Alpesh Parmar 0:01
Welcome to wealth matters podcast. How are you Richard today?

Richard 0:05
I'm very well thanks. Thanks for having me on your on your podcast.

Alpesh Parmar 0:09
Absolutely. So it seems I'm on fire I have back to back economist or economic analyst on the wealth matters podcast So Richard Duncan is the guest today. He is the author of three books on the global economic crisis, including the i ternational bestseller the dollar crisis causes consequences cures, which forecasted the global economic crisis of 200 with extraordinary accuracy. So, Richard, I don't think I can do justice to your bio. So would you please give my list ners some idea about what you do now?

Richard 0:46
Okay, thanks. Thanks. So, I'm an American. I grew up in Kentucky. But after I graduated from university, I ended u backpacking around the world in this was early This was 1983, 1984 or a year and I was very lucky because I saw sia. I spent a couple of months in Thailand and Malaysia and Singapore during that time and realized that it was boo ing economically so night. I went back to business school for a couple of years. And then I went to after business sc ool, I flew to Hong Kong and found a job working as a securities analyst in a stock broking company. And I've spent most of my career working in Asia since then, moving around between Hong Kong and Singapore and Thailand. But I've also spent a couple of years and Paris and London and Washington DC. So I was the Global Head of investment strategy for ABN AMRO asset management, based in London, looking at all asset classes globally, nice as a strategi t and economy. And I've also worked for the World Bank and in Washington as a financial sector specialist. That wa during the Asia crisis in 1998 99 2009. And then I've written three books as you as you mentioned. And now, now, y I'm working on a fourth book, writing books is my is my real goal. That's what I see my purpose is being and in ad ition to that, I also have a video newsletter called macro watch that I sell on a subscription basis. So every couple of eeks, I upload a new video discussing some important development in the global economy, and how that's likely to i pact the price of stocks, bonds, property, commodities, and currencies. So that's that's what I do. I'm now living in T ailand this morning. I'm in Northern Thailand up in the countryside outside of Chiang Rai.

Alpesh Parmar 3:05
So you pretty much you have worked in US, of course, Europe as well and Asia a lot. So you, you have seen the glo al economy at true scale and not just someone like me who is sitting in one place for last 20 years.

Richard 3:20
I've been very lucky. And I've spent so much of my career in Asia, because so many of the things that happened in A ia when later happened in the US, for instance, I was in Thailand during the early 1990s, from 1990 until 1996. And watched that blow into an economic bubble that popped in seven in the Asia crisis. And a few years later, of course, the United States experienced the same thing, right? Yeah, it was really my experiences in Asia. That gave me an ad antage in having some insight in what was likely to happen in the United States and around the rest of the world. An such Even now with the Coronavirus. I was living in Hong Kong in 2003 with SARS. Right. Yes, that was absolutel terrifying. And this this new virus also, of course, it originated in an Asia. We're dealing with it here for a few mont s before it reached the US born doing so much damage there. But trends in satellite, both economic and health trends So yes, start in Asia. But that that does that has given me an advantage in my career and being able to understand be ause I've been able to watch the economic cycles in Asia. That gave me a lot of insight as to what was likely to happ n in the United States.

Alpesh Parmar 4:54
Right. So let me jump onto some questions I have, right? What happened to the US and global equity markets two w eks ago or three weeks ago, two to three weeks ago, right as soon as Coronavirus pandemic? What was that? Was th t just a blip or correction? What exactly happened?

Richard 5:14
No. So what happened is everyone suddenly realized in the financial markets that the US economy was closing dow that millions 10s of millions of people would be out of work, and that the economy was going to experience a catast ophic contraction, at least in the second quarter and going on for an unknown number of quarters into the future. An that this would mean that not only would businesses now have drastically less cash flow, small businesses, medium ized businesses and large corporations that they would consequently many of them would be unable to repay their ba k loans or would go into bankruptcy. The science same time as millions of Americans lost their jobs, they would be nable to pay their mortgages, or their rent, or their car payments or their credit cards. And so consequently, they wou d begin going bankrupt by the millions. And this would result in a systemic financial sector crisis that destroyed the S banking system, unless the US government jumped in, and yes, very radically, and providing loans to practically e eryone who asked for one. And unless the US Central Bank, the Fed, jumped in and started providing trillions of dol ars to a loan to allow the government to be able to finance the loans that it would have to make to keep the economy rom collapsing into something as odd or worse than the Great Depression of the 1930s.

Alpesh Parmar 6:50
Yeah, and I really don't like Congress and all of that, but I was just surprised at the speed at which they work to pull his together, right? The $2 trillion bill and all the loans, the EIDL the economic injury, disaster loan or or the payche k Protection Program loans, etc. I was pretty impressed. Because Yeah, so do you think this is 2000? all over again o no, at this point and, and just to remind my listeners, we are recording this on April 6, and I was chatting with Richa d before as well. And as for him, and how I'm seeing the market, things are changing day by day, right? So this coul be outdated by the time you guys listen to this episode.

Richard 7:40
Right, so on March 15, I uploaded a macro watch video called recession or depression. And the theme of that video as whether or not this crisis turns into a recession or depression depends entirely on how quickly you US governmen begins providing loans on enormous scale to anyone who asked for one more or less and, and how. So in other word , the size and the speed of the fiscal and the monetary policy response to the crisis. Well, just a few hours after I publ shed the video, the fit that the Fed had an emergency meeting on that Sunday, yes, basically, infinite QE is what they re calling it, they would create as much money as necessary to ensure that there's sufficient liquidity to prevent this t prevent our economy from collapsing entirely. And so like you said, I was too I also was impressed that the Congre s acted as quickly as in coming up with this $2 trillion dollar fiscal rescue policy. Now, I don't think that will be eno gh. The budget deficit, so They're going to have to be more fiscal stimulus programs. And the Fed is going to have t print a great deal more money or create a great deal more money than it has. I mean, just in the last three weeks, the ed has created $1.5 trillion. Right? That that is a 35% increase in this in the amount of the Fed's balance sheet in just hree weeks. It's now up to 5.8 trillion, but this is going to become very much larger. It wouldn't be at all shocking if t e Fed's balance sheet if they created $5 trillion over the course of this year, before the year ends, taking their balance sheet up to $9 trillion. And Can Can

Alpesh Parmar 9:50
You've describe why they would have to go from 2 trillion to 5 trillion will be run out of this $2 trillion fund in a mo th. took three months. So,

Richard 10:02
Yes, I think people, people are going to remain out of work. As you no doubt saw, over the last two weeks, 10 millio Americans filed for grants. And that number is going to become very much larger over the next few weeks. And so 0s of millions, Well, certainly millions and probably more than 20 million Americans are going to be out of work, a d is not going to be just for one month or two probably is this is probably going to last for a while. These people are oing to have to be given money by the government, or else they won't be able to pay their rent. Yeah. or anything els and the financial system will collapse. Yeah. And worse than that, of course, people will go hungry. Right. So as lo g as the government can continue providing this money, that's what they're going to have to do. United is a very wea thy country. Oh, there was almost no limit as to how much

dark night in school.

Alpesh Parmar 11:09
That is not that there is no gold standard, right? I can print as much as I want.

Richard 11:14
That's right. And this is a very important lesson. I think there was a gold standard and the Fed as much money as the wanted, very constrained. And so the options were limited and the bank saw a third of the banks failed and the US ent into a depression the other 120 5% It lasted for a decade. And it didn't end by itself. It only ended with the massi e, massive fiscal stimulus that resulted Okay, World War Two. World War Two the government spending increased overnment debt rose by five times during World War Two, and the Fed's balance sheet increased by 11. The feds hol ing of US government debt increased by 11 times during Those four years alone. So right now, the US government d bt at the end of last year was something like 107% of GDP. Right? Well, the GDP the size of the economy, let's call t $21 trillion, or $22 trillion. So even if the government had to spend $22 trillion prevent, which is an extreme exam le, yeah, didn't are hard to spend that much keeping the economy from collapsing into a depression. That would still, that would double the ratio of debt to GDP GDP to 214% of GDP. But that's Japan's government already has more t an 40% in government GDP. So there's essentially no limit as to how much money the government can borrow and s end and the Fed can finance as much as And

Alpesh Parmar 13:00
Now, I'll say tell us right at zero percent interest rate.

Richard 13:06
That's right. Interest rates are zero.

So that's what we're going to see we're going to see very large budget deficits. And we're going to see an extraordina y expansion of the amount of money that the Fed creates. And if they continue doing this aggressively enough, then e won't collapse into a 10 year Great Depression.

Alpesh Parmar 13:26
Got it. So do you think the interest rates would stay compressed or this low for for foreseeable future? Because we'll e saving so much money?

Richard 13:37
Yes. So there are a couple of things to think about. Now. First, there's interest rates are affected by one thing by the s pply and the demand for money. You would think that if the government borrows a lot more, that's called crowding ut back in the old days if the government borrowed a lot of money, that would push up interest rates, but that was in he old days when there was only a limited amount of Money, create as much money as it wants. So the demand for g od money goes up from the government, but the supply of money goes up from the Fed. So that's really no longer a f ctor. Now, the the most important factor Next is the inflation rate. Now, inflation is driven by a number of different f ctors, three main factors, in fact, one is the money supply the growth in the money supply. If there's, in the past, if th re was a very, very rapid growth in the money supply as there is now that Now typically lead to higher rates of inflat on, or even in some instances, hyperinflation, but that that has also changed. That doesn't work the way it did in the ast, either. Because in the past, before 1980, the United States had a relatively closed economy. In other words, there was a guy US trade was in balance. Yep, yep. So if the US government spent a lot of money in the Fed, printed A lot of money it made the US economy overheat. Everyone had a job. There was full industrial capacity utilization, and p ices started going up wages and prices. But now that we have globalization and now that the US has been running ex raordinarily large trade deficits since the 1980s, yes, it no longer works that way. higher rates of money supply grow h. We saw the feds the amount of money the Fed created, increased by five times between 2007 and 2014. But, but e didn't get high rates of inflation, right, because we globalization, we buy things now from other countries with extr mely low wages. I said, globalization is extremely deflationary. So as long as globalization persist, and not very larg increase in the amount of money the Fed is going to create won't necessarily cause countries price inflation in the U

ited States. However, if globalization breaks down in this crisis, and there's some indication that it might, of course, i
was under siege to some extent beforehand with the trade war between China, but now they're increasing calls for th
far American factories to bring their production back to the US, so that we will have a sufficient number of ventilat
rs and sufficient medicine. So, if, depending on the extent to which globalization is reversed, that increases the risk t
at there would be higher rates of inflation. There are two other factors that affect inflation rates, one, demand shocks
nd supply shocks. For instance, there are inflationary demand shocks, like wars, wars, generally, countries have to e
pand their production that increases demand and that pushes up prices. But there are also deflationary demand shock
. And that's what we're experiencing now. Now that everyone is required to remain home, people aren't spending and
so demand is dropping. So this is very well right now what we're seeing is a very deflationary demand shock. And th
t's what we're going to experience. Initially more deflationary pressures. But then there are also supply shocks, deflat
onary supply shocks and inflationary supply shocks. So for example, inflationary supply shocks is when OPEC cut o
f the oil so as so that caused inflation but they're also deflationary demand. Yeah.

Alpesh Parmar 17:47
We are just witnessing right now.

Richard 17:51
deflationary supply shocks like globalization, which, because of globalization and causes a radical expansion of sup
ly Apply and that pushes prices down. So initially we're going to see deflationary pressures because of the collapse i
demand. But in some products that are scarce ventilators and facemask I suppose prices could increase and dependi
g on how long this crisis goes on, we may see more and more shortages of, of various types of products if productio
shuts down and the supply dries up. So, so in the short term is deflationary. in the longer term, we may see more inf
ationary pressures and over the sort of the medium to long term whether or not we get inflation as a result of all of th
paper money the Fed will create will depend on whether globalization persist or globalization collapses if globalizat
on collapses, and we're going to get high rates of inflation, and that's going to be very bad. Because it will push inter
st rates very much high. But on the other hand, is probably not going to be one or the other. We're not going to go ba
k to the kind of globalization we had five years ago. But on the other hand, globalization probably won't collapse ent
rely either, right? So we probably are not going to be able to avoid very high rates of inflation. But we'll just have to
ee how events play out. No one knows how long this is going to last. And no long no one really can tell you whether
to what extent and how much globalization will break down, right? No,

Alpesh Parmar 19:36
no, thank you. This was great explanation. So is this recession or depression?

Richard 19:45
You have all the leading

investment banks, saying that in the second quarter, GDP is going to contract a lot more Yeah.

Alpesh Parmar 19:53
Which is guaranteed

Richard 19:56
by more than 20% and mas basis So you know, there's no set definition for depression. But I think that probably qua
ifies now is whether this, how bad it is in the third quarter in the fourth quarter, that's a different matter. And for the
ull year, autonomy and certainly going to contract, but we don't know whether it's going to contract by 2% or 6%, or
10% or more, that will all depend on how long the virus last. But this is this, this event is considerably worse than th
crisis of 2008.

is the worst shock since the 1930s.

Alpesh Parmar 20:43

Wow. So do you see this as let's say it's a recession and we contract for two consecutive quarters. Do you see this as short term recession or long term recession?

Richard 20:54
Well, again, that's just going to depend on how long the virus persist and how long it's threads and how long they cal Jimmy has to remain shut down. But I don't think we're going to have a very quick recovery. People are not going t go back flying around on airplanes and taking

Alpesh Parmar 21:14
shoes. Oh, yeah. Let me tie his yearly travel once a month, right to take a look at the properties and if I put an offer a d whatnot because I invest in real estate, and of course I haven't traveled since February right. And I'm not going to t avel for some time.

Richard 21:33
So the size of the economy next year in 2021, is unlikely to be as large as it was last year in 2019.

Alpesh Parmar 21:42
Of course,

Richard 21:42
it may not recover and the following year either it may not surpass 2019 levels, even in 2022.

Unknown Speaker 21:50
Okay, so you don't anticipate like and I've been reading a lot as well as listening to or attending a lot of webinars, an they have been comparing it to vision recovery, some are saying it could be U shape recovery. Do you think it woul be one of those or something else?

Richard 22:10
I think it would be something closer to an incomplete, you. Okay? That is down for a while and then it goes back up ut it doesn't go back up as far as it came down, doesn't get back up to this previous level anytime in the immediate, f reseeable future.

Alpesh Parmar 22:30
I say, say something because someone mentioned an hokey hockey stick or Nike swoosh. But you're not you don't a ticipate something like that because that means it will recover and go much higher. I

Richard 22:45
Everyone has to keep in mind to begin with all of these scenarios are taking into consideration the radical expansion f government spending, of course, the size of the Fed's balance sheet Why's it would be just very long straight arrow own? Okay. So much of the recovery depends on on those factors. If, for instance, the government, the US governm nt, in addition to this $2 billion. I'm just just, you know, for an extreme example here to make a point, if the govern ent announced that it was going to spend an additional $10 trillion over the next three years, investing in new industr es and technologies, like artificial intelligence, biotech, genetic engineering, robotics, neurosciences, and all of the ot er industries of the future, on a $10 trillion scale, then then yes, we would have an extraordinarily rapid expansion of the economy, we would have an incredible economic boom, that would make the economy far bigger than it was in 019. So And would also improve productivity for future years. So, it all depends on how much the government spen s and how it spends it. Well, many people would think President Trump call for an additional $2 trillion

government program to invest in infrastructure.

So

that would certainly make that would help the economy. But rather than just stop it investing infrastructure, the thing that I've been encouraging the government to do for an advocating and my macro watch videos, is rather than just yo know, it would be great if the US had better roads and bridges, but better roads and bridges are going to increase the United States competitiveness relative time, relative to China, which is investing very aggressively in the industries f the future and is currently investing more than the nited States does.

Alpesh Parmar 25:01
Yeah, that's what I heard. Right? They are spending way more in r&d than the United States does. That's right.

Richard 25:06
So if the current trends continue within the next decade or two, China will be the undisputed international superpow r, economically, technologically and militarily. Wow. So this if the government is going to start spending on infrastr cture, we shouldn't just spend on rebuilding the roads. We need to invest in industries of the future so that we can ret in our global preeminence and national security for decades into the future. Makes sense?

Alpesh Parmar 25:42
That's awesome. So I now I'm going to be selfish and ask some questions from investors perspective. So what shoul an investor let's say equity investor should do now to wait and watch because dow jumped 1600 points today and no people are saying, Oh, we are in recovery mode. Do you think there'll be more up and down or it will just stay walle Kyle? So much they need to do.

Richard 26:07
There is no one typical investor I mean, how much money is investor have an investor with $10,000 is a different ca e, invest with a billion dollars. That's true. So every individual needs to take into consideration his own circumstance and his own risk tolerance and his ability to know last this out over the long run, no one can tell you for sure what is going to happen with the stock market, the stock market is wildly volatile. For instance, let me tell you my own pers nal experience. When I was just starting off my career in Hong Kong in 19, I started working there in 1986. And ove the first 12 months that I was in Hong Kong, the stock market went up 100% Wow. The economy, the economy gre by 13% the GDP growth and I woke up the next morning and turned on the television and the US stock market had allen 23% over.

And Hong Kong Stock Market when it reopened, it reopened down 50%.

Alpesh Parmar 27:20
That's crazy. And the stock

Richard 27:23
spec crazy speculative stocks that I've been hunting in like a madman

like down 90%, right. So every stock market investor needs to be aware of that is the risk that I have personally expe ienced. And are you willing to tolerate those risks or are you can and I'm feeling lucky for the guy. But, you know, I ersonally I don't, I don't think the stock market is going to Go back to any anywhere near the levels that it was a few onths ago. And it's quite possible that it's going to test new lows and potentially significantly lower than and

Alpesh Parmar 28:12
that's what I think as well. But now of course, some people refuse to believe me. I can definitely by the end of the ye r we'll see much lower low.

Richard 28:23
But also you have to consider many different scenarios. For instance, personally, I think it would be a good idea if th Fed started directly buying stocks or buying stocks, which is a possibility you can't rule out. They're already buying ractically everything else. You're not buying stocks to push stock prices higher. Then then yes, stocks could go to re

ord highs, or it could double you know, you can't rule out any real

Alpesh Parmar 28:54
area. And that's exactly what happened. Not that fed was fine to stocks but companies were buying back this stocks. think the last rally for last couple of years has been fueled by stock buybacks. Right.

Richard 29:07
So our economy, I think, is important. People really want to understand how the economy works these days. The wa it works is it's driven by credit growth, credit growth has been driving economic growth in the United States for ma y decades. And anytime it grows by less than 2%, adjusted for inflation, then the US has gone into a recession. Awe ome doesn't end until we get another big surge of credit growth, right? Since 2008. Credit is it's been too weak to dri e the economy. So the Fed has been pushing up the stock market. And so asset price inflation has been supplementin credit growth in order to make the economy grow. But now that Coronavirus is threatening to cause credit to contra t radically as people default and at the same time, it's possible The asset prices and creating an extremely negative w alth effect. These two things together contract and credit and collapsing asset prices are certainly enough to throw th US engine into extreme recession or even a depression. So, rather than allowing the stock market just to collapse, if hat, in fact, we start to see that again, it makes a lot more sense for the Fed just to start buying stocks and to push the stock back up. Because if they allow the stock market to fall 50%, then that's going to make the banks and the banki g system go bankrupt. And it's going to be very expensive to bail out the banks. Again, because you've got to bail ou the banks because if you don't bail, yes, homes are destroyed. Yeah. So it'd be a lot cheaper for the Fed just to buy t e stocks and push up the stocks than to allow the banking system to collapse. And if the Fed announced that it was g ing to start buying stocks Then it wouldn't have to spend very much money because every investment manager in th world was going to go up and they would all start buying stocks game. Yeah. Or else they would lose their jobs and erform. Well, these are these are unprecedented times and yes, with things become worse, then I wouldn't be surpris d if the Fed bought stocks directly. So, you know, really whether you invest in stocks or not depends on how lucky y u're feeling. You know, you can try some people might want to bet on shorting them, some people going long, but y u know, it's really really just depends on you.

Alpesh Parmar 31:44
So, will the real estate market crash because of Coronavirus.

Richard 31:49
So all of the assets in the country, all the assets, prop all the value of all the property and all the value of all the stock and all the value of all the other assets. in the country, all the wealth of the country is floating on an ocean of credit. f credit expands, the prices go up. If credit contracts, the price of credit contracts a lot, then prices collapse. So if if a if bankruptcies soar as they will, without governments without adequate government support, then credit will contra t. And it wouldn't be surprising to see property prices become significantly lower. But how in that scenario, however

every asset class would be nice. Yeah.

And if you have I, I'm a big believer in owning land, preferably with the house on top of it that you can rent out,

Alpesh Parmar 32:56
right and that's what I do.

Richard 32:59
So I'm not talking about investing in condominiums. Now, there's no limit as to how many condominiums you can b ild. Okay? But if you own land with a house on top that you can rent out, then Okay, even if all the asset prices fall, t least you will still have some rental income. Right? And moreover, you can grow vegetables on it

Alpesh Parmar 33:24

and go wrong.

Richard 33:25
Whereas,

whereas it behaved land behaves much the same way as gold, except gold is a lot easier to steal. And gold you have t
 pay people to watch it. And a lot of gold is not really in your habit in the safe somewhere, right? It's not gonna be a
ot of good. And it doesn't have any cash flow.

Alpesh Parmar 33:50
Yeah, exactly. We don't build land, right? You can still mine go, we can build this land.

Richard 33:58
So I mean, I believe everyone should have Have some gold, you know, just as just as in case you need to get out of t
wn fast. But if you have a lot of money to invest, personally, I believe it just makes much more sense to have it inve
ted in a real a real asset. Like I mean, a very tangible cash flow generating asset like land.

Alpesh Parmar 34:22
That's awesome. And that's what I do. And my listeners are focused mainly on investing in single family residences t
 apartment buildings, self storage facilities, mobile home parks, etc. Right. So yes, I always preach that as long as yo
r investment, make some cash and you aren't able to ride out the wave, right? So if your investment is covering your
ortgage and all the, you know, expenses, then you can definitely survive a downturn. Right.

Richard 34:49
Well, that's right. But of course, you're doing this sort of crisis. You have to be prepared for your rent to drop

Alpesh Parmar 34:56
today. Yes, it is going to drop

Richard 35:00
You have to be able to ride ride that out as well. Yep. Yes, you have to strike the right balance between how much h
w much leverage you want to have against this property portfolio.

Alpesh Parmar 35:15
No, that makes sense. So last couple of questions, any real estate or finance books you recommend?

Richard 35:22
So, on my website, I have a

tab. If you go to my website Richard Duncan, economics calm. Richard Duncan economics calm. Yes. I say yes. Lo
k in a minute bar. Yep. Where is it a tab called books I recommend. And there are a lot of economic books and histo
y books. All kinds of books that I think all your listeners should read. That will give them plenty to do over the next
ear. Yes.

That's awesome. Starting with my books, I might have

Alpesh Parmar 36:00
Of course,

any any website apps, if someone wants to know or understand more about investment, real estate etc. you personall
 you're usually recommend. Well, so

Richard 36:14
yeah, look, let me plug my own website. It's one. As I mentioned, I have a video new Yes, called macro watch. And his, I launched six and a half years ago. There now, every couple of weeks I upload a new video, each videos usually 15 or 20 minutes long and has roughly I don't know 25 or more charts that you can download. Now these of course h ve been on various topics, but I group these videos together under their various topics. And there are now probably hen I got to 50 hours of videos I stopped counting. I suppose there's somewhere near 70 hours of videos and these ar grouped under eyeballs So, groups some of these together as courses, there are four courses. One is called understan ing monetary policy, and one is called China's economic crisis. One is called how the economy really works. And on is called capitalism and crisis. And more recently, I've done a series of videos just on on the on the corona virus cris s. It's great. So if you want to understand how the economy works, I recommend you subscribe to macro watch. And by the way, if your listeners would like to subscribe, I'd like to offer them a 50% discount. If they go to the website, ichard Duncan economics comm and hit the subscribe button. They will be prompted to put in a coupon discount co pon code. If they use the coupon code matters. Ma TT ers, they can subscribe at a 50% discount.

Alpesh Parmar 37:56
That's awesome. so generous of you. Thank you

Richard 38:02
And while they're there, at the very least they can sign up for my free blog if they'd like to. Yes,

Alpesh Parmar 38:07
yes. And I will highly recommend checking out Richard Duncan economics.com and I'll also put this coupon code a well as the website in the show notes as well so if anyone wants to check it out.

Richard 38:20
Okay,

Unknown Speaker 38:20
thank you so much. I totally enjoyed the episode. I appreciate it.

Richard 38:26
Thank you. I enjoyed speaking with you best of luck and good care

Alpesh Parmar 38:31
Take care.

Transcribed by https://otter.ai