Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Simon Popple
Brookville Capital Intelligence Report

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Dennis Tubbergen:

You are listening to RLA Radio. I'm your host, Dennis Tubbergen. Joining me once again on today's program is returning guest, Mr. Simon Popple. Longtime listeners will recognize Simon as the publisher of the Brookville Capital Intelligence Report. You can learn more about his work at his website, it is brookvillecapital.com, that's brookvillecapital.com. And Simon, welcome back to the program.

Simon Popple:

Great to be here.

Dennis Tubbergen:

So Simon, let's talk a bit about inflation. The Fed, the Central Bank of the United States, held an emergency meeting as we're recording this, about a week ago, and as a result of that emergency meeting, decided to take no action. What do you read into that?

Simon Popple:

Well, we certainly live in interesting times and I think the Fed is in a very difficult position, because with inflation, you do one of two things. You either increase interest rates to make money more expensive, therefore people are more careful what they spend their money on. But if you do that, because we've got so much debt in the system, that dramatically increases your cost of servicing that debt, so that makes life very, very difficult. The other thing you can do is to reduce spending and people are already struggling. And so if you start taking the punch bowl away and there's less debt in the system, less money in the system, that's going to hurt people, as well. So, I think they're in a very difficult position.

Dennis Tubbergen:

So Simon, if you calculate the inflation rate the way it was calculated back in the late '70s, according to many of the bright people I interview, we had a real inflation rate of probably 15% plus. At that time, Paul Volcker, who was Chair of the Fed, had to increase interest rates to almost 20%, so there were positive net, real interest rates to get inflation under control. It just seems like that is impossible to do for some of the reasons you've outlined, there's a lot of debt and certainly, the US Government's operating deficit is somewhat being indirectly monetized by the Fed.

Simon Popple:

Yeah. Look, as I said earlier, that I think they're in a very, very difficult position and I can't see a way out of it that is not painful for people, either they keep interest rates low, which means inflation will get higher, potentially a lot higher, or they increase interest rates. But you've got to remember, let's say, why would I lend money to you? Let's say, I lend money to you today that can buy 10 pints of beer, but then you pay me back and the money I get paid back from you, could only buy me 8 pints of a beer. It makes no sense to have an interest rate that is lower than the inflation rate, otherwise, whoever is lending the money is getting back less than what they lent in the first place. So, that just can't go on. And I think that is probably one of the reasons Volcker made that very bold move, but when that move was made, there was far less debt in the system than there is at the moment.

Dennis Tubbergen:

So Simon, do you see then, that the Fed will probably take some action? It might be more, I like to say, more form than substance and that inflation will continue to accelerate until such time, as we get a crackup boom, as Ludwig von Mises would've said?

Simon Popple:

Yeah. I think that, as I say, they're in a difficult position and I think what will probably happen is, they're going to have to increase interest rates, you can't have money as cheap as it is. But by the same token, they don't want to have huge social issues by increasing interest rates too quickly. So I think what you'll probably do, is you will probably see interest rates increase over the forthcoming year, couple of years. But they are going to have to keep a lid on spending because they cannot burn both ends of the candle. If you know what I mean? You do have to keep spending reasonably under control, otherwise, everything runs away from you, you end up with runaway inflation and runaway spending, which is the worst of all worlds.

Dennis Tubbergen:

Well, Simon, the analogy you just provided, why would I loan you money today, when the money I'm going to be paid back is going to buy a lot less, that doesn't make sense. You need to have interest rates that are higher than inflation. Would you say that's part of the reason that we're seeing mortgage rates sneak back up and other interest rates sneak back up?

Simon Popple:

Yeah. I think that's part of the reason, but then you've got some very nasty decisions to make, because at some point, given what you just said, you'd have to have mortgage rates much, much higher than they are at the moment, because you need to keep inflation under control. But if someone's taken out a mortgage of, let's say, a half a million dollars at say, 2%, if interest rates go to 3%, that really hurts them. And I think that the government have got some very unpalatable decisions to make.

Dennis Tubbergen:

So what is your forecast Simon? And if you're just joining us, we're chatting today with Simon Popple. He is the publisher of the Brookville Capital Intelligence Report. I'd encourage you to check out his website at brookvillecapital.com. So Simon, what are you telling your subscribers about where inflation goes from here? What are you forecasting?

Simon Popple:

Well, it's difficult to see it coming down. There's nothing in the system, that would suggest it comes down and especially with energy prices going up, I'm genuinely scared as to where it could go. I think, you need to see some end in sight. I mean, Volcker obviously increased interest rates that put the breaks on inflation, but I can't see anything at the moment on the horizon, that is going to bring inflation down significantly. And it's also socially very, very difficult, politically very difficult, to do this because basically, unless you give people a pay rise that is level with inflation, they're essentially getting a pay cut. So if let's say in your example, inflation was 15%, if you gave someone a 10% pay rise, which would be quite a good pay rise for most people, a very good pay rise, they're actually in essence taking a 5% pay cut. So, I think there's some very tough decisions to be made by the Fed and yeah, it'd be very interesting to see what happens.

Dennis Tubbergen:

Yeah. And I think Simon, you mentioned some of the social ramifications of raising interest rates, but by not increasing interest rates, by some of the research and the data that I'm seeing, we're starting to see that lower income earners are really getting pinched. I don't know about there in the UK where you call home, but here in the United States, I recently read that 70% of Americans are now living paycheck to paycheck and credit card use in the fourth quarter of 2021 was up significantly. So, it appears that a lot of Americans are resorting to taking on debt to make ends meet and that obviously, is not sustainable.

Simon Popple:

Yeah. No, absolutely, absolutely. And if you add inflation to that horrible cocktail, it just gets even worse. And going back to your earlier question, how high could inflation go? I think it's difficult to put a number on it, but I mean, if it's running at 15 now, I can't see it going any lower and it could easily go significantly higher. So, yeah, I think there's some very, very difficult decisions to be made on a number of different fronts. And no, you're absolutely right, I mean, I think there's a lot of people living paycheck to paycheck, credit cards are very easy to get, very easy to get a reasonable facility on a credit card and it's great until you have to start paying people off. And if you're paying back money that you couldn't afford in the first place, it puts you in a horrible position.

Dennis Tubbergen:

So Simon, we're going into the second segment, we're going to get to strategies that you're talking to your subscribers about. But give me your take on how this economic situation that we've just spent some time talking about, is affecting stock markets. It seems that the highs in the market may have been in, in November and then retested in December and we're maybe on a downhill slope here, in a down trend. What's your opinion?

Simon Popple:

Yeah. Well, I mean, obviously there's some very tough decisions to be made, but I think that whether they reduce the money supply or increase interest rates, or probably a bit of both, I can't see how that's good for stocks. Both of those take money out of people's pockets and I can't see how that's good for stock prices. So I am inclined to believe the stock market has seen its best days. And I think this year and next year could be quite a challenging year for it.

Dennis Tubbergen:

Are you forecasting any particular level of decline in stocks, when you're talking to your subscribers?

Simon Popple:

Not really. I mean, I think you have to be quite careful about putting numbers on things. But supply chains are clearly under pressure at the moment and the old saying, you only need one missing part to stop a production line, and I think that could really start to hurt some industries. We've already heard of the semi-conductor issue hurting many companies and hopefully that can be resolved. But I think supply chains are going to come under a lot of pressure and that's going to make life more difficult for people producing things.

Dennis Tubbergen:

Well, Simon, we've got about a minute and a half left in this segment, which is just about enough time for you to explain to the listeners the kind of work that you do, if you'd be so kind?

Simon Popple:

Yes, sure. I mean, basically what I do is, I write a weekly report that covers a variety of different commodities. And really what I'm trying to do is, help people build a portfolio. Nothing is bomb proof, but I mean, at least people should have some commodities in their portfolio to help protect them against inflation. The thing I love about commodities is, you can't print. And I think that it's going to be very important for people to have things in their portfolio that if prices are going up, at least they're on the right side of, prices are going up in stuff that they've invested in. So, nothing is bomb proof, but I think what I'm trying to do with my subscribers, is at least get them in the tent, looking out, rather than out the tent, looking in, so to speak.

Dennis Tubbergen:

Well, Simon's website is brookvillecapital.com, I'd encourage you to check it out. And in the next segment, I'll be continuing my conversation with Simon and we will talk a bit about what he's recommending to his subscribers. That's after these words, stay with us.

Dennis Tubbergen:

You are listening to RLA Radio, I'm Dennis Tubbergen, your host. I have the pleasure of chatting once again today, with the publisher of the Brookville Capital Intelligence Report, Mr. Simon Popple. If you're just joining us, you can learn more about Simon's work at brookvillecapital.com.

Dennis Tubbergen:

And Simon, you said something at the end of the last segment that resonated with me, and I'm sure it resonated with many listeners, as well. And that is that, you can't print commodities. So it seems that with inflation now being the dominant economic story, that people should probably be thinking tangible to a greater extent than maybe they have been. And when you look at what's going on in stocks now, energy stocks certainly are still holding up pretty well. But in a lot of the sector research that I do, there's many of the market sectors now that are negative but those based in commodities and tangible things, seem to be holding up. Is that what you're seeing?

Simon Popple:

Yeah, absolutely. And I mean, I think it's quite interesting to look at various indexes and I would suggest your listeners to look at the Goldman Sachs commodities index and look at it over 10 years and 25 years. Because I think that it's the story because if the future is anything like the past, commodities could do very well and it could be a sector that you want to be looking at.

Dennis Tubbergen:

So Simon, when you talk about commodities, for our listeners maybe that have been traditional retirement plan investors, IRAs and 401ks here in the states, many of them have just had a blend of stock related investments and bond related investments in their retirement accounts and they don't know much about commodities. So just start at a very 101 level if you could, and define and give some examples maybe of some types of investments that would fit in that commodity category?

Simon Popple:

Well, I mean, personally, I like the mining companies because actually, they own the rights to the various commodities. But I mean, commodities really fall into well, various buckets, but let's just keep it simple. You've got hard commodities such as gold, silver, platinum, palladium, copper, nickel, cobalt, et cetera, and then you've got soft commodities such as wheat, sugar, corn, rice. So basically, some commodities are used to make stuff and some commodities are used in foods. And so, I'm a great believer, you should build portfolios across both those sectors because if prices do go up, either to make stuff or in terms of the food supply, then I think it's good that people have got exposure to that.

Dennis Tubbergen:

So do you have a favorite, moving ahead, what are you telling your subscribers as far as mining shares, which would be a hard commodity related business and maybe an agricultural commodity, like say, a fertilizer company. What are you telling your subscribers about how to invest in those categories?

Simon Popple:

Well, I mean, what I like about them is, it depends on how much we risk people want to take but some of the larger companies have got exposure to a variety of different commodities. So not only are you investing in a company that's got several different lines of revenue, so to speak, but quite often, they're listed in different currencies to where we are. So for example, I'm very much in pound sterling, I'm sure a lot of you are listeners are US dollar. So having exposure to perhaps the Canadian loonie or the Australian dollar, can be quite attractive to them, as well. Because that means, not only do they have a basket of different investments across the US, but they've got different investments in other countries, as well, in different commodities, and it's a far more diversified approach to life.

Dennis Tubbergen:

So if someone is just getting started investing in commodities, we have long recommended that people consider physical gold and silver as an inflation hedge. What would you advise? I mean, do you think the physical gold and silver is the way to go? Do you think shares based on a company that has exposure to commodities, are the way to go, or would you do some of each?

Simon Popple:

Well, I think a lot depends on how much money you've got, but I mean, I think literally all of the above. Basically, I think physical gold and silver is a good starting point and then after that, you press to look at some of the big mining companies, depending on your appetite for risk. But if you like risk, rather than invest in a company that produces lots of different commodities, you go into a company that produces, let's say, only one or two commodities. And then, if you want to get even riskier, you can then start looking at companies that are really exploring and the returns from those can be amazing, but obviously, the risk can be incredibly high, as well. So it really depends on what people are doing. I mean, I think initially, if they're just trying to protect from inflation, then I think your physical gold, physical silver, and the large commodity companies is not a bad starting point. But once you get into it and you find out more about the sector, you may find yourself drawn into other areas.

Dennis Tubbergen:

So Simon, we talked in the last segment about the fact, that it's both our views, that there is a reasonable probability that the market maybe saw its highs at the end of 2021, for at least a short period of time. If the broad market continues to decline, historically speaking, do these commodity based shares buck that trend?

Simon Popple:

I would probably say, the answer's no, because basically, if the market goes down, it tends to take everything with it. So, if there's a correction across the board, then your gold and silver and other stocks, are likely to suffer, as well. Partly because they're very liquid and people, they want to sell them because there's a buyer, so they want the money, perhaps to cover a margin call or use the cash elsewhere. But what the last crash showed, was that these companies, they can bounce back very quickly and over time, do very, very well indeed. So, I think you have to be very careful.

Simon Popple:

I mean, there are people who want to time the market, they keep their money in cash on the sideline, waiting for it to crash and obviously so far, it hasn't crashed, but inflation's been eating away at that money. So, I'm a believer that it's more time in the market, rather than timing the market, that's important. And yes, you do want to have some cash, but I think you want to be a bit careful about how much you have, because otherwise, you could spend an awful long time on the sidelines watching the market run away from you.

Dennis Tubbergen:

So Simon, if I'm hearing what you're telling your subscribers correctly, and please comment, you're really advising against a broad stock based approach. Don't buy an index, but focus more on commodity based companies that maybe are mining shares or maybe produce agricultural products. Is that a fair assumption of how you see things?

Simon Popple:

Yeah. I mean, I think people want to have a broad exposure to commodities. And I think that with my subscribers, I like them to be in a lot of different types of commodities, in different countries. And obviously, we saw what happened at the recent Climate Change Conference, oil and coal were led to believe, were on their way out. Now, if they're on their way out, something has to replace oil and coal. We clearly got no idea what that's going to be or whether or not they'll be replaced in the first place. But all I would say is, by having a large basket of commodities, you increase the chances of being able to pick a winner.

Dennis Tubbergen:

So Simon, in the time we have left, I think a lot of the listeners are probably familiar with the mining shares and are familiar with the gold and silver investing. They're probably less familiar with investing in soft commodities. Can you give some examples, maybe of some of your favorites in that category?

Simon Popple:

Yeah. I mean, I don't like to get into the companies themselves, I mean, there are some very large companies that basically, are heavily involved in the food chain. They're called the A, B, C, D, which cover most of the world's food chain. A is ADM, B is Bunge, C is Cargill and D is Louis Drapers. So those are four companies that are massively involved in soft commodities. There are clearly a lot of others, but that's what I'll be getting into with my subscribers. But at the moment, I'm actually focusing on hard commodities because there's an awful lot of hard commodity companies out there, as well. But if people want to look at soft commodities, that's not a bad starting point, to look at those four.

Dennis Tubbergen:

Terrific. Well, my guest today has been Mr. Simon Popple. His website is brookvillecapital.com, I'd encourage you to check it out. Simon, always a pleasure to catch up with you. Thanks so much for joining us today and I'd love to have you back down the road.

Simon Popple:

Fantastic. Great talking to you.

Dennis Tubbergen:

We will return after these words.