Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Simon Popple
Brookville Capital

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me once again on today's program is Mr. Simon Popple. Simon is the publisher of the Brookville Capital Intelligence Report. He also has a book that will be released here within about a month. It's titled Investing in a Recession: Why I Like Gold. You can go to brookvillecapital.com to pre-order, and I would encourage you to do that. Simon, welcome back to the program.

Simon Popple:

Great to be here. Thank you very much for having me.

Dennis Tubbergen:

So, Simon, your book is titled Investing in a Recession: Why I Like Gold. Tell me, is the world now in a recession, in your view? What's the economic health, generally speaking, of the world economy?

Simon Popple:

Yeah, I don't think it's that good. I think that with all the debt out there, the world is not in terribly good health, and unfortunately recessions, you tend to find out about a recession by looking through the rear-view mirror. And obviously, I'm talking very much from the UK perspective, but times are pretty tough. We've got nasty inflation, we've got increasing interest rates, and people don't feel as wealthy as perhaps they used to.

Dennis Tubbergen:

So, Simon, let's talk a bit about inflation and interest rates. Central banks around the world are increasing interest rates to try to control inflation. In your view, have they gone far enough to do the job, or not?

Simon Popple:

Well, at the moment, you've still got interest rates significantly below levels of inflation. I mean, in the UK I think the inflation's running around 11% and interest rates are a lot lower than that. And I'm not saying that interest rates have to be the same as inflation, but I think you need to have a much narrower gap than that. If I was to lend you £1,000 or $1,000 today and I could buy 50 bottles of wine with that, of my favorite wine, and then you pay me back the £1,000 plus interest, and I could only buy 45 bottles of my favorite wine, that's not good business for me. And I think that what will happen next time you want to borrow money is I'll significantly increase the interest rate, to make sure I can at least buy the same number of bottles of wine.

So, that's a very simplistic way of looking at it, but I think interest rates will have to be closer to the level of inflation. And I think also what the Fed and governments around the world are looking for is that this policy is actually working. And I know it's worked in the past, but a lot of inflation is caused by high energy prices and things like that, and I'm not sure the interest rates are going to be the perfect solution for that.

Dennis Tubbergen:

And Simon, if interest rates continue to increase, which seems to be the narrative anyway at this point, doesn't that just exacerbate the recessionary conditions that exist?

Simon Popple:

Well, exactly. I think that's one of the problems they've got, because interest rates have got so low and obviously the property market throughout the world has had a phenomenal run, but if the interest rate goes from 2 to 4%, then if your mortgage cost goes from 2 to 4%, that's a significant increase in the cost of your mortgage. And if it goes from 2 to 6, or 2 to 7, or whatever it is, we're talking about huge additions to your monthly repayments. And every cent, penny, whatever goes on that, doesn't go on something else. So yes, I think it will exacerbate the recession, but I don't think the policymakers have got a choice really, they've got to bring inflation down.

Dennis Tubbergen:

Simon, I read an article, and this is here in the United States, that United States citizens in the third quarter of this year increased their debt by $351 billion. Credit card debt increased in the United States to almost a trillion dollars. It seems that this inflation is causing people to maybe add to debt, that's how they're coping with inflation. And isn't that another contributing factor to this recession that you really are writing about in your book?

Simon Popple:

Yeah, no, absolutely. I mean, I'm actually personally very worried about increasing debt, and not just globally, but personally, I don't like having to borrow any money. And here in the UK, I know overdraft rates are more like 30, 35, 40%, they're very expensive, it's very expensive money. And we're talking about mainstream banks here. I'm not sure what the rates are in the US, but you can survive on additional debt for a while, but not forever.

And if the debt burden goes up, you can appear to be doing okay and you're probably still making purchases and things like that. So, to the outside world, it looks like you're doing fine, but at some point, you hit your credit limit and then you're in trouble. And I think there's a lot of people who are perhaps borrowing and they're continuing to borrow, but there will come a point when they can't borrow anymore, and then you've got some huge problems, because not only have they got no more money to pay for essentials, but they've also got to service the debt that they've accumulated.

Dennis Tubbergen:

Well, if you're just joining me, I'm chatting today with Mr. Simon Popple. He is the publisher of the Brookville Capital Intelligence Report. His website is brookvillecapital.com. His book to be released in a little over a month is Investing in a Recession: Why I Like Gold. You can go to brookvillecapital.com to pre-order it if you would like. So, Simon, you're obviously looking at us potentially having a recession worldwide. How deep do you think this recession actually gets?

Simon Popple:

I think it could get pretty deep, to be honest, because it's difficult to see how we're going to get out of it in the immediate future. I mean, interest rates are still incredibly low, and I think that until they get to 5, 6, 7%, which is a long way from where they are at the moment, you can't say we're in a normal situation.

I think that the Fed is in a very, very difficult position because the rate is still pretty low and I personally think they'll decrease the size of the increases over the short to medium-term, but I don't think they can stop the increases. So, I think the direction of travel will remain the same. I think perhaps the speed may vary a bit, but I think there's some much higher interest rates on the horizon. And for people who've taken on a lot of debt, that could be very challenging.

Dennis Tubbergen:

Simon, when you take a look at us moving toward recession and you take a look at what's happened this year with many asset classes, stocks are obviously down, bonds are down. The traditional approach to investing has been some type of stock and bond approach, often with a greater percentage of assets in bonds, the older you get. That hasn't worked very well this year. And there's been a number of investors that have looked for alternative investments and cryptocurrency has been one of those. And we had this recent news that the FTX Exchange is now completely bankrupt and there were some allegations of some misappropriations of some customer funds, and we'll have to see how all that sorts out. But what's your take on this whole FTX situation?

Simon Popple:

Well, it's very worrying, isn't it? Because I can see why investors moved away from, we call it the 60/40, where you have 60% in equities, 40% in bonds. And that has worked very well in the past, but the trouble is, is you end up playing catch-up and because bonds and equities have had such a bad time, a lot of people have found themselves looking at cryptos. And if you've lost your money on FTX, that's a huge hole in your savings and you've got to make that up somehow.

And this is one of the reasons I like gold, to be honest, because you hear people talk about, "The golden years." "As good as gold." Gold medals in the sport. I think everyone should have at least a look at gold. I'm not saying they should have all their portfolio in gold, but I think they should have at least a proportion of their portfolio in gold, because you can't print it, and it's a physical asset and it's got global recognition as having value. So, I think it's certainly something that people should think about.

Dennis Tubbergen:

Well, and we'll get into the next segment, we'll talk about different ways to buy gold, a little bit more about your book. My question here as we go into the break, as you look at all the currency creation that's taken place around the world and all the inflation that it's created, are we seeing a change here? Are we on the cusp of a big transition away from today's fiat currencies, in your view?

Simon Popple:

I think that with all the debt being piled up, I think there's going to have to be some sort of, I don't know, reckoning, for want of a better term, but no one knows which way it's going to go. No one knows what's going to happen. But I think that you do need to be well diversified because the chances are that some of your investments could go down significantly and perhaps some other investments go up significantly. Unfortunately, we've got no idea what these are, but that's why I think you should have a broad range of investments, because then you've got more chance of picking one of the winners. And I think if you do pick a winner, I think it could be particularly good.

Dennis Tubbergen:

Well, I'm chatting to Mr. Simon Popple, his about to be released book is titled Investing in a Recession: Why I Like Gold. You can learn more about the book and about Simon's work at brookvillecapital.com. I'd encourage you to check it out. I'll talk more with Simon Popple after these words. Stay with us.

You are listening to RLA Radio. I'm your host Dennis Tubbergen. I have the pleasure of chatting once again today with returning guest to the program, Mr. Simon Popple. Simon is the publisher of the Brookville Capital Intelligence Report. You can learn more about his work and his publication at brookvillecapital.com. Simon also has a book that'll be released at the first of the year, Investing in a Recession: Why I Like Gold, you can go to brookvillecapital.com and learn more about the book and pre-order there as well.

Simon, you mentioned in the last segment that it's your view that you really like gold, moving ahead, that's in the title of your upcoming book. When someone's thinking about adding gold to their portfolio, which I agree that many people should, what type of percentages would you suggest? Do you have any rules of thumb for people that are retiring or contemplating retirement, as to what percentage of their portfolio you would recommend, they think about putting in gold?

Simon Popple:

It's very, very difficult, because everyone's got different size portfolios and so, if you say 5% for someone, that can mean nothing. Or you could say 5% for someone else and that can mean a huge amount of money. But I think they should have at least some, because it's tangible, it's got global recognition.

If you look at the website, you can see how it's done in some corrections and see where it sits on various different charts and different parameters that people have done with their analysis. So, I think the answer is, you start with some, and you get to know the sector, you get to know more about it, and then you may want to have a little bit more. But I know a lot of people have got none, and I find that quite worrying.

Dennis Tubbergen:

Simon, when you're talking about adding gold to your portfolio, there's really no shortage of choices. There's physical gold, there's exchange traded funds, there's shares and miners, and some of these miners are producers, some are explorers. So, there's a lot really to sort through when you're thinking about adding gold to your portfolio. Can you just give listeners maybe some thoughts as to the different ways to get exposure to gold and maybe what some of your favorites might be?

Simon Popple:

Yeah, no, sure. Well, I mean I think the first thing is to acknowledge the risk, because different sort of gold products have different risk, and you have to work out what risk you're comfortable with and obviously you need to speak to your financial advisor and get appropriate advice. But typically, if you buy some physical gold, you're taking risk on the gold price. If you buy a producer, you're taking a risk on the level of production and the gold price. If you're taking a risk on an explorer, then you're taking a risk on not only the gold price and the amount of gold that they may be able to produce, but actually, you're taking a risk that they actually find it in the first place.

So, I think you need to be very cognizant of the level of risk you're taking. ETFs, obviously, they're great in a market that functions well, but if we have any sort of Armageddon type moment, there's a lot of links in the chain and you need all the chain to work for your ETF to work. So again, you need to be careful about how exposed you are to that market.

Likewise, if you've got physical gold or ETFs, there's costs, well, costs with all forms of investment. So, you need to make sure that your exposure and your costs are right. So, there's no point having a tiny amount of gold in storage where your storage costs could be more than the gold itself. And likewise, with an ETF, you don't want to have an absolutely tiny amount of money, where the cost of actually the ETF outweighs the cost of your investment. So, there's a lot to think about, but I mean, broadly speaking, I think you should have a diversified portfolio but lean more towards the level of risk that you're comfortable with.

Dennis Tubbergen:

So, Simon, let's talk about exchange traded funds, if we can, in a little bit of detail. Many of these exchange traded funds are actually issued by big investment banks, and certainly when you look at that particular sector, that particular area of finance, one of the things that I was shocked to learn is the level of derivative exposure that now some of these banks have. So, with an exchange traded fund versus physical gold, isn't there a lot of counterparty risk, in your view? Or is that not a fair assessment?

Simon Popple:

No, I think that's a very fair assessment. I mean, I don't have a penny in ETFs, because I'm actually worried about the counterparty risk. And a lot of the value of these funds, I mean, I know some are backed by gold, but if you look at the small print, you actually have to have quite a lot of money and I think probably a million dollars plus, in gold, to actually take physical delivery. So, you do need to be very careful, and as you say, a lot of them, what you're getting is you're getting derivative exposure to the gold price. So, in a functioning market, that's brilliant, you end up with a product that's giving you exposure to the gold price.

But if there was ever a major problem in the market, let's say, Lehman's were part of the chain, then I think there could be some real concerns for anyone who's got an ETF. So, you do need to be careful and fully understand it and perhaps speak to your financial advisor and they can allay any fears that you have. But you do need to make sure that you are investing in something that you understand and it's going to deliver not only just the returns, but the level of comfort that you're looking for.

Dennis Tubbergen:

Simon, when you look at buying physical gold, which doesn't have that counterparty risk, is there any type of physical gold that you like or any form of physical gold you prefer over another form?

Simon Popple:

Well, what I would say is, you want to be able to take delivery of it. Not that I would suggest you do, but if you are buying it, I think that if you're buying it in the US, I would suggest that you buy from a reputable dealer near where you live, because it's highly unlikely you'd want to take delivery of it, but if you ever do, there's no point having to use plane, trains, and automobiles to get to your gold.

I think the second thing is, is that you want to understand the tax position of your gold and make sure that the way you purchase it is suitable for whatever vehicle you're using. Are you having to pay capital gains tax? In the UK, if you buy a gold coin, a gold sovereign, then there are some tax advantages, because it's viewed as money. I'm not sure what the rules are in the US, but you need to look into these things and these are the things you needed advice on, because if you're actually buying a gold coin that is capital gains tax free, then you can hold it for a long time and whatever you sell it for, you tend to pay a slight premium when you buy it and a slight discount when you sell it, which is how the brokers make their money. But if you're not paying capital gains tax and the price has gone up, then it can be particularly beneficial for you.

Dennis Tubbergen:

Well, if you're just joining me, I'm chatting today with Mr. Simon Popple. His upcoming book is titled Investing in a Recession: Why I Like Gold. His website is brookvillecapital.com. So, Simon, let's talk a little bit about investing in gold producers versus gold explorers. Can you give us just a very basic 101 level explanation as to the difference between the two types of gold mining companies?

Simon Popple:

No, sure. Well, I mean this is something I go into a lot more detail in the book about, but I mean, basically a gold producer has already found gold and they are mining it. They've probably paid a couple of 100 million, sometimes more than that, to build the mine and the processing plant. Funny enough, one of the things I like about the sector is the supply chain is very short. You've got a mine and a processing plant and you're probably delivering 90, 95% of the value simply through those two links in the chain. Whereas if you've got, let's say an iPhone and there's 100 different components, then I think it could be very challenging to get everything in one place.

But just talking about producers versus explorers, producers have found the gold and the risk you're taking is that they mine it and process it. With an explorer, its much higher risk, because they might have found some gold, but it's very important that they find an economic amount of gold. And the costs of actually exploring for gold can be very expensive. So, if you've got someone who spends a lot of money and they don't find anything, if the market doesn't believe in the management, they could go bust. And so, explorers tend to be much higher risk than producers.

Dennis Tubbergen:

Simon, your book, Investing in a Recession: Why I Like Gold, the title would suggest that you are advocating gold. Do you feel the same way about silver?

Simon Popple:

Silver's a lot more volatile. I do like silver, but I think that it's such a volatile ... If you look at the prices of gold and silver, if you can get the silver price right, man, you can have one hell of a ride. But I personally would rather start off investing in gold, have a sensible gold portfolio, and then move on to have some silver rather than the other way around. That's not to say gold miners can't move around, but these are stocks that could move 20, 25% in a trading session, and so they're not for the faint-hearted.

Dennis Tubbergen:

Well, my guest today has been Mr. Simon Popple. His upcoming book is Investing in a Recession: Why I Like Gold. His website, where you can pre-order the book, is brookvillecapital.com. You can also learn more about his Brookville Capital Intelligence Report there as well. Again, the website, brookvillecapital.com.

Simon, it is always a pleasure to catch up with you. I can't believe how quickly two segments goes when we start talking, but I always get terrific feedback when you're on the program and I would love to have you back down the road. Thank you for joining us.

Simon Popple:

Yeah, it's been great. Thank you very much.

Dennis Tubbergen:

We will return after these words.