**Editor’s Panel #1 – Bull, Bear or B.S., 2023 Edition**

Panelists: Matt Weinschenk, Brett Eversole, Dan Ferris, Dr. David “Doc” Eifrig, Matt McCall, Eric Wade.

MW: I’m going to share some economic questions and ideas to see whether the panelists think it’s bearish, bullish or B.S.

First, the recession whipsaw. Within 10 months, we were certain the recession was coming, then certain it wasn’t. Now we fear it again. When there’s no consensus, how do you feel?

MM: It makes me confused. The speakers this week all made fantastic points on either side. It’s a situation where there’s a lot of information bombarding us. Marco Papic spoke to me about this about how there will be no recession… but it must come eventually.

DF: The economy is growing, people are working, housing is undersupplied, households are forming like crazy. So it doesn’t worry me. What does is the spread between stock and bond valuation.

DDE: I’m confused Dan would say that. Dan, bullish? Boy oh boy.

DF: I’m a deepfake.

DDE: I guess I would say that debt and a higher Fed Funds rate reprices saving and what we do with savings. Jobs stuff could roll over and cause problems. We could talk about unionization, commodities… I think the economy is still good but will roll over in the next year.

BE: I prefer to look at hard data. Right now, (this can change) the economy is fine. Unemployment is low. Net worths are high. The data says we’re fine. Again this can change. But for now we’re OK.

EW: What is a recession? Two quarters of negative GDP? Or the new unclear definition? Will we ever have the data to call it a recession? I doubt it. The marketing machine makes us want to call it anything but a recession. And they have lots of dry powder to hold steady while they cook the books. But all the headwinds are weighing on the economy. But we won’t have a “recession” by that name.

DF: What about you Matt?

MW: I don’t know but I doubt it. What strikes me is the disagreement. You can be contrarian, but market price is usually a good indicator. But stocks and bonds are parting ways. It feels more confusing than 2008 or 2020.

MM: Was there a recession last year? We had the GDP recession. And it felt recessionary. Maybe it’s over.

BE: Certain parts of the economy cratered. Mortgage services come to mind. But it’s not broad-based.

MW: Dollar General stock also suggests something is happening to low-income folks.

DF: It makes sense that there’s no consensus. It’s rational.

EW: Anything could sneak up on us now. I would be surprised by a soft landing though.

MW: OK. Consumers. They got a bunch of wage growth and stimulus. Then savings dwindled. This week, savings were revised up by $600 billion. Is this bullish, bearish?

MM: Ridiculous. I travel a lot. Airports and restaurants are packed. But based on headlines and sentiment, everything is negative. People are all about gas prices, mortgage rates. But they’re still spending strong.

BE: It’s bullish. Americans love to spend. It’s not great for personal finance but it’s bullish. Plus look at home equity. Homeowners have tons of tappable equity in their homes. Spending won’t end unless there’s mass firings. But the home equity will still be there even if so. It will take a lot to shut off the tap.

MW: But if you say travel is booming, could it have gone too far?

DDE: No, I mean luxury goods spending is down. Not sure where this $600 billion came from. It seems like the data is suspicious. Flying is terrible now because airports reduced flights, gates… supply is way down since COVID. I used to be able to get cross country easily. Now I have to take fully packed flights that depart less often.

DF: Next year those flights will be packed with people who weight 50 lbs less.

MW: OK. We have hard data and soft data. Right now, the data on the economy look really good. The hard data is strong. But the soft data (opinions, etc) is dismal. Bull bear of B.S?

DF: Hard data is manipulated. And soft data is stupid.

MM: I don’t get how the economy seems so good, but every conversation is negative. Maybe it’s inflation.

BE: There’s some nuance here. Everyone feels the world is going to hell… but everyone thinks theyre personally fine. I prefer to watch what people do, rather than say. But the divergence is bullish.

EW: Absurd to find $600 billion. I say B.S. What might be working its way into the data is a trillion dollars of credit card debt. It may be a yin-and-yang type of market where cash flows into money markets. We have outrageous consumer debt and hoarding of momney. Why isn’t there more of a “look at this cash on the sidelines” narrative? Well, where can that money go? Seven stocks? Also note the “soft data” skyrocketed in 2016… was there an election that year? Maybe of someone who talked a big game?

DDE: Where do you think this $600 billion came from, Matt?

MW: People want to call this a conspiracy. But this stuff is hard to measure.

DF: No, there’s only one economic activity on this chart and it is earnings. I am going to disregard this chart.

EW: It’s hard to put hard numbers to mood.

DDE: Are you happy with all your possessions dan? Will you not expend any capex? I’m with Matt on this. We imagine we can predict and act based on stuff like this but it’s generally a waste of time. The numbers aren’t real.

MW: Caroline Allison, head of Sam Bankman-Fried’s fund FTX, admitted to creating seven different balance sheets in order to get the most capital from lenders. But legitimate businesses can’t get capital today. That’s a big shift. Bull, bear or B.S.?

MM: Bearish. Tighter credit is going to pinch growth. I think rates have peaked and will roll over but this scares me.

DDE: Humans are crazy and do wondrous, creative things to succeed. Can you imagine making seven balance sheets to make money? It’s just a ffantastic, human story.

BE: The concept is bearish but how long will it last? Its hard to predict. Maybe 12 months, maybe 36. But the duration will determine how much we grow. So bearish outright, but agin, nuanced.

EW: Bearish. I love crypto, but this business of FTX and the people behind it – the scammer behind it – are bearish. America has gotten good at dodging the cycles. Look at data going back 40-50 years plus. Shade the recessions. You’ll see America and U.S. business are pretty dependable. But then we get these little grey lines of recession. So maybe business is getting less certain. Maybe capitalism is broken. So the folks saying crypto weirdos are all alone and other businesses aren’t being “creative” should think again. Isn’t the Fed running two balance sheets regarding recession anyway? I think we may be back to a business cycle. We war through them, we spend, we get pandemics through them. But is the business cycle back? Good stories aren’t getting funded easily. And that’s bearish to me.

DF: Being bullish or bearish is kind of dumb. You’re asking me two things. There’s a headline that says SBF is smarter than we thought – this is some high-level scamming. But as far as credit goe, it’s a return to normal. Interest rates are getting normal again. That’s rational. But it’s bad after the biggest megabubble in history when interest rates were zero. So it’s bad to roll over debt at a much higher rate. But most of the zombies are small companies. Overall this is a return to normal. So I’m slightly less bearish. This is the start of a long sideways slog. But it think we’re now “cheap, hated and in an uptrend”

MW: We once had a market where there was no alternative to stocks. Now it seems like there’s no alternative to treasuries. What do you think?

BE: B.S…. We can’t make any conclusions here. The current 10-year treasury rate action has two historic analogues. One preceded a bull market, one preceded a bear market. So hard to tell.

MM: I think there’s a lot of good value in bonds. I wouldn’t buy a bond ETF. And it might go another way soon. But if you can lock in a 5% rate… al companies do is stay in business and pay bonds. So it’s good to lock that in and it’s bullish to have options.

DF: This is the time to buy credit. Being bullish or bearish is dumb.

DDE: Let’s talk about a book point of view. When I got my degree, we modeled using the 10 year for relative value. Is that over now? For modelers?

MW: one of the inputs in option formulas is sensitivity to interest rates. That used to not be a factor. But my model has absolutely changed.

DF: No matter what you think in the short term, the value of the asset is the cash you’ll get discounted by some interest rate benchmark. When the 10-year is ultra low, it’s a bad benchmark. People say growth stocks love low interest because all of the present value is way out in the future. Low interest rates make those values ultra high. But when the treasury rises, the values go to zero. It’s like gravity, and it can’t be negotiated. Gravity pushed people to speculate when rates were near zero. Now we’re back to a real benchmark.

EW: This is bullish on stocks… because we can’t afford 5% interest rates. We don’t do enough to be able to afford to pay for this. I mean America, here. We can’t survive high rates unless we print money. And with more printed money, we get higher stock prices. Not better companies. Just more dollars. That’s the easiest variable to change. Buy bitcoin.

MW: The mention of AI in earnings calls has soared this year. This includes customers like Kroger. Stocks that mentioned AI outperformed 10-to-1.

DF: I’m going to say AI 50 times in my next review.

MM: Bullish. We’ve been using AI all along. Look at google. It’s not a bubble, it’s a megatrend. We tend to overestimate these in the near term (which looks like a bubble). But in the long term, we underestimate. I think long term these will greatly outperform.

DF: What he said. But don’t chase AI right now. Wait for the dust to settle, or buy a small AI company.

BE: The “Kroger AI stock” stuff is B.S. But AI is not. It’s systemically bullish for the market. It will boost efficiency. So “peak margins” we’ve mentioned for decades are not actually peak margins. Margins will expand with tech expansion. AI will continue to drive systemic change.

EW: I like that. But mentioning AI on earnings calls is B.S. I’m interested in the companies who mentioned it before 2022. I’d like to know what folks talked about in 1991 and 1992. There was once a big fad about mentioning oat bran as a solution to everything. It’s B.S. but AI will disrupt everything. It’s a massive tech we need to get our hands around and monetize for ourselves.

DDE: It’s just another term for computing power and speed. In the medical space, you hear stories of it scanning for cancers and detecting them in milliseconds. It can be much more effective than trained radiologists. So it’s happening already in medicine. I think it’s bullish for health, agriculture, and so on. I’m excited about it. But can we mention it in our yearly reviews like Dan said?

DF: The rise of e-commerce is brutal. The margins are brutal. That’s an analogue. Or SaaS. It took people 10 years to figure out salesforce for example. I’m not sure If it pushes margins up.

MM: I think software companies are the biggest likely winners here. They can drive user spending with AI products.

DF: So the dominators get more dominant. But if the non-dominators must do it… You must keep up with competitors. So if everyone *has to do it* don’t expect a margin miracle.

EW: I spoke yesterday about AI based Parkinson’s diagnosis. It’s 85% reliable. New things could come out that are high margin.

DF: I’m too full of shit to know for sure.

MM: OK. The stock market is propped up by seven stocks. CEO pay is rising. Most Russell 2000 small cap stocks are wealth negative this year. I posit most companies are stock-based compensation schemes. And only some are trying to reward shareholders. Bearish, bullish or B.S.?

BE: Bearish. There’s a lot of bad companies with bad management enriching management. Not all companies. But the good thing about S&P 500 stocks is they’re the best of the best. It’s not like the Russell 2000. You get more quality with bigger, better businesses.

DDE: Why did these folks go public in the first place? Well, folks probably wanted to cash out. They made an IPO based on the greater fool theory. And the rich get out at the expense of the uninformed.

DF: The Russell 2000 frequently has net negative earnings. I’m always short the Russell ETF cause it’s garbage. Short the garbage, buy the best. I only care about this on a bottom-up basis, stock by stock.

MM: From a bullish standpoint, if you can effectively pick these stocks, you can massively outperform. It’s bullish for stock pickers.

EW: I’m going to be a downer. This makes me bearish. I accept all companies start as a compensation scheme for the person who started it. To some degree. But they grow out of it, or a few of them do. But if not enough do for long enough… that’s bearish. At some point shareholders will get fed up. And zero interest rate policies distorted this fact for years. Bearish.

MW: At Stansberry, we try to avoid politics. We’re skeptical of all policymakers. We know a divided government leads to gridlock. That’s not necessarily bad for investors but problems stop getting solved.

DF: I love dysfunction. I don’t want them to do anything.

DDE: Me and Joel Litman were recently in DC talking about this. What if the government shut down and we the people said, “we won’t pay you for the duration of the shutdown.” How might that change things?

MM: I spend half my time in Nicaragua. People say it’s a terrible government down there. But look at DC. It’s no better than any other country here.

DDE: B.S., Matt.

DF: Yes. As much as the government screws up, it hasn’t hurt our daily lives too much.

EW: Bullish: I like when they’re ineffective. It’s a fantasy that the government knows what’s best.

DF: People graduate from schools and think their smart and think they can design a society from the top down. They tell us what to do – and that’s what wrong. They should be doing a lot less.

DDE: Amen.

MM: That’s all the time we have for this panel. Thanks everyone.