Take your time, I'm in no hurry. Matter of fact, I should give you a few extra minutes because if you want to buy anything, you should do it before I start talking. You might not feel like it after I get done. Okay, it looks like we're all seated just about.

I'm Dan Ferris, I'm the editor of Extreme Value. Is anybody here not an alliance member? Yes, so you all know who I am. Repeat after me, take those stupid, idiotic things off your face and repeat after me. This is a bubble. This is a bubble, say it. Yes. Okay. And here's what it feels like to be in a bubble, let's do that first slide there. Is it up? There we go.

This is not a chart of anything it's a model of how you feel at various points in the stock market cycle. So I got that little oval down on the right that says maybe we're climbing a wall of worry, maybe we were at discouragement we panicked and went to discouragement in March of 2020. And maybe we're climbing a little wall of worry now. Maybe. Or maybe we're in the upper left at enthusiasm. You know what I think. Because at this moment, certainly stocks have never been more expensive, ever.

This is the S&P 500 price to sales ratio. S&P 500 started in 1957 the data goes back to 1926, it's never been this expensive. And this is important because throughout that history 90 percent of the time when this ratio was high like it is right now, highest ever, subsequent returns for 10 or 12 years were low. When this ratio was low, subsequent returns were high. It's higher than ever so maybe lower than ever for 10 or 12 years. And of course, at this moment, people are pouring more money into stocks than ever before.

As I saw something on Twitter just before I came in here that said this number's not $852 billion it's a trillion and it's not 41 weeks it's 51. And, of course, what better time to take a company public, IPOs are record breaking, on fire, historic, extremely active, very busy at any time since 2000. Gosh, something happened in 2000 I forget what it was. Oh yeah, the second biggest market bubble ever. The IPO index kind of shows you this rocket ship to IPO mars.

And this time around we get to do SPACs. SPACs are great. A SPAC says hey, I don't have a business, I don’t care, I want to public, let's go public Let's raise a bunch of money and I promise to buy a business. I promise and you know that I'll buy one because if I do that I get paid more. If I don't, I gotta give the money back. What do you think I'm going to do I'm gonna buy whatever piece of shit I can find.

So when going public is popular what else is popular? Well, any \_\_\_\_\_\_ you can find. This is the Russell 3000 growth index has more what in it than ever? More unprofitable companies. When was the last time this happened? Oh, I don’t know, top of the last two bubbles, just top of my head.

And, of course, if you're any kind of a Wall Street operator, you're a hedge fund guy you're sitting there thinking I need to raise some money and charge some fees. Think of something really stupid, let's do that. But it's got to have a good story. It's got to be AI or crypto or any of this list of investment fads that people are raising money and the charge is just ballistic, all right? Bonds are the same way. Bond are scraping 5,000-year lows. That's not a joke. If you read the Yield book, Sydney Homer, 5,000-year lows of interest rates are 5,000-year lows. Bond prices are then 5,000-year highs. Including the junkiest stuff most expensive since when? Well, the last big bubble that's when. And, of course, the ratings agencies say well, if a company has this much equity, you know, they get a certain rating. But now the market says they have this much equity so they get a higher rating even if it's garbage. So the financial conditions index is at an all-time low meaning everything sucks. Okay.

And mergers and acquisitions, of course, are the other the other thing you want to do because if you had this much equity most of the time then you have this much all of a sudden because it's a big fat bubble and S&P says your credit rating is higher, hey, what does that do, it lowers the amount you pay to borrow. So what do you do? You're like you're sitting there with all this equity and S&P says you're better than you know you are. You're a better credit risk than you know you are so you go buy, you borrow some money and you buy something. So mergers and acquisitions soar during a bubble.

And, of course, all of this stuff I'm saying is cause for concern but investors ain't scared of shit. They want stocks, they're more greedy for stocks, they have more stocks as a share of their financial household wealth than any time in the last 70 years. You might be able to see the top of this but its just margin debt. They're borrowing more money than ever to buy stocks they want them that bad. It's almost four percent of GDP is margin debt. And yeah, if you net out the cash you might say well, Dan, these equity accounts have cash in them what happens if you net that out? Well, then you get something that's upside down that's negative cash, more negative than it's ever been. It's still the same chart, it's just upside down that's negative cash, more negative than it's ever been. It's still the same chart it's just upside down.

This is the SKEW index, it's like the Vic's for market crashes and, of course, it's at scraping lows this year. Although, generally, it's at an elevated level compared to many years ago I have to admit. And why? Why is this? Well, you know, the excuses people go give is there's no alternative. There is no alternative to US equities, I got to buy them. They're great businesses, you know, the returns are better than bonds. I'm retired you might say, I need income. The market says screw you; I don’t know care what you need, you're going to buy stocks because that's the only alternative. And, of course, your neighbors are doing it and they're getting rich so you have FOMO, fear of missing out as well. And the result, you buy every dip.

But bubbles are popping. From here on out I'm trying to give you the feel of what the top of a bubble is like. You know me, I don't do predictions. I don't do tops, I don't do bottoms, I don't do predictions. But I want you to know what it feels like. So one of the feelings is lots of little bubbles start popping. Why don't I just go through the list rather than read it.

ARK Innovation, this company started by Kathy Woods, really a great business, she's done a great thing. She started in 2014 to create ETFs that infest in disruptive technology. Well, they all peaked in February and crashed. They're doing better now than this chart, a little bit better and who knows, they'll probably go on to make new highs. But they were looking kind of crashy.

The Cannabis bubble has been smoked. I'm here all week, folks.

The meme stocks, you can't \_\_\_\_\_ those things any more. The meme stocks, Game Stop, AMC theaters, garbage businesses headed for nowhere but you know, just down, down, down with exorbitant valuations just because a bunch of crazy people on the internet decided to push the share price up. SPACs, we talked about those that bubble has gotten smacked a little bit. And the clean energy bubble is clean out of gas. Maybe, maybe not.

The other thing that's interesting to me is this, this just says that treasury futures are correlating positively with stocks and might be, we might see the first annual loss in treasury this year since 2013. This is important, I mentioned this before once or twice in the digest and elsewhere, in this era of the hyper accommodative, all-powerful central bank, it has been normal to have this 60-40 portfolio, 60 percent stocks, 40 percent bonds. When the stock market goes down your bonds take care of you because they correlated opposite, right, your bonds went up when your stocks went down. Generally speaking, most of the time.

But you have to understand, this time period, this is the anomaly. If you go back any amount of time before it, they correlated positively. So, you know, maybe don't get to used to it, right? This is what a bear market looks like now, here's just some charts. And part of the point of what I'm saying is you don't know when you're in it until way, way past the top, right? In the dotcom bust the Nasdaq was cut in half of the S&P 500. It was a tech event though, right, it was just cut in half and at the time in real time you said well, the S&P 500 is only down nine percent, I'm good. I'm good. Yeah, and then you were down by almost half not too long after as you can see on the chart. Right? You don't know it when you're in it. You don't know it's falling apart when you're in it.

And so, during that time if you split the S&P 500 into its component indexes they topped out over a period of like, what is it, 1998, November 1998 to 2001. Right? Like two and half years you didn't know, you just you can't tell. And I think something similar, I'm trying to make a case maybe something similar is going on now but I don't think we're there, I think we're going to see lots more new \_\_\_\_\_, it's going to get crazier.

So you know, I give this bearish message and inevitably some smart guy or gal says, hey Dan, what's the catalyst? What's going to end this epic bull run? And I say, whatever, dude. Whatever, I don’t know. You know better than me but maybe it will be inflation. And for me the interesting thing about inflation right now is not the reality, it's the narrative, right?

First, they told us it was transitory. Right? Then it became shortly after that and transitory was late April, right, then in late September it became frustrating. The chairman of the Fed was testifying in front of congress, well, you know, not that you mention it, guys, it's kind of frustrating, it's not transitory. Then president of the Atlanta Fed, Raphael Bostic says transitory is a dirty word and during the presentation when he said that he put a dollar into a swear jar every time he said transitory.

So these are the four stages, actually, of the Fed inflation narrative. Now I can see they don't have my proper slide for stage four, which is the fricken' punch line. What did you guys do? Did I do that? Oh, what an idiot. All right, I'll try to make it work.

So the first stage is transitory. We're through with that, man. Then comes frustrating. Oh, we did that. Then transitory is a dirty word and the fourth stage is oh shit, gas is $8.00 a gallon. And I had a good slide of a gas pump that said $7.99 a gallon at that place in California. Anybody see this on the news? Yeah. So that's not inflation though, right? That's a guy out in the middle of nowhere between the ocean and the mountains nothing is around and he's charging $8.00. I want to marry this guy. I love this guy. I hope I'm related to him somehow. He charged 12 bucks a gallon a few years ago. He should get an award or something.

So, of course, the Minneapolis Fed puts out a thing that says the probability of inflation exceeding three percent over the next five years is really high, higher than it's ever been at least since 2009. The reserve bank of St. Louis puts out a thing that says the rolling forward inflation expectations, oh, geeze, they're kind of higher than they've been in a while too.

Oh, here's stage four. I don’t think I did that. I don’t think I stuck it in the wrong place but maybe I did. Anyway, get used to that picture, you're going to see that.

And stuff is expensive. Cars and trucks over on the right that's where we are over on the right, the CPI cars, and trucks. Housing: most expensive ever. That gentle sloping hill in the middle is the biggest housing bubble in history and we're over there on the right.

Crude oil we all know about this, right? Way up. Paying more for food annualized and adjusted for inflation. More for food than at any time almost except for a little blip in the '70s in the last 60 years.

And the Dollar Tree can't sell stuff for a dollar anymore. Think about this for a second. The whole premise here was that it doesn't matter, we're just going to sell whatever we can sell for a dollar, right? It will change over time, heck, sometimes it changes ever week if you go to these places, right? It's part of the beauty of the model. You want to keep coming back to see what you can get for a dollar, man. It's cool. Well, now it's going to be $1.50. They said that, Dollar Tree came out and said that. You know, they just said it's going to be more like the $1.50 tree that’s all there is to it. Right? And think about that, you just you can't find anything to sell for a dollar.

And, of course, it may be transitory or not but real companies that sell stuff are talking about it again and again and again in their conference calls more than anytime at least in the last five years. And if I wasn't lazy as hell, I would have gotten more data and gone back farther but I'm sure it's longer than that.

Inflation is bad because it makes stocks cheaper don't let anyone tell you anything else. The yellow line is 15 times earnings on the S&P 500, this is back to 1954. Most of the time they just traded above 15 times earnings because it's the United States, man, it's cool, everything's cool, we're great. We love it. And then, Nixon cuts the last cord between gold and the dollar, inflation happens and you know, the oil embargo happens.

And all of a sudden if you were running a fantastic publicly traded company that gets 40 percent returns on all the money that you keep in it and keep reinvesting in it, all of a sudden is inflation is five percent, you know, that's 35 percent now. And if it's 10 percent that's 30 percent. And you know what, the market says well, you're not go get the same price you did when you were at 40 percent when you're at 30. So the stock market takes a haircut, it has to. Inflation makes stocks cheaper.

And yes, I'm the guy who said owning great businesses is the best inflation hedge you can have but inflation just sucks. It sucks all around and it's bad for all businesses even the gold mining business. Sure, you know if inflation gets cooking, the narrative gets hot, gold goes up, those stocks will rip. I own them, I'm waiting, I'm salivating. I can't wait. But it's just bad for business.

So I think we're at this huge inflection point and I think we're looking at the trade of the decade times two. Commodities are one of them, value stocks is the other, and they overlap rather substantially. Commodities are cheaper relative to stocks than any time going back to at least 1990. Here they are since 1970 we had this interesting – the red oval is the, approximately, the '70s inflation.

And you see there's a trough in the middle of it and then the spike coming out of the – you know, inflation really started in like the late '60s. It was a guns and butter phenomenon, right? Guns and butter was the Vietnam War, we wanted to pay for the Vietnam War and we wanted to pay for domestic social programs. So you know, hey, give me the checkbook, I don't care what's in the bank just keep writing checks.

So we got this guns and butter inflation but we didn't really, you know we really had the oh boy, moment in 1971 when Richard Nixon cut the last tie between gold and the US dollar. And then, you know, from there on, that can only happen once and when it does everything changes. But overall, you see the commodity index kind of is sideways for this extended period of time into the early 2000s.

And then, now we're in this whole other new regime, right? The hyper accommodated central bank regime. And yes, I'm aware at this moment that commodities that if you go by the Goldman Sachs index or S&P GSCI index, I just call it the Goldman Sachs, yes, I'm aware its up 44 percent, right? This may not be the perfect split second to enter that trade. But I'm looking five, 10 years, I think this is a big, big inflection point. And who was it, Mark \_\_\_\_\_ was out here talking about software and software is going to eat the world. Anyway, *[funny noise]* I loved it. I mean I totally agree. You know, at least as far as equity returns are concerned.

So right now, if you do what to be a contrarian in this space there's plenty of opportunity. You guys actually applauded when somebody said silver today. I was like wow; these people are weird. You know, most people go silver, ehhh, you know, but you applauded so you know, maybe I'm preaching to the choir. You guys, each of you could probably get up here and give this presentation. But those stocks are nice and cheap, gold, and silver stocks.

Then I said value stocks. So value versus growth is relatively very, very cheap. Cheapest ever. And I think you're going to see a rotation, I think it's just going to be the typical thing that has happened, right? So value and growth, just define them as value stocks are let's just say the cheapest stocks in the market. If you split the market up into five or 10 slices, the value end are the ones that are cheapest by price to book, price to earnings, price to cash flow, all that kind of stuff, right? And they're usually profitable companies, which is like what?

So you take those stocks and then you compare that performance to the other end of the market, the expensive end and that's what all this value growth stuff means. It means that – and we go through these periods, we go through these periods where value out performs and then it peaks, and then the growth stocks outperform and then they peak and then the value. It's this tick-tock of history and you can see it just, you know, you can go back 20 years or so and you can see the growth indexes soared above the value indexes right up to the dotcom bust. Right? Everybody wanted growth.

Then everybody got tired of all that stuff and they wanted something that felt safe, right, and so, it became home builders and mining companies and even banks and manufacturing companies, right? The value end of the spectrum.

Well, then Wall Street did this wonderful thing it does, it has a talent for turning everything it touches into toxic waste so then we got to the top of the housing bubble. Well, okay, we know what happened next, right, nobody wanted to own banks and nobody wanted to own home builders at all, they were getting creamed. And then we got a little extra blip in mining and then that peaked like 2011, '12-ish, right? So all the value categories topped out.

And then from if you had really started in 2009 all you had to do was buy all the growthiest, you know the fastest growing stocks in the market. And here we are. We're still here. We've been doing this for, you know, just say since 2009, for 11 years. And it never goes on this long, I don’t think its ever gone on this long before, but it always turns. And the fact that cycles happen is just something that you can just turn and look back in history and it happens. But again, if you say, you know, but what's going to make it change? I don’t know. And neither do you if you're really honest. Stop asking what's going to make it change and just look around and see where the great opportunity is, that's what I have to say.

Another thing, this is a point that I haven't made enough. These statistics are from a pretty famous article that Warren Buffet wrote in Fortune Magazine December 2001. And what you're looking at here and I'm sorry, I added this like a few hours ago, I just thought wow, yeah, oh boy, that's the most important thing in the world, maybe I should have the most important thing in the world in there. So when people ask me for a catalyst and they're saying but the economies on fire, everything's great, we're coming out of the pandemic. Basically, I'm looking at the stock market and I'm talking about the stock market cycles and how when things are hyper expensive the returns from that point on are terrible. That's what I'm talking about. And when I talk to people about that they start talking about the economy. And I'm like does stock market mean economy in your language? You know, I don’t know what conversation we're having all of a sudden.

And these statistics show that, they show my befuddlement. Because from '64, 1964 to 1981 you see the Dow Jones was flat. Looking for 874 to 875, ewww. Flat, no return. Then you look at the bottom and you see during that time the economy grew 373 percent. Then you look at the Dow Jones industrial average from '81 to '98 and it's more than a 10 bagger. And during that time the economy grew half that amount.

So look, you know, it's growing either way but wouldn't it have made a lot more sense if the rapid growth was accompanied by the 10-bagger and the not so rapid growth was accompanied by the flat return? And Buffet says in this article, actually, he frames it differently but the way I frame it is that inflation happened in there. Inflation happened in there and that changed all the returns that you got for substantial period of that time from '64 through to about '82-ish, which is a long time.

So when people start talking to you about the economy when you're telling them that you think stocks are overvalued and you want to buy more value names, you want to buy energy companies and commodity names and silver miners and gold miners you're not predicting the end of the world and that silver is going to go to $5,000.00 an ounce. That's not the point of any of this. Raise your hand if you ever heard me say one single time sell all your stocks. I frickin' sell stock picks for a living I'm never going to say that. I mean if nothing else think of me as a mercenary person who would never say that.

I mean the truth is, of course, that I haven't been, I haven't exactly gone out of my way to sell a million newsletters all the time. But this is the point, we are talking about investments, I'm talking mostly about investments in equities I am not talking about my predictions for the economy. And I mean I feel like I could sit here and repeat these 10 different ways its that important, you know. Every time you talk about something being over valued or unattractive or maybe the cycles getting a little long in the tooth someone is always telling you about the Fed is going to do this and the Fed is going to do that.

So that's the other thing that's crazy to me. During this hyper accommodative period when the Fed would do anything, during that hyper accommodative period we had two of our biggest asset bubbles ever. Where the hell were they when those things were blowing up? You know, they come in after and they make a lot of noise, but frankly, I don't get it. I don't get all this belief in the central banks ability to support the stock market.

And the reason is the more you look into the mechanics of this the more it makes no sense. What the Federal Reserve does is, you know, they do, they hit a button on a computer and money magically comes into existence, but they buy securities and that exchange of cash for securities just increases bank reserves a little bit. And the money goes into what, the banks account at the Federal Reserve and it pretty much go anywhere else. So you tell me how is that the Fed controls anything? This is the biggest, well, it's the biggest example of a kind of hubris.

The Fed doesn't come out and say this but you better believe after ever time Jay \_\_\_ or somebody talks they are running to a Bloomberg screen to see what the market is doing. They're watching it. Because they know that your – you, you people aren't, you clap for silver. Yeah, you're not doing it but everybody else who didn't come here and I mean everybody else does buy it. They do believe. They say but the Feds going to keep easing and I'm like so what, it doesn't matter. It doesn't even get anywhere near the stock market it's a ridiculous argument.

I'm like that guy, you see the meme on the internet, that guy sitting at that table saying you know, tell me I'm wrong. The Fed does not support the stock market. It's hubris. It's this belief in this sort of magical thing that doesn't exist. And its kind – well, I would say its hilarious but it's ultimately tragic and I don't think it will turn out well. Markets are not machines, they're more like natural entities. Think of it as a forest or something like that. It's a natural phenomenon. Sure, it's a natural phenomenon that is influenced by the behavior of us human beings and we manipulate a lot of machines and data to inform our behavior in that market but it has a life of its own, I promise you. And it doesn't give a crap, really, what the Federal Reserve does in the end.

And this is one of those Thanksgiving Day turkey deals, right? I am idiot right now, I'm bearish, I look like an idiot, right? And if you're bullish, you're brilliant and you're brilliant and you're brilliant and you're brilliant and you're brilliant and then the turkey is fat and happy on Thanksgiving. It says what a life and gets his head chopped off, right? It's that kind of a thing because you believe too deeply in the narrative.

So I guess, boy, I finished up quite a bit ahead of time here but I'm going to leave you with this thought. Paul Portesi on Twitter is an excellent, excellent follow and this quote kind of blew me away, "The hubris of the righteous ends with a self-inflicted wound." Right? So the very, you know the very people who purport to be able to tell you that they're going to save you, they're the ones who are harming you the most.

And no, Jerome Powell does not come out and say, I'm going to save you but he sort of, he sort of does, really. And he knows he's telling you that. He knows when he says, you know, we'll come out with this liquidity facility and we'll make these loans and we'll buy these bonds and we'll print this money, he knows what you hear. It's not true, it's just not true, and it's going to end with a self-inflicted wound.

So thanks very much. Check me out at investorhour.com. Be honest, who doesn't listen to the podcast? It's okay, just tell me. Yeah, there's a few honest people ‘cause who does, who listens to the podcast? All right, good. See, the difference between the people who listen and the people who don't listen is a whole bunch of people. Those people are lying to you. All right.

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