Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

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Pento Portfolio Strategies

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me on today's program once again as returning guest, Mr. Michael Pento. Michael is the president of Pento Portfolio Strategies. He is also the host of a terrific podcast titled the Mid-Week Reality Check. You can learn more about both at pentoport.com.

Dennis Tubbergen:

Michael, welcome back to the program.

Michael Pento:

Thanks for having me back on, Dennis.

Dennis Tubbergen:

Michael, I think the big story here, a couple of big stories, but let's start with inflation. The official number now, eight and a half percent, just released this past week, which is, as we know, a manipulated number. It's probably much high than that. The Fed is now taking action to control inflation, but to use an analogy that I like, it seems like they're using a garden hose to try to put out a forest fire. What's your take?

Michael Pento:

Okay, so what you said is accurate. Inflation is much higher than the way they calculated it. Let's go through the numbers. CPI, as you mentioned, 8.5%, producer prices up 11.2% year-over-year, import prices up 12.5% year-over-year, but if you look at reality, rents, your cost of buying a new house, the cost of beef, the cost of energy, year-over-year, they're closer to 20%. That's the reality. The reality is that the rate of inflation today is higher than it has ever been. I'm sure if you calculated it the way they did pre-Boskin Commission and all the hedonics and substitutions, you can't eat meat, you could always graze on your lawn, it's 20%. That's the inflation rate.

Michael Pento:

You say that the Fed is taking it seriously. I hope they are. They say they are, and they threaten to take it seriously, and I think they will, but, as of right now, they haven't done diddly-squat in economic terms. What have they done so far? We are in the middle of the first month of the second quarter of 2022, and inflation has been raging like an inferno for about a year, and what have they done? They've raised basis... the Fed's funds rate by 25 basis points. That's it. They still have a $9 trillion balance sheet, and they've only raised rates by one quarter of 1%.

Michael Pento:

They say they're going to raise rates 50 basis points in May. I hope they do. They say they're going to do another 50 basis points in June. I hope they do, and what about this balance sheet, Dennis? When are they going to start to aggressively wind down the most important thing when it comes to inflation, which is the size of the monetary base, the amount of base money they have in the system, the liquidity that banks have to lend? When are they going to do that? They said they're going to announce it officially in May and quickly ramp it up to $95 billion a month of quantitative tightening, which is the destruction of money. That is the most effective way you could ever have to fight inflation.

Michael Pento:

I like to see them get on the ball as fast as possible because inflation is destroying the purchasing power of the middle class. It's causing food riots all over the globe, and I wouldn't be surprised if that comes here to America if we don't make sure that people can eat and afford to live and buy a home. They have priced out the first-time home buyer from the real estate market, and you know who bought those houses instead of the people who need to live in them and to get equity and a share in the American Dream? Blackstone, Wall Street did it. Thanks to the Federal Reserve, Dennis. Thanks to the Fed.

Dennis Tubbergen:

Michael, there's a recent development relating to currency that I want to get your take on in response to the sanctions imposed upon them. Russia now has loosely tied the Ruble to gold and demanded that any unfriendly countries that want to buy any products from Russia use Rubles. What's your take on how that impacts inflation probably in Europe first, but here in the States as time goes on?

Michael Pento:

Well, short term, I mean, listen, I've been long the US dollar not because I love the US dollar as a hedge against inflation in the United States. When you say long the dollar, I've been long the dollar in the portfolio since March of '21 because I knew that it would appreciate greatly against things like the Euro, and Madam Lagarde over there, who's so petrified to actually even wind down her asset purchase program, let alone, raise interest rates or against the horrific Mr. Kuroda in Japan who... Forget about raising interest rates in Japan. In Japan, they're afraid to even wind down their version of QE, Dennis. They're ramping it up to make sure that the 10-year note in Japan stays at 0%, and that's why the Yen has started to crash. The dollar is a buy still as we head into what I call sector one of my five-sector investment spectrum, inflation/deflation, and economic cycle spectrum.

Michael Pento:

By the way, if you don't know what sector one is, that means deflation and depression, because that's where I think we're headed if central bankers continue to undertake this inflation fight, and I don't think they have any choice. The reason why I don't think they have any choice, and I'm talking about Mr. Powell and the merry band of money printers at the FOMC, they cannot ignore 11%, eight and a half percent, 12%, 20% inflation because the voting constituency of Democrats, who are currently inhabiting the White House and in Congress, need to make sure inflation goes down before the midterm elections happen in November, because they're going to get wiped out like they've never been wiped out before.

Michael Pento:

There's a tremendous amount of pressure to front load these rate hikes and quantitative tightening, and I believe I'm going on the basis of the thesis of that they're going to have to aggressively fight inflation.

Michael Pento:

Now, you asked me about the US dollar. The US dollar is going to lose its hegemony in the world. It's definitely going to because, countries like India and Pakistan and Saudi Arabia and China, Russia, of course, they have to remove themselves from the effects of sanctions. If you want to immune yourself from the effect of US hegemony and US dollar hegemony and the US... threat of US sanctions, you are going to have to back your currency in something other than dollars.

Michael Pento:

In other words, your reserves can't be in dollars. You can't own US treasuries and accept dollars for your exports if you want to protect yourself from dollar hegemony and from US sanctions. How do you do that? The best way to do that is what Putin did and what Xi Jinping is doing. Buy yourself as much gold as possible. Back your currency in gold, and then accept gold for your trade. That's what's happening.

Dennis Tubbergen:

Michael, I mean, what we're really seeing when you study history, fiat currencies have a 100% failure rate, and eventually we get back to using some gold-based system whether loosely tied to gold or gold actually used as currency. Is this move by Russia the first step in that direction in your view?

Michael Pento:

I would love to say yes, but listen, this is the truth. Governments don't like to lose their control over their currencies. If they were to cede their currency to a gold backing, back it in specie as it once was in the foundation of this great nation, which once was America, where we would actually tie the increase in the money supply to the mine supply increase in gold, well, that would take a lot of power away or a lot of optionality away from the US government.

Michael Pento:

In times of a pandemic or whatever crisis de jure that they come up with... By the way, the latest crisis now is, every time the stock market has a downtick, the Fed comes to the rescue, and that's what they've been doing pretty much systematically since 1987, but you don't have that optionality anymore when you want to live in reality, but what government wants to live in reality? What do governments do, Dennis?

Michael Pento:

They promise bread and services. Ask the citizens of Rome. How does the government supply bread and services when the government does nothing, produces nothing, little to nothing? Well, they print it, or they take metals, precious metals out of the coins, out of the denarii. This is how they bankrupt a nation. That's what they've been doing since the foundation of time. I don't think it's going to be done voluntarily. In other words, nations don't voluntarily go on gold standards unless there's a crisis, and there will be, and there is an incipient global crisis in the developed world happening at this very moment, and it is going to get a lot, lot worse.

Dennis Tubbergen:

Michael, in the time we have left, there's a big move towards Central Bank digital currencies, which are really just digital Fiat currencies. Is this really just more evidence that the central bankers are becoming a bit desperate?

Michael Pento:

Well, listen, when the Central Bank resorts to like a Fed coin, I've called it a Fed coin, then we're in real serious trouble. We're already in serious trouble, but then we're really, really in serious trouble, because all autonomy is we're removed from the US citizens as far as being able to hoard money or to buy things without the government seeing what they're doing.

Michael Pento:

The government is going to have complete control of your currency. They will actually be able to circumnavigate the Treasury. The Fed, the Central Bank of the United States will be able to, through your digital wallet that they're going to give you, they're going to be able to give you money and take money away from you at their desire without the will of Congress involved. If the Fed wanted to stimulate the economy, they could just add coins to your wallet. If they wanted to stimulate inflation, they could say, "Guess what, these coins will evaporate at the rate of 10% per annum, so, if you don't spend them, they're gone." What do you think would happen to the velocity of money?

Michael Pento:

Oh, by the way, if you don't have the exact political doctrine and the correctness that the government thinks that you should have, they're not just going to ban you from Twitter, they'll take money away from you. This probably would be the most dangerous thing that could happen to freedom is for a CBDC to be enacted by the Federal Reserve or by any developed world, but I think that's where we're headed because, if you want to, if you ever want to have complete control of the monetary system, complete control of the fiscal authorities without any back checks or balances, CBDC is the way to go.

Dennis Tubbergen:

Well, we are chatting today with Mr. Michael Pento. He is the founder of Pento Portfolio Strategies. He is also the host of the terrific podcast, the Mid-Week Reality Check. You can learn more about both at pentoport.com. I will continue my conversation with Mr. Michael Pento when RLA Radio returns. Stay with us.

Dennis Tubbergen:

You are listening to RLA Radio. I am Dennis Tubbergen, and I'm chatting today with Mr. Michael Pento. If you're just joining us, Michael is the founder of Pento Portfolio Strategies and the host of the Mid-Week Reality Check podcast. You can visit pentoport.com to learn more about both.

Dennis Tubbergen:

Michael, I'd just like to pick up where we left off in the last segment. The Fed is, as you mentioned, whenever there's a downtick market, there's been interventions to protect the market from falling, this Plunge Protection Team as it's been called. In 2018, when the Feds started to tighten, they immediately reversed course when the markets reacted negatively. Are we going to see the same thing again?

Michael Pento:

No. No and let me be very clear about my position here. No. The optionality to do that is gone because of inflation. That's the one thing that's different now than every other condition since 19... the early 1980s. Inflation, Dennis. We talked about it in this previous segment how high inflation is the way they report it, the Bureau of Labor Statistics. In actuality, it's 20%. It's destroying Americans' purchasing power. It's destroying their standard of living.

Michael Pento:

They have a choice. The Federal Reserve has a choice. It's a very, very distinct choice. There’re two paths they can take. Please listen to this very carefully because this is what's going to happen. The Fed could namby-pamby when it comes to rate hikes because, after all, we are in the second quarter and the stock market is down significantly. In fact, 30%, a third of the S&P 500 is down 20% or more.

Michael Pento:

People are not making money in the stock market. Their incomes in real terms are falling. They're getting crushed by inflation, and all the pandemic relief programs have been exhausted and that savings source is down to zero. In fact, if you look at savings, the aggregate amount of savings is lower today than it was prior to the pandemic in January 2020. The Americans are hurting, and that's why they're tapping their credit cards at a record pace.

Michael Pento:

The Fed can do two things. They could maybe tinker around fighting inflation, maybe don't do much with the balance sheet at all and maybe raise rates 25 basis points every few meetings just to protect the stock market, but guess what's going to happen in that point? Long-term duration bond yields will continue to skyrocket. Why do I say that? Because, if inflation is at 20% and the Fed's balance sheet is at $9 trillion and they do nothing as far as fighting inflation, guess what happens? Interest rates won't be 2.8% on the 10-year note. They'll be more like 12% on the 10-year note.

Michael Pento:

Now, what do you think a 12% 10-year note would do to the stock market and to the real estate market? Take a guess. You're talking about a wipe-out like we've never seen before. If they do what I just said, the former, the first optionality, they're going to have a huge problem in the stock market, a collapse in asset prices and have an inflation problem still, a worse inflation problem.

Michael Pento:

Alternatively, they could do the right thing, which is fight inflation aggressively, get it down closer to their ridiculous 2% target, which is part of the problem in the first place. That means 50 basis point rate hikes, maybe two or three times, front load it, in other words, in the first few quarters of 2022, second quarter and third quarter, not the fourth quarter, the second quarter and the third quarter, and an aggressive wind down of QE, which means draining the balance sheet, burning base money supply to the tune of $95 billion a month by the third quarter. That's the pace that it'll be on, much, much, much stronger than what happened in 2018 and 2019 which caused the market to collapse anyway.

Michael Pento:

Remember the paint-drying exercise? Well, that was only $50 billion a month that ramped up very slowly. Now, it's going to ramp up quickly to 95 billion. That will lead to a deflationary depression which, of course, will be followed up with massive QE and, probably, universal basic income. It goes like this. Inflation now running hot, then a crash. Fed is going to break something. The soft-landing scenario is not possible, not a chance, not when the stock market is 185% of GDP. It's just silly. They're going to break something, cause a deflationary crash in the economy, cause a deflationary crash in asset prices, and then we'll wait and see what they do.

Michael Pento:

Now, I think the Fed is going to come out with some massive QE program again which would dwarf any other program we've ever seen before, and I also think it has to be married with something from the Treasury Department, some kind of universal basic income, and then you're going to get stagflation like we've never seen before, because that's just reverting back to the same tactics that caused the problem in the first place, so we'll see.

Michael Pento:

By the way, Dennis, this is why the 60/40 portfolio doesn't work anymore. I mean, this is why you have to have an actively managed strategy. You have to invest for inflation and deflation at various times. I mean, the S&P 500 is down 7% this year. Long-term bonds are down 16%. The QQQs and the NASDAQ are down 14%, so you want to buy and hold your balance portfolio. You're going to get wiped out. No matter what they do, you have to be aggressive, and you have to be flexible in your investments, and that's with the IDEC Strategy that I created, the Inflation/Deflation and Economic Cycle Model, is all about.

Dennis Tubbergen:

Michael, let me go back and just make sure that all the listeners understand both of those outcomes because option one is the Fed continues to create currency and we get a hyper-inflationary outcome followed by a deflationary depression. The other option is that the Fed does the right thing and preserves the currency, to use those terms, those are my words, not yours, and we get a deflationary depression. Is that a fair assumption of where you think we're headed?

Michael Pento:

It is, and none of those things happen by... I mean, they're forced to happen. The Fed doesn't do anything right up front. Remember when inflation was transitory and they couldn't reach 2% for years and years and years, and then they finally got to inflation, and then they said, "Well, don't worry about it. It's transitory," then it went from 4% to almost double digits, matter of in fact, 20% if you measure it in reality? Well, now they're "Well, we have no choice. We're now forced to fight inflation."

Michael Pento:

They can't bring it down gradually from double digits down to 4% in the next few months. That's just not reality. That's not the nature of inflation. It's not the nature of asset bubbles. They don't have a very good control over what they do and the outcomes they produce. They're forced to fight inflation. They're going to wreck the credit markets. They're going to completely freeze the issuance of junk bonds. Once again, stock markets will crash, the economy will crash, and then there'll be another reaction in arrears after that crash.

Michael Pento:

Now, for me, this is Retirement Radio we're talking. I mean, do you or your client, our listeners, want to suffer a 30, 50 or 80% decline in nominal terms of their portfolios and hope that the Fed can turn things around? They didn't do it in China in 2007. That didn't turn around right away. It's still below where it was, the Shanghai composite index. Japan is still waiting to get back to even for what happened in 1989.

Michael Pento:

I can't and you can't or should not want to suffer the buy-and-hold BS that you hear from CNBS for a 30 to 80% decline in your retirement plans and then, hold your breath and cross your fingers, and hope to get even in the next decade or so. It's not what you want to do.

Dennis Tubbergen:

Michael, with this outlook for stocks, the stocks are going to have to decline, and if interest rates are going to have to go up, that's bad news for bonds. This traditional 60/40 portfolio that you mentioned, I mean, the stock and bond portion could both lose money at the same time, which goes counter to everything retirees and aspiring retirees have heard from traditional practitioners, if you will.

Michael Pento:

Well, it's happened already. I just mentioned, your 60/40 portfolio, you're down double digits so far for the year on your 60/40 portfolio. Now, they have to make a difference between sovereign debt and junk bonds and corporate debt, so I think there's going to be a rally in sovereign debt because people flock to that for safety, but watch out, beware, if part of your 60/40 strategy is corporate bonds and NASDAQ stocks, high beta stocks, oh, my... I mean, you've already been wiped out and your pain has just begun, because people sell riskier debt and they flock to the US Treasury as safety, which I believe is going to happen again, so just be careful of what debt you own and when you own it.

Michael Pento:

By the way, then when the Fed comes and tries to fix everything sometime in 2023 after they break again, the last thing you're going to want to own is sovereign debt of the United States. That's the last thing you're going to want to own, bonds of any... fixed income of any... across the spectrum is going to be a sell. That's what I meant by being an active... in an active managed strategy.

Dennis Tubbergen:

Michael, in the couple minutes we have left, what's your outlook for precious metals?

Michael Pento:

Well, right now, we are maxed long gold in the portfolio, and the reason for that is because we think growth is going to slow dramatically. Inflation is going to come down slowly, so we're looking at disinflation on the second derivative basis, and we've reached the peak in... I think this print of inflation is the peak that we just had released in April for March. I think inflation slowly, and let me reiterate that, slowly starts to go down. What that means is that the rate of change of inflation is going to go from eight and a half percent to, say, seven. That's all that means. That doesn't mean that prices are going to fall. That means they're going to be going up slow, more slowly, but growth is set to plunge. Okay? That means that gold loves when growth is plunging because, when growth plunges, interest rates fall, and, when growth plunges, real interest rates start to fall, and that's what I think this whole gold bull market has been all about. It's still in its infancy.

Michael Pento:

Now, let's just play this out really quickly. When the liquidity crisis occurs, everything gets sold except for dollars. There's a huge rush to acquire liquidity which is dollars. The US dollar will continue to rise, which I think is part of the reason what is happening with this very bullish dollar that we have right now. You want to own a lot of cash in your portfolio. You want to have shorts in your portfolio, and you want to have sovereign debt in your portfolio. That gold will suffer in a truncated very, very short period of time.

Michael Pento:

When the shadow banking system and everybody's lunging for liquidity, everything gets sold, but then, after that, when the Fed acknowledges to everybody that, "Hey, this is not a pandemic problem. This is not a COVID-19 problem. The problem is that we could never defend the value of the dollar. We can never defend the value and the purchasing power of our sovereign bonds and our assets that we have in the United States." That's the message that they're going to send. I'm not saying it's different than what's going to happen in Europe or Japan. I'm just saying that inflation, don't forget the Roman Empire had massive inflation and there was no currency crisis in Rome vis-a-vis their trading partners, it was an internal problem, a debasement, the removal of precious metals from their coins, debasement. Okay?

Michael Pento:

That's going to happen here in the United States, too. When that happens, that's going to set off, I think, a multi-year explosion in the price of gold, especially physical gold. I'm not talking just about miners. I'm talking about especially physical gold. That's the scenario I see playing out, so, again, being nimble and flexible in your portfolio is crucial.

Dennis Tubbergen:

Well, we're going to have to leave it there. My guest today has been Mr. Michael Pento. The website is pentoport.com. You can learn more about Pento Portfolio Strategies and check out Michael's podcast, the Mid-Week Reality Check.

Dennis Tubbergen:

Michael, always a pleasure to catch up with you. I really appreciate your perspective. I know the listeners do, too. Love to have you back down the road.

Michael Pento:

I look forward to it. Take care.

Dennis Tubbergen:

We will return after these words.