you expect?

Larry: Well, the big thing is the reopening. So India a month ago was in a horrific COVID cycle. And now, cases are crashing in India, crashing in Europe. We're going to have much better vaccine distribution in India. India is a colossal diesel fuel user, oil user. You're talking about 6% of the global consumption up from 3% maybe eight or nine years ago. So in growing fast, I mean, India population is growing three times faster than the European continent or I should say more. So Germany and Italy for example. So you're talking about 1.4 billion people that's growing at a very strong clip and you're talking about a large group of people that are still vastly addicted to diesel fuel and oil. And so this sets up for with vaccine distribution with a much better situation in Europe in terms of reopening and vacations.

I just think this ESG situation in the United States and around the world, in terms of oil, and shale is just unbelievable and coal. I mean, we're going to have in the next 12 months, the most spectacular ESG backfire because we're going to have a vast reopening, demand is going to come back really strong, especially in countries like India, as they come back online. I mean, think about it. India and Europe were just in a horrific, like lockdown and oil was essentially “unched” for a month or two. I mean, oil should have been off 20% on that news. So that tells you that there's a pent up demand problem. And the US doesn't have the ability to the last 10

years. Erik, because the ESG backdrop was so liberal in the United States and wasn't as vigilant as it is today.

The last 10 years, the US can ramp up production very fast and now because of ESG. I mean, I talk to a lot of bankers in our chat and our Bloomberg chat and institutional chat and around the world. And it's just the ability of coal companies and shale companies to finance projects has just collapsed. And this the snapback in the United States, the United States has lost the control of the production snapback, and that's going to put more price control in the hands of the Saudis and the Russians, and they're just going to drive. You know, I think we can have $100 oil and much higher coal prices over the next 12 months. Especially in the ESG side on coal, because coal, met coal is the steel producer of the world right now. I mean, we're years and years or years away from hydrogen produced steel. So you're talking about companies like coal, ARCH coal A-R-C-H, that I think would be a double over the next 12 months trading at three and a half times EBITDA. Dividend increase probably coming by year end. So we're looking at, we have a basket of what we call our ESG backfire basket and that's kind of the focus of it is, is energy, oil, and coal.

Erik: Larry, I couldn't agree more on higher oil prices coming. Talk to me a little bit about what the drivers are that you see there but also where do you see the energy plays specifically? Is it just in oil and natural gas? Or are other things like renewables and nuclear going to come into the fray? Where do you see the energy trading opportunity in this market?

Larry: Yes exactly so on the energy side with oil just the backdrop of the ability to come back online with production and a faster format that's much more limited. So we see really a vast supply problem climaxing in the first-second quarter of next year. Second quarter next year as the summer driving season approaches. But from a perspective of China and India and the amount of coal plants on the earth and their relative pickup of nuclear power, there's tremendous pressure on China and India to take down their additional coal plants and put more of a nuclear component into that mix. At the same time, you've got in the United States, John Kerry that's flipped on nuclear power. Jennifer Grantham at the Department of Energy, she's flipped dramatically. The Biden team has flipped dramatically in terms of energy support for the US nuclear power industry.

So there's just once again, this is a similar to the oil dynamic but times 10. The world in 2025 to 2030 is short about 10 million pounds of uranium, I think because China has to double their stated plan to bring at least I think, probably 60 nuclear power plants online over the next eight years and an additional 60 in China and an additional 25 to 30 in India. And then the United States, the US, you know, the Biden ministration and the Trump team both in agreement where uranium has been like a national security problem because we're not producing our own uranium in the United States. And so what happens is, when you have this ESG dynamic around fossil fuels, like natural gas. We're seeing much higher natural gas prices, higher coal prices, that makes nuclear power much more competitive. And this ESG dynamic around natural gas is powerful, you've got I think, the new handle is three to five on natural gas that's

been a real, that created this 10 year, helped create this 10 year bear market for nuclear power and uranium.

So if you're a uranium purchaser, like in a power plant for the last 10 years. You could sit back, you didn't have to prop what we call, you didn't have to front buy or proprietary trade your uranium inventory. You could just sit back and purchase and we're seeing all kinds of indications that the power plants in the United States and around the world is starting to prop uranium. And we're seeing some institutional clients trying to front run this process. And we've seen China already, you know, they're upset about the iron ore stocking. And so what happens in a dynamic like this, when you have just tons and tons of unintended consequences from government policy, we call it the Cobra effect. But what happens in the free market, a lot of market participants will try to front run demand, and that'll force a lot of these power plants to pay up and then start to buy forward uranium. And so the uranium industry is only 21 billion in size. I mean, it's an absolute joke. I mean, Bitcoin is still close to half a trillion dollars in size. Dogecoin is like I think 50 billion in size and the entire uranium industry is worth $21 billion-$22 billion.

I mean this is the easiest, the best risk/reward trade I've seen in probably my life. I think you have like, five to eight times upside, and you know, you know, clearly 40% downside, but your risk/reward to being long $URNM, $CCJ, $URA. You know, these ETFs in the uranium space is just the best I've ever seen. And on top of it, The Edge, you know, the U2, famous player there in the famous U2 group, you've got celebrities like him that just in the last two weeks are coming out nuclear. So the “wokest” of musicians on the planet Earth have now switched to supporting nuclear. It's the only way to get to the green meadow. It's the only way for China, it's the only way for India, it's the only way to the United States. And I think that the world is just vastly supplied about 10 million pounds short over the next 10 years. So we're, we're gonna see just see one of the best trades of our lifetimes in this space.

Erik: The $URNM ETF has more than doubled in the short period since they advertised on MacroVoices. I'm personally attributing the entire turnaround in the nuclear space to MacroVoices advertising, but I also respect that there are other macro drivers, which I suppose could have had something to do with it. Let's talk about where the real opportunity is going to be for investors. Is it nuclear? Is it going to be you know, some people are saying that copper demand is gotta be just off the charts to build out the electric grid that's going to be necessary in order to support electric vehicles. Where are the best trades in the greening of the global economy?

Larry: One of the trades that we like the most is in this hydrogen fuel cells space on the metal side. So Impala platinum, South African company trading in a very very cheap multiple about two and a half times EBITDA and trading at a 20% free cash flow yield. You're talking about platinum in the production of hydrogen which is a major component. And so right now in the entire dynamic of demand for platinum, there isn't a hydrogen demand element right now. But if you think about electric vehicles, and you think about big and large vehicles, much larger vehicles like buses and trucks and ships, hydrogen is your answer there. Much more so than

electric vehicles. So electric vehicles is your copper play in we definitely see, you know, a massive global shortage in the copper space. But for larger vehicles, last week there was a shell deal and we're seeing more and more large scale transactions on the hydrogen fuel cell side. And it's just a matter of time like this time next year, there's going to be a much higher demand element in the Platinum space.

And so Impala platinum, Stillwater, $SBSW. Those two equities are, you know, once again, I see 300-400% upside, you know 40% downside but just the greening of the large scale buses, trucks of Europe and the United States. We're going to go hydrogen that's going to create a new 20% additional demand for platinum. And the amount of Platinum on earth relative to take gold is just literally like, 1/100 in terms of annual mining, and so we just don't have a lot of Platinum out there. At the end of the day, Erik, there's something going on. That is just so you know what despicable around the media's focus on this green revolution and nobody's doing the math on how we're going to get there in terms of the metal side. And our team has spent a lot of time on the last like six months. But companies like Teck resources on the copper side, we think that stocks at a double from here with their properties in the copper space, and then Impala platinum and $SBSW, Stillwater on the Platinum side.

Erik: Larry, I want to move on to an advanced terminology topic that I got from your newsletter. For anyone who is not familiar with your writing, please help us understand the new financial terminology. *Alpha Male Central Banker*, what does that mean?

Larry: Well, if you think of like the 2010-2020 period. The Alpha Male central bank was the Federal Reserve and the Fed was pounding their chest, hawkish in 2011, 12, 13. Created a taper tantrum in 2013. And then they robustly proclaimed in 2018 that they could take 50 billion a month of balance sheet off the Federal Reserve balance sheet. 50 billion a month at one point, that's what they were claiming they could do. And then in 2015-16 once again, they were promising us, pounding the table. They were going to deliver 2015-16 eight rate hikes. And each time the dollar ripped, the amount of trade in the world that is in dollars is just enormous, you know, 60 potential 60-62%. The amount of debt on the planet Earth that's in dollars. Emerging markets, they essentially the Federal Reserve blew up the global economy three different times. Countries like Brazil were in flames with massive political risk 2018 because you've had oil prices moving higher with the dollar. So if you're in a country like an emerging market country where there is no rail system, and major commodities are transported by trucks, I mean, this is just a devastating blow to countries like Peru, Chile, and Brazil. And it created incredible amounts of civil unrest to the point where it looked like Ciro Gomez was going to win the 2018 election, Brazil and he's a real radical leftist.

So these things have massive repercussions and then we go into COVID where the central banks and the governments of the emerging markets had nowhere near the bandwidth to take on this beast of COVID and to spend their way through it. So essentially what happened behind the scenes is and we're convinced, we said this to clients last year The only way out of this is a globally coordinated Alpha Male handoff from the Fed was the Alpha Male in 2013, 2015-16, and 2018, to the PBOC in China, the Bank of England and lo and behold, the Bank of Canada is

the big taperer now. So we have a situation where the Federal Reserve has transferred the reins of the Alpha Male central bank to other central banks. This is putting tremendous pressure on the dollar and it's something that investors just haven't seen, aren't used to. And they're all waking up to it at the same time the global economy is reopening. That's why there's just been so much relentless pressure on the dollar and we see a major break here.

We think the dollars it's been on 2018 support for much of the last two weeks. And this is the second time it's been down there and when it breaks, it's going to be an incredible flush and it should break as we reopen globally. And as these alpha male central banks around the world are far, far more hawkish pulling back a combination, much faster than the Fed. The Fed is now a woke central bank, a social justice Fed that is dedicated to fighting inequality. Looking at U6 unemployment, the United States t near 11%. You're talking about eight and a half million Americans that are still unemployed, out of the US labor force relative to January 2020. Eight and a half million people. So the Fed has to dig in here and there woke social justice, inequality Fed regime. They've been thoroughly embarrassed of the previous decade. You could make the argument that the Fed helped put Trump in office by those dollar moves decimated, middle class voters in Michigan, Wisconsin, and Pennsylvania, those states flipped to Trump. So this whole dynamic of a social justice Fed and an Alpha Male central bank in Canada, in the United Kingdom, and China has flipped the switch and it's put tremendous pressure, secular pressure on the dollar. It's going to make new lows as we speak.

Erik: Tell me more about that breakdown that you see coming in the dollar. What drives it and how far can it go? Because as I look at this chart, you get below 89 on the dollar index at least from conventional technical analysis standpoint, there's not a lot of technical levels to look at there until you get much lower.

Larry: Yeah exactly and this is why you need to reallocate the portfolio out of tech and growth and into more value names. We've seen these growth-to-value tremors over the last couple of months and they're getting stronger and stronger. And, you know, portfolios like the EWU ETF that are long companies like Glencore, Rio Tinto, big commodity producers, oil companies like Royal Dutch Shell and BP. You want to be long a portfolio that has exposure to global value stocks, Vodafone, Glaxo, IBM names. I mean these names have just been treaded. I mean massively under owned, and there's a couple trillion bucks, that's going to come out, because we're going back to more of a 1970s 1980s regime where value outperforms growth. And the dollar once it breaks, the forces are just are so many now because once again, the Biden team, it's the opposite of 2012 and 2011-12. You had the sequester coming in where republicans were taking that budget deficit from 1.1 trillion down to 500 billion through they forced the sequester on to President Obama. And the democrats don't want to lose that midterm, that 2022.

At the same time, the Fed was, you know, in a, you know, taper regime and now we're in a social justice regime. And at the same time, you have $64 trillion of gross domestic product globally. 64 trillion of GDP that's outside the United States, there's only 20 trillion in and 64 out. And guess what, that 64 trillion is reopening at a much faster pace now. So the US, what they call American exceptionalism. That was like January, February, where the US had the fastest

mover advantage on the vaccines, on distribution, on COVID tests. But now as the world reopens, and it's COVID fleets, this is what's going to break the back of the dollar. At the same time, the Biden team's going to come up with a spending plan for the fourth quarter. And it's just, I just see this, it's going to be just a colossal flush. And that will break the back of these tech stocks and, and it's going to be the biggest portfolio reallocation of our lives. Because everybody is set up for the previous decade. Everybody's seven deflation portfolios, and everybody's going to rotate into value names that are really been unloved for a very, very long time.

Erik: Well, if you're right and this event happens. I mean, I think you and I agree that a break down below 89 on the US Dollar Index. That's a once in every so many decades event, because that's such a key technical level that if it breaks that it's probably going not just a little bit lower, but a whole lot lower. So what are the implications of this? Obviously, you just mentioned a couple of them. That means we need to be thinking about having things like gold and oil in our portfolio because those are the things that are going to benefit from a weakening dollar. What are the other consequences and implications of this change that you see on the horizon?

Larry: Yeah, exactly. So it's been 10 years of owning financial assets. Every family in America, every wealthy family in the United States of America is long financial assets, and they don't own any hard assets. The allocation of commodities and portfolios and value stocks is at 20 year lows. And so that's the biggest change. The other is the other to really look forward is this dynamic around in our next book is on this subject around the generational conflicts that are going to come up the next few 10 years or, you know, just blood curdling because the millennials have been handed 170-160 trillion of unfunded liabilities. They now have 30 trillion of federal debt, you have the top 100 companies in the United States, the top 100 control 91% of the profits in when I was growing up in the 80s, that number was like 65-70. And you just have this raging inequality that is just, you know, underneath the surface, there's just the social bubbling, is coming forth.

Now, the good news is that millennials are going to inherit the next 15-20 years, 70 trillion of wealth, right? So you're going to inherit the 70 trillion wealth, but that wealth is in tech stocks, Bitcoin, property, you know, growth stocks, 401 K's. So if that wealth gets a hit, and that millennial group that has been saddled with this colossal pile of debt. At some point, there's a risk of what you know, we call, we look back to the Bible, and you can go back 1000s and 1000s of years. We've seen in multiple debt jubilees, where one generation is handed, you know, a really bad deal financially, and just walks away from what we've already seen with student loans. You know, that there's just a social movement, you know, not to pay. And you know, one thing the woke movement does and doesn't do is it doesn't stop from one topic to the next, it keeps going. These people don't stop my friends. So they just keep going. So they'll go from, you know, student loans, and they'll eventually work their way into some type of mortgage debt or government debt. And in some respects, you can see some of the point because this generation is being saddled with a colossal financial obligation that they really didn't have anything to do with.

Erik: Let's talk a little bit about what we should expect from this reopening. So many people that I hear analysts, pundits saying well, you know, that there's going to be very, very compromised demand for travel. People are going to be afraid, they're not going to want to go out. You know, Larry, I'm just not buying it. I just take the way I feel, which is a look. I'm waiting for this thing to be over. I don't want to go travel, if it's still endangering my life to do so. But as soon as it's safe, if anything this pandemic has taught me time is precious. I want to go travel like I've never traveled before. And I predict most of the world is going to feel that way. Of course not everybody can afford to, but to the extent that people can afford to and by the way, they're going to be getting a lot of them. A significant amount of stimulus payments, and other transfer payments. People or I think are going to spend money and travel and, you know, party like it's 1999 as soon as the borders reopen. I guess that's a very non consensus view. What do you think?

Larry: I agree, I tell you, so our book came out. It's now in 12 languages and it's one of the best selling business books in the world. It was just voted by the CFA Institute one of the top 20 books of all time. So when you have a best seller, I tell my wife once a month, if we sell a million books, we'll break even on our Lehman stock as a former Lehman trader. And I'll tell you some fascinating data. So ***The Bear Traps Report***, typically in a year will spend because of this speeches around the world will typically have four, or five to six speeches. And in many times those speeches are paid for in terms of travel but we're seeing clients, we're doing things. So we'll spend, call it 150,000 bucks a year of travel, and we'll typically do events in maybe six countries, each year six to eight. And so last year, that budget went down from say 150,000 for our small company to $9,000. And now this year, the amount of events that we've seen come back online, we're going to spend. We're not going to spend back $150,000 you know, it's a small company, but I could see us up at 100 by year end and I could see as well over 150 by next year.

So when you talk to families, we have a lot of different, we probably have 700 Wealth Advisors that are our clients, and they're going to do like at least two times the vacations that they didn't do last year. And there's a real feeling around the people that suffered and the people in the hotels, the chambermaids, the bartenders. You know, you want to get out there and take some time and spend and support some of the people that went through an extremely difficult time. At the same time you want to get out, you know get rid of this cabin fever. So, that's where this dynamic around energy prices and this unintended consequences of ESG has taken so much supply offline that if this travel revolution really picks up and granted this places in the world like in France, and mobility isn't as easy as it once was. But you know, especially in airports, but you can drive through Europe. So you're going to see a colossal pickup in energy demand and a real reopening demand. And I completely agree, I think we're going to have a much a big, much bigger surprise on the upside in terms of travel demand.

Erik: Larry, before we close, I want to ask you a final question on the energy sector because I know you have a lot of background on the credit side of markets. And I want to talk specifically about what the end of the age of oil is going to look like in terms of its credit dynamics. And what I mean by that is very specifically, a lot of people are saying, look, you know, we're in the final

decade or the final two decades, and nobody's really sure how long but we're gonna shift away from fossil fuels to electric vehicles, and so forth. And well, therefore, it can only mean one thing, which is energy prices are going to eventually crash.

And I think the opposite, Larry. I think what's going to happen is we're gonna run out of credit to invest in new production and so forth, because everybody agrees that it's a go nowhere dead industry. And we're going to end up unable to supply and meet that last demand for petroleum. Because everybody assumed the whole energy industry was going out of business, and nobody invested in anything. And you end up with a crisis at the end where there isn't enough because you haven't completed the transition soon enough and nobody wants to invest in the old stuff. How do you see this playing out? Do you think we have a situation at the end of the age of oil where there's too much of it, we produce too much? And we're just never sure what we're going to do with all that extra oil that we dug up? Or are we going to have a shortage?

Larry: And exactly, I mean, this is a classic unintended consequences ESG overdose that it's going to have the most spectacular Cobra effect, where we talked about in India in 1890, they had the Cobra problem in the countryside, and the communities, and the towns, and the cities. So there was a coordination with the King of England and they put a one pound bounty on every Cobra. And lo and behold, it worked for a little while you actually had an arrest of the Cobra dynamics of the Cobras were captured. But then all of a sudden, a number of creative Cobra, you know farmers started farming these Cobras and selling them back to the United Kingdom, and then the Indian government. So you had this dynamic where the government actually had to come in and cancel the whole regime, policy plan of Cobras. And what did the farmers do? They released all the Cobras into the wild. So eight years later, six years later, you had three times the amount of Cobras.

So this is the unintended consequences of government policy. And with the energy space, I completely get it gets worse with coal. Coal prices could triple because you just have had such little access to capital markets financing. And so that's why we really like the ARCH resources names and things like that. But on the energy space, this is so important. Because I spent before our book "A Colossal Failure of Common Sense". I ran one of our distressed businesses at Lehman and so I lived through a lot of credit cycles with the commodity names, commodity names, were always big high yield bond issuers. And what has happened over the last year. This is once again the unintended consequences. The Fed has been, you know, so accommodative on the asset purchases for such a long period of time. They're not allowing the business cycle to function, right? So the traditional business cycle, which has a cleansing process, where companies if they don't finance themselves correctly, they'll run into a credit market that's starting to shut down and there's a huge default cycle.

This whole dynamic has been dramatically changed with this incredible amount of combination, and this sets up an. I think a spectacular opportunity on some of the equity sides, equity plays in the commodity space because these companies have been able to extend maturities much further and much more profound than they have in previous decades. And what that does, Erik to the equity. Your equities have become essentially a long term cheap option or a warrant. In

other words the normal cycle of debt financing, and near term debt maturities and the commodity space. You know, the typical default cycle that we saw to that massive default cycle we saw in the energy space and coal space in 2016. PBD, one of the most profound 2016-18. Some of the most profound energy companies went bankrupt. Now all these energy companies have extended maturities, vastly more profound manner that I've never seen before. And so your equities in the commodity space and in any cycle, the first move is into the quality thing.

So think about the commodity cycle, you've seen this in the high yield market, investment grade market. The first move is into quality names and then the mid quality. So if you look over the last year, everybody went to gold first and then toward the spring and summer of last year, people moved into copper, then they moved into oil in the fourth quarter when we start to get the vaccines and now uranium and coal are the place. So you will always will see this cycle of the tertiary parts of the commodity space fill. The demand will start to pick up and where investors move from the higher quality names to the lower quality names. And I just think that the credit market backdrop is so supportive for the commodity equity space now much more than... You're talking about a sector that went through a colossal horrific default cycle in 2016. And then another in the fourth quarter 2018 and then a COVID default cycle. So the commodity space has been through three, you know, massive default cycles. These companies are lean and mean and we have a model portfolio. People can check it out on our thebeartrapsreport.com website. But I think that's one of the most sexy stories for the next couple of years is some of these commodity equities with much cleaner balance sheets.

Erik: Well Larry, I can't thank you enough for a terrific interview. Listeners, we have a treat for you, which is in your research roundup email, you'll find a link to download a sample issue of ***The Bear Traps Report***, which is Larry's newsletter. I think you'll find it extremely informative and very much worth the read. Larry, before I let you go, I want to touch on your book now. Your first book, "A Colossal Failure of Common Sense "was pretty much the book to read on the collapse of Lehman Brothers. New York Times bestseller. Very, very successful book. You've written another book, what's that about?

Larry: Okay, so we're, you know, I think it'll be out by hopefully by the fourth quarter, first quarter next year. But it starts at the Lehman era and it connects the Lehman. If you think about global populism and markets, this Lehman event triggered just a crazy dynamic between the Millennials, the Gen Xers, and the baby boomers. Right. So the Lehman event created, you know, such a horrific financial crisis to get out of that, the Fed and you know, more the US government took on a decent amount of debt. And then as we move toward COVID, so you've had the Lehman COVID connection. Those two events have dramatically increased unfunded liabilities and just the national debt of the United States.

So we go back to Lehman, we start there. And we look forward at the next, you know, 30 years. And, you know, Alexander Tytler, and Alexis de Tocqueville some famous economic philosophers that go back to the 1700s and 1800s. Always talked about a cycle that my dad brought up to me when I was in my teens, late teens. And if you think about the cycles of Republics in democracies over the last 3000 years. There's a start of, there's an origination.

Think about the United States, there's an origination in bondage, and then you move to patriotism, entrepreneurship, abundance, no massive wealth creation phase, and then a dependent dependency phase and then an apathy phase. And then invariably, the cycles end up back in bondage because when the voters realize they can vote themselves and raid the public treasury.

At some point in time, too many people in societies whether it be in Rome over 1000 years ago to The Mayan civilizations, to Argentina, to Venezuela, even Puerto Rico. You've had these cycles where, you know, if you look at Venezuela now you're back in bondage. And if you look at Buenos Aires, and you're talking about one of the most beautiful, pristine, gem cities in the 1800s on the planet Earth. You know, the wealth in Buenos Aires is just incredible. So these cycles have been going on for 1000s of years and the United States has the blessing of the Federal Reserve and MMT that's extending the cycle. So instead of having to sell bonds, the US voters are voting themselves to raid the public treasury and the Federal Reserve is financing that. And so the question is, does that extreme financing, weaken the dollar this year, and next year, and then eventually, we go back toward this cycle. And I'm not saying we're going to be in bondage or anything like that in the United States. But it's clearly you can see that we're in the middle to late earnings of the dependence to apathy stage where an incredibly large percentage of Americans are supported by transfer payments. And, you know, we're talking about, you know, the largest percentage in the last 100 years. And so these events have dramatic consequences and that's what our book is all about. It is looking forward and how do we invest in that type of regime.

Erik
Well Larry we look forward to getting you back on the show in a few months for another update. Patrick Ceresna and I will be back after this message from our sponsor.