Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Kerry Lutz
Financial Survival Network

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me on today's program is first-time guest on the program, Mr. Kerry Lutz. Kerry is the founder of the Financial Survival Network. You can learn more at financialsurvivalnetwork.com. Kerry has a terrific podcast, as well, that I know you'd enjoy at, again, financialsurvivalnetwork.com is the website. Kerry, welcome to the program.

Kerry Lutz:

Hey, well, I'm honored to be on with you, Dennis. We've had a couple of interviews on my podcast, and I found them quite informative and fascinating.

Dennis Tubbergen:

Well, you're very kind to say that. You're a very bright guy. You talk to a lot of very bright people very regularly, so I know the listeners are going to really appreciate your perspective. If we could, let's just jump right in. Talk, if you will, about your opinion as to the health of the U.S. economy.

Kerry Lutz:

Oh, well, I guess you'd liken it to be the guy who is getting on in years, starting to lose cognitive function, can't remember what he had for breakfast in the morning, really can't hold down a job anymore. I'm not being political here. I'm just doing a metaphor for the U.S. economy. It's like the V12 that's running on two cylinders now.

Dennis Tubbergen:

Kerry, let's dig into that a little bit. The most recent PCE report came in hotter than expected, just zeroing in on inflation. Have we seen the worst of it, in your view, or is it going to get a little bit rougher moving ahead.

Kerry Lutz:

Well, look, there's two scenarios here. Number one is the Fed just keeps jacking up rates and jacking up rates, and let the chips fall where they may, and we have a deflationary depression and have massive unemployment. That'll happen a lot sooner than later. Number two is they get to a point where they panic, and then they drastically start cutting rates, and then inflation kicks in. There's really no other choice. I think, given the politics involved, election year is coming up, and all that, they'll opt for easing. No president didn't ever get reelected because interest rates were too low.

Dennis Tubbergen:

Well, I think, Kerry, don't you think we're seeing the beginning of that. I mean, when Powell, after the last Fed meeting, said and pointed out the fact that he's not using the word anticipate, relating to future interest rate increases, that he's kind of set the stage for this pivot, as it's now called, and that they're going to stop increasing rates and probably take that route. Isn't that the only thing they can do, short of watching the economy collapse?

Kerry Lutz:

Yeah, it's just a question of when. I mean, look, housing sales are down all over the place. Even here where I am in Florida they're down, not as much as in other places, obviously. The overall feeling across the country is the country is on the wrong track. Economically, we're sliding. Shipments are going down. All the Fed measurements of economic activity, all down, so we're heading for a recession. Honestly, I would make the argument, Dennis, that we've been in one for a year, but nobody wants to call it that. It's kind of like we've got a Weekend at Bernie's economy. Bernie is dead, but nobody wants to face the fact, and they just drag him along as if he were alive, and they can continue the charade, but at some point, it gets to the point where you just can't continue it anymore.

Dennis Tubbergen:

Well, that's a terrific analogy, and I happen to agree with you. I think we have been in recession for the last year. When you talk about housing being down and real estate, one of the things that I think is being, it's certainly being ignored by mainstream media, but it's not getting a lot of attention, and that is that there is between one and a half and two trillion dollars of commercial real estate mortgages that are going to have to be refinanced here in the next 24 months, and all at much higher interest rates. When you couple that with the fact that vacancies are way up, isn't that going to be just a huge headwind moving ahead, as well?

Kerry Lutz:

Oh, yeah. Oh, for sure. It is kind of like a subprime bubble. How many trillions worth of subprime mortgages did we have? The difference here is that institutions are holding these mortgages, and they'll do workouts. You know, they'll defer interest. It's not going to solve the problem, but it will put the problem off the way, when you have 10 million homeowners underwater, who stop paying their mortgages, that's an administrative nightmare.

Here you've got a couple thousand properties, maybe up to 10,000, maybe you've got a couple thousand entities, a lot of them are large entities, too, big entities like big mall operators, things like that, so for them, it'll be easier to do workouts here. They might not need government intervention to do it, but the owners of the mortgages are going to have to make adjustments as to their value on their financial statements if they're publicly traded. A lot of insurance companies hold these mortgages, and they count on the cash flow to pay down their policy holders.

The other thing is you don't have to go through the foreclosure process in commercial real estate. With residential real estate, one family to four family homes, you have to go through the foreclosure process to wipe out liens and such, but for commercial real estate, it's a much more streamlined process. You just do a deed in lieu of foreclosure. Literally, it's a commercial jingle mill. They just send the keys and the mortgagee takes over the property, or the mortgager, rather, but it's not that it's not going to have reverberations around the country and the world. There are pension funds that own these mortgages, all sorts of different entities that their capital is going to be tested, so yeah, it's a disaster, but it's not like subprime mortgages.

Dennis Tubbergen:

I'm chatting today with Mr. Kerry Lutz. Kerry is the host of the Financial Survival Network Podcast. You can learn more about his work at financialsurvivalnetwork.com. Kerry, I know that you recently interviewed Wolf Richter, and I love to read a lot of what Wolf publishes, as well. I think I read, this past week, that he noted that cash sales of real estate year over year, this is residential real estate, down 22% year over year, so isn't that a sign that now the institutions and the cash buyers, and one would think that those are the savvy real estate investors, they've now decided to sit on their hands. Is that a red flag that maybe the end is near for real estate?

Kerry Lutz:

Oh, well, but real estate, we tend to call it one market, all right? In states where populations are growing, residential real estate might not get hit quite as hard. It's going to take a hit, but in states where people can't get out of there fast enough, like California, New York, New Jersey, Connecticut, Illinois, then yeah, this is kind of the death knell for them.

Dennis Tubbergen:

Do you have a prediction, understanding that certain states are going to be hit harder than others for the migration reasons you just cited, where do you see real estate ultimately going? Do you think we're going to see a repeat of what we saw back in 2007-2008? Or is it going to be more severe than that?

Kerry Lutz:

Things are a little different, because anyone with a pulse, and a lot of people even without pulses, could get a mortgage and buy a home back in '08 and in the early 2000s, liar loans as they called them, employee stated income loans, where they didn't even ask an employee for his W-2. You just said how much you were making. They were literally liar loans, nolo loans, no income, no asset verification loans. They don't have that anymore. The people who have taken out mortgages in the past 14 years had to go through much stricter underwriting. That's not to say that FHA loans where somebody put up 3.5% of the purchase price, they don't have enough skin in the game that if they go underwater or they lose their jobs, then you're not going to pay your mortgage, but the potential severity is not as bad as then. Plus, you've got all these people with 2.5, 3.5, even 4% mortgages. That's like an asset in itself, Dennis, when you have mortgage rates at 7%, and you have a 3% mortgage. That's actually an asset, when you think about it, right?

Dennis Tubbergen:

For sure. For sure. Hey, Kerry, we are nearing the end of this segment, but we do have just enough time for you to share with the listeners a bit about your work at the Financial Survival Network, maybe a little bit of background as to what you do there. Again, the website is financialsurvivalnetwork.com.

Kerry Lutz:

Sure. Well, hey, I'm a recovering attorney, practiced for 30 years, so I try to bring in an analytical, logical analysis of the current economic events that are taking place, plus an Austrian School of Economics devotee, have been for the past 45 years, so we try to look at things from a free market perspective and try to illustrate the damage that central planning and government intervention cause in the economic markets and try to help you to put together a plan, so if everything really hits the fan, you are somewhat prepared for it. Look, if you're in Florida, you prepare for a hurricane. If you're in California, you prepare for an earthquake, a mudslide, or a forest fire, right? Well, if you live in this modern world, you need to be ready for an economic conflagration or a meltdown, and that's what we try to help you do.

Dennis Tubbergen:

Well, again, the website is financialsurvivalnetwork.com. My guest today is Mr. Kerry Lutz. I'll be back with Kerry after these words. Stay with us.

Welcome back to RLA Radio. I'm Dennis Tubbergen, your host. I'm chatting today with the founder of the Financial Survival Network, Mr. Kerry Lutz. You can learn more at financialsurvivalnetwork.com.

Kerry, you know, in the last segment we were talking a bit about the fact that, in your view, and I share that view, there's a couple ways that this could play out, economically speaking, largely dependent on the Fed's policy. Can you envision a scenario... I mean, with the BRICS countries, Brazil, Russia, India, China, South Africa, holding a summit here the next few weeks in St. Petersburg, and there's a lot of talk about a move away from the dollar. Can you envision a scenario where, as opposed to a deflationary depression, we might see a hyperinflationary depression as an outcome here?

Kerry Lutz:

Well, look, it could happen, for sure. It might not even be the unlikely scenario. It might be the likely scenario. Look, if there's a complete loss of faith in the dollar, what does any fiat currency rely upon, even supposedly asset-backed currencies? Confidence. I always say, what's the root word of confidence? Con. So, you have to con the majority of the world's inhabitants into believing that this thing has value, even though it really has none.

Well, you have to realize switching away from the dollar, they talk about it a lot, but the reality is something completely different. If you're a hedge fund, or you're a mutual fund in Switzerland or Germany, and you've got to park $10 billion overnight or for the weekend, are you going to do it in a European bank or a Chinese bank or any other bank, or are you going to go in an American bank. These BRICS can say all they like, but nobody's going to park their money in a Chinese bank, because there's no trust there.

Now, we're on the way to destroying the trust in our financial system here, for sure, but at the present time, there's no place for the big money to go parking itself for periods of time other than in the United States. You have to look at the dollar, not as a currency unit, but as a trading system. There's really no alternative for it. The Chinese are talking about it, and maybe, at some point, they will supplant the U.S. dollar. It's likely that they will, but not the way things are currently, and their economy is even in worse shape than ours, in many respects, but because they're a little less free flowing with the information, then you don't really get a real idea of what's happening, right?

Dennis Tubbergen:

For sure. Kerry, given what you just said, do you have an opinion on where we might see tangible assets, like gold and silver, moved, those assets being obviously the most portable way to own something tangible in your portfolio? What's your forecast there?

Kerry Lutz:

All right, well, I try not to forecast, because I'm always wrong with forecasts, but I can tell you that I bought my first gold in 1999 when I think it was $280 an ounce and I never really stopped buying up until, well, the end of '08 and '09, but my holdings, physical, are way under where the market's at now. If things really get bad, which wouldn't surprise me, because we didn't even talk about the bank runs and the banking crisis that we're going through now, but look, it could easily go much higher, and you could see inflation spike up to levels we've never imagined in the United States, to near Argentinian levels, or there's been numerous hyperinflations over the past 40 years. Israel had one at one point, Brazil, but Argentina seems to have it regularly. Metals prices in that situation certainly are going to go up, for sure.

Right now, gold is, I think, around 1,950-something. I haven't looked at it since we got on the phone. Looking at Kitco.com, which is where I recommend anybody go to look at it. There's no association with me or them. It's $1950. At this particular minute, silver is trading $22.97. Gold, a couple weeks ago, hit its all-time high, $2,080. Silver hasn't hit its all-time high since back in, I think it was 45 years ago, so it's trading at 50%.

Silver is the buy, but there is a guy, I remember, he said, "Right now, silver is the worst investment in the world," and he said that a while ago, and it's like 15 years ago. "But," he said, "One day you're going to wake up and silver will be the best investment in the world." I still believe that. I don't want to hazard to when that's actually going to occur, but I am absolutely convinced that that's going to be the case.

Dennis Tubbergen:

Well, I certainly share that view. If you're just joining me today, I'm chatting with Mr. Kerry Lutz. He is the founder of the Financial Survival Network. He has a podcast I would highly encourage you to check out. Financialsurvivalnetwork.com again is the website. Kerry, you mentioned the banking issues we've seen, Signature Bank, Silicon Valley Bank, First Republic. We've had a number of banking failures. Is this just getting started, in your view? Or is this whole situation under control?

Kerry Lutz:

Well, unfortunately, they didn't do the right thing for Silicon Valley. Janet Yellen, Secretary of the Treasury, former head of the Federal Reserve, said, "We're not going to make good on everybody, on all the depositors." This was the concept of Dodd-Frank, which was that when these large institutions go, all the stakeholders got to... It's an excrement sandwich, and everybody's got to take a bite. They were sticking to that scenario, and then, as a result, they put this disaster off, and it spread to other banks.

They needed to go in there immediately, over the weekend, close the bank down, and hand it over to JPMorgan Chase or whomever. Jamie Dimon said, "We don't want any more banks. We don't want consolidations," but I go back to the last financial banking crisis in '08 and '09, when Merrill Lynch was really on the... hit the skids, and they called up Ken Lewis, who was the head of Bank of America, and said, "Ken, congratulations. You are now the owner of Merrill Lynch." He says, "Wait. Wait. We don't want it. We don't want it. It's a bad buy." They said, "Ken, you're not hearing us. Bank of America is now the proud owner of Merrill Lynch." He says, "Oh, well, now that you put it that way. Thank you very much."

That is exactly what they will do, because the Fed calls the shots. The Treasury calls the shots. They tell these banks to jump, and if the banks don't jump high enough, they put a torch under their butts, and then they see how high they can jump, right? It's a whole mishandling. It could've been far less severe, but once they start making the depositors think that their deposits are in doubt, then all the big ones over the FDIC limit are going to switch into T-bills, which are supposedly the safest investment in the world, right? Until they aren't, one day, but we can put that off.

What they did was they triggered the very bank run that they're supposed to stop, and there'll probably be several dozen more banks before this goes. But now, if you noticed, the last two happened on the weekend. They said, "This bank..." What was it, First Republic? "You are now a division of Chase Manhattan Bank." That's the way it's supposed to unfold, but they tried the Lehman thing, trying to tell the market, and the market said, "Yeah, you want bank runs in the United States?" It's not just here. It's a banking crisis all over. All of China's banks are insolvent. All of Japan's banks, arguably, might be in better shape. Europe's banks, insolvent. They're all insolvent, because of the nature of fractional reserve banking, where you can loan out virtually all the money that comes to the bank, except for a couple percent. It's fraught with risk for when you have these bad economic times and borrowers' default en masse.

In China... You think it's bad here, Dennis? In China, there are supposedly four million people who are on a mortgage strike because they're paying mortgages on buildings, on units, that weren't yet complete, and then the developer went bust, so they stopped building them, and the borrowers are still on the hook. They said, "To hell with it. It's never going to be built. The developer breached his agreement. We're breaching ours."

Once the banking contagion spreads, it's like a fire in California. They wouldn't let them get rid of all the deadwood there, all the scrub wood, all the zombie banks, and then when the forest fire strikes, it's far worse, and can envelope hundreds of thousands, millions of acres, because they didn't prune the trees and get rid of the deadwood, the waste, earlier, so it all catches fire, and the good go down with the bad. That's the risk.

Is it possible? Yes. At this point, the Fed has basically gone into QE to keep these banks afloat. If the Fed can ride the wave, because these panics are generally short-lived, all right? They have a limited duration, because then, you're expecting the worst.

It's like you wake up every morning expecting a heart attack, right? Some people do that, not me, not you, I assume. Every day, the heart attack doesn't come, so finally, one day you wake up and you say, "Well, I'm awake. There's no heart attack," and then you just stop thinking about it. That's what bank runs are like, bank panics. It'll go on for a while, and then gradually, the rates that the banks pay will have to go up, and it'll be behind us, unless they screw up again. This was a total screw-up by the Fed and the Treasury in allowing Silicon Valley Bank to metastasize out of control and then spread to the other banks.

Dennis Tubbergen:

Well, the clock says we're going to have to leave it there. My guest today has been Mr. Kerry Lutz. He is the founder of the Financial Survival Network. He's got a podcast I would encourage you to check out. You can learn more about his work and check the podcast out at financialsurvivalnetwork.com. That's financialsurvivalnetwork.com. Kerry, really appreciate you coming on the program today. I'd love to have you back, down the road, and really appreciated your insights. Thank you for joining us.

Kerry Lutz:

Hey, and thank you, and we'll look forward to having you back on our show, too, Dennis. It's been a pleasure.

Dennis Tubbergen:

I will look forward to that, as well. We will return after these words.