Ep #100: The Trump Effect - What's Next for the Economy?

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With Your Hosts

Dr. David Phelps and Evan Harris

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Jerry: In my whole 36 year career plus all the years that I've studied of the economy and the markets, I've never seen a situation where basically there's one bull market in the world and that's the United states.

You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to, transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

David: Good day everyone, this is Dr. David Phelps from the Freedom Founders Mastermind community and the Dentist Freedom Blueprint podcast, back with you today with what I think you'll find is a very interesting, very thought provoking interview with a gentleman that I have come to know and really come to appreciate so much more in probably the last four, five, or six years. He happens to be right here in Dallas Texas, my hometown which is just an opportunity because I get a chance to actually go to his conferences which he holds at least once a year here in the Dallas area. Let me introduce him, his name is Mr. Jerry Tuma, T-U-M-A. Jerry, how are you doing to day sir?

Jerry: Hey David, doing great today, how about yourself?

David: Wonderful. Thank you again for being on today and I know Jerry, there are people in bureaucracies that regulate virtually everything we do and say today and I guess they're a little bit in your world, are they not?

Jerry: Oh my, yeah the regulations have just gone berserk here in the last eight years. Has nothing to do with the political climate in Washington the last eight years either.

David: Not a bit. Because of that, Jerry I know, and because of your licenses, I do have to read something here so I'll make sure we get this in. Jerry Tuma is a certified financial planner. Securities offered through independent financial group LLC, he's a member of FINRA and SIPC. Material on this podcast interview is intended for general information only and should not be taken as specific investment, tax, or legal advice. Think we're covered now?

Jerry: I think we're good to go, yep.

David: Okay. Now I can talk about you real time. Again, people know Jerry that I'm speaking to mainly professional practice owners, people who work hard like everybody in business, are struggling today because they find profit margins are down, they're being squeezed in the healthcare industry for sure, they're not alone however. Taxes are going up. They find that there's little left over. Trying to figure out how to set aside funds, capital investment for the future. I do a lot with them in real estate, but I'm not a one trick pony, I realize myself that even though real estate's something that I study a lot, that there's so many factors outside of just the real estate industry that one really needs to be aware of in order to stand a chance to construct, or orchestrate your financial future. Doing that with multiple advisors, people that you seek out, I think is very very important.

You're one of those and I want people to know a little bit more about you. Jerry is a certified financial planner, he's president and founder of Cornerstone Financial Services Inc., a registered investment advisor. Jerry is a registered principal with the Independent Financial Group LLC., he's a registered broker, dealer, member of the FINRA SIPC and there's more stuff there that I don't understand but I think that's the gist of that. Now, here's another thing, Jerry's done daily and weekly radio programs discussing all kinds of financial topics. You've done it since 1981, so you've been at this longer, I'm not trying to say you're old Jerry, but what I appreciate about you is that you, like so many that maybe come into the financial in the last say, five years or 10 years, they haven't seen the market volatility. They can't go back in time.

In fact, I also know that you studied under the late great Nobel prize winning economist, Milton Freedman, who many of us have great appreciation for and so I'm a huge believer in you Jerry just because obviously I like what you say. I like your principles, I like that you're faith based and I like that you have a really, in my opinion, a very in depth and broad based understanding of not just what's going on in the US but certainly because the global economy has such a great affect on everything that's happening here. You look at the big big picture and I love your ... A lot of people understand that you also have a Saturday morning radio show which we'll make sure that they're connected to.

You can find more information about Jerry on his website which is www.cornerstonereport.com, that's cornerstonereport.com and from there, you can link in to the archive of the radio shows. I would highly suggest people jump on and pick those up either live on Saturday mornings or pick them up as they're archived because Jerry, I listen to them where I go. I'm always listening to your radio show and pick up so much from that. That's a big broad based introduction. Again, Jerry, thank you for being with us here today.

Jerry: Thank you David, appreciate that, kind words.

David: I'm going to throw out just some kind of broad based topics and we may get to some or most of them, but let's just see what we can do. Here's some of the things that I'm kind of looking for today Jerry. You've talked about that you believe that we're kind of at a hinge point in the global economy, so we can talk a little bit about that. You do a lot of study and bring in a lot of information to us about what's going on in the European union with the trend with Brexit. Italy referendum that just happened earlier this month, what effect that has on us. A lot of people don't even know what's going on there and they go, "Well, how does stuff across the ocean, how does that affect me here today? I've just got my own little world to deal with." Right, that's kind of that selfish, self-centered view, but we can't look at that.

I want to talk a little bit about what I'm going to call, the Trump affect. What you feel like the new Trump administration possibly could bring to us, what maybe we're already seeing in the markets. Does that have any legs to it and can Trump really work miracles with the big problems like we have today with the huge national debt and the deficit spinning. I haven't heard him talk much about that. He's a business man. We'll see where that goes. Another big topic, Jerry, I think is important, that you are one of the few that talk about and that's demographics and the fact that we are now heading into, what you define as a worldwide age old crisis. Then certainly, let's touch on inflation, interest rates, the FEDS trying to inch them up a little bit again. Then finally, your general thoughts about real estate just to kind of tie it together.

There, I laid out a whole bunch of stuff. Where would you like to start?

Jerry: Okay, well, why don't we start with the Trump affect, since that's kind of the most immediate thing that's impacting everybody and everybody's wondering about. First of all, I want to say this, it's very interesting, and again, I've been doing this 36 years now, going on 37. David, we talked about this extensively in our book From Boom to Bust and Beyond, we identified that deflation would probably be the first effect after the baby boomers passed their peak in spending. This is back in the 2000's, as a matter of fact, we even talked about the housing boom, back in the 90's. 1997 we said, "Hey, we think that the housing market's probably going to peak out around 2005 or 2006," based on demographic issues and rather than go into great detail on that today, I would just recommend people read our book because it's got all the details in there. We can hit the highlights on what we need to go for the future. Our book is called From Boom to Bust and Beyond and we're past the bust stage, at least in America, and we're going into the beyond stage which we talk about extensively in the book.

Number one, remember that demographics are destiny, so what we've got to deal with, we've got 76 million baby boomers that were driving the economy in terms of consumer spending, that have now moved into retirement or pre-retirement years. That's going to effect the economy radically. I wanted to start again with the Trump effect. I think what we've seen here, if we had had another eight years or another four years of the direction we were headed, and I know the professionals that you're dealing with in medical and in dental work, I'm sure none of you have any issues with regulation.

David: None at all.

Jerry: Oh, it effects you guys worse than it does us and it's effecting us a lot. The issue here is regulators think one way, the liberals think one way, and it's more regulation, more control, more regulation, more control and when that's not enough, bring some more regulation and some more control and that's how you solve all the ills of the world. You and I know what ends up happening is they kill the goose that laid the golden egg because you have strangulation through regulation, it's like putting a man in a straight jacket, you can't do anything.

I had my personal family doctor told me, if I remember correctly he said, "Before Obamacare, there were 30,000 codes." My family doctor in the medical ... He had to code stuff to get it passed by the medical, I don't know if it's Medicare or the insurance or both, and he said, "It's now 300,000." I'm like, yeah anybody can deal with 300,000. Dodd-Frank was a gross overkill. Wall Street never should have done away with the legislators, never should have done away with the Glass-Steagall Act, which is what happened in the 1930's to keep Wall Street from blowing up the world, separating commercial banking and investment banking. Yet unfortunately, our good Senator Phil Graham from Texas sponsored that bill, Clinton signed it so both parties are guilty and it took Wall Street one cycle to blow up the world again.

The issue here is we've gone into a gross overreaction of that. The pendulum change went way too far into over regulation. Dodd-Frank was designed to regulate the banks, last time I checked it was 23,000 pages and counting and that was when it was only 60% implemented and so the banks are strangled, especially the small and medium sized banks. Of course everybody who has any kind of business background or degree knows that small businesses are the backbone of American economy. More than 50% of all employees are small business, like your guys, like the dental practices, the medical practices, like our company. It's at least 60% of all job growth in any cycle you go to. The taxation strangulation deal was just killing us and another four years of that, I think would have just taken us deep six.

Here's what I like about Trump, and obviously he's bombastic. There's a lot of things I don't like that he says. Most of his policies though, as I've read them, now I'm a little concerned with what he's talking about with trade because I'm more or less a free trade guy, but free trade needs to be fair trade.

Everybody needs to be playing a level playing field and if that's what he's trying to accomplish, I think part of what he's doing with trade is posturing to try to get a better negotiating deal. I think he's got kind of the carrot and the stick approach on this deal, but I don't think at the end of the day he's going to start a gigantic worldwide trade war, because his advisors around him are going to go, "Hey, that's what happened in the 30's, we don't want to go there." I think he's doing this for posturing and negotiation to get better deals that are more fair for American workers. I think that part is legitimate.

I think, literally David, we have the ability to go from a complete reset, especially if you deal with the supreme court nominations that he's likely to be able to have in the coming years, I think we can change the complete direction of America. We were going down the tubes towards socialism, toward collectivism in American fashion. We've already tried that. They've tried that several times in world history. They tried it in Russia, it didn't work, that was the extreme form communism and also in China when they were communist and they still are, but they're coming into free enterprise. They tried socialism in India and had miserable suffering for years. Now the Chinese and the Indians are trying to copy what we've done. They said, "Hey, this other system didn't work. It's broken. It'll never work, so let's try free enterprise," and they're in the process of moving. They're very early in this, 10, 15 years into it, but the process of trying to move from socialism with India, communism with China into free markets and they're seeing explosive growth and people are coming alive because they love freedom.

Anytime you give people freedom, it causes entrepreneurial activity to happen. If you put them in a box and put them in jail and you try to control everything they do, it squelches all economic activity. I believe God has put inside the heart of every person, the desire to improve themselves, and so all you've got to do is open the box and let freedom out and people will go. They'll go and they'll build and they'll grow. God said basically, let us make man after our own image. God's a creator. How many stars are there in the universe? How many galaxies? There are an innumerable amount of stars, he's the creator so basically we're creators too and everybody has that in their core. What Trump will do, I believe, I think he's going to radically slash regulation, which is gross overkill.

General Electric actually decided to basically cut 50% of their revenue out, gross revenue, by doing away with their lending except for products that they use, simply because they could not keep up with Dodd-Frank. The president of the firm, the CEO said, "We have hired 1,700 compliance officers just to try to comply with all these provisions and we still have a little more than 50% of it passed after eight years," so he just did away with the whole division. A company the size ... I think they were number five in terms of total lending. Essentially when they do something that radical, that tells you this is a gross overkill.

Number one, I think the regulations are going to shift and I think shift radically. I hope he takes some turn around experts and puts them in charge of some of these divisions of the bureaucracies and just says, "Slash people, slash regulations, I don't care what you have to do to change the laws to get that done, but just do it." I also think the taxation, especially for corporate taxation, small businesses, if we change that system and the plan he's talking about, because I've actually read the plans, I think there's going to be an incredible boost to the American economy. I think all these things economically are extremely good, the direction he's heading, everything right now, I'd say 80-90% of it looks extremely good. We'll have to see on the rest of it. He's actually putting people that have real world business experience in place instead of academics with PhDs who have really kind of gotten us into the mess we're in.

The first issues is, we've got to free up the economy. That's what he's talking about doing is we've got to grow the economy again. Do I think four percent is achievable? Yeah, we've had an average return in terms of gross domestic product of 2.1% since Obama took office, and again, he inherited the crisis, he didn't create that, but his medicine didn't work. We have had the slowest economic recovery in the history of the United States out of the bottom and normally you have extreme rebounds from extreme downturns and this one didn't happen. The issue is the medicine didn't work. We passed more regulation, more taxes, took an antagonistic approach to business as if we need to punish these people, they're guilty until proven innocent and that whole approach has not worked. It doesn't create business confidence and entrepreneurism and it doesn't create jobs and wealth.

Trump being a business man who's very successful and pretty high end, he knows how to create business, he knows how to make it work. I think Governor Perry becoming the energy secretary is an awesome situation. I don't want to go into great detail on this but I think the people he's appointing right now, I've very impressed with, at least in the areas of economy and the things that touch the economy. I think the Trump effect is going to cause an economic boom of sorts. Will it be as good as the Reagan years? No, it won't be and simply because again, going back to our thesis on demographics, in Boom to Bust and Beyond we talk distinctively about the baby boomers created the largest boom in the history of mankind.

As those of us, and I'm a baby boomer, I think you are too David, those of us that got out of school, we started buying houses, clothes, and cars and as the demographers talk about it, the pig and the python approach, or this huge surge of people ... again if you get 76 million people buying houses, clothes, cars, that's going to cause economic activity, a boom in

GDP, a boom in corporate profits, and that's what we've seen. Reagan came along he said, "Let's deregulate, we're over-regulating the economy, we're stifling it," which is what we saw in Jimmy Carter years, from taxation and regulation. He said, "Let's free all that up." That happened precisely when the baby boomers were entering the beginning of their spending years and all of that created boom and it affected America for 30 some odd years.

Then the pendulum chain swung too far back into the Liberal camp of the over regulation socialism mindset. Now we're swinging back into free enterprise again. Again David, I think it has the ability, I think it has the potential to revolutionize where America is going to go over the next 35 years.

David: I agree that Trump has really made some great choices with his cabinet selections and as you said, they're business people, they're not people that are from the academia, so big difference there. He's not even been inaugurated yet and yet look at what the market's already doing, right?

Jerry: Exactly, market is celebrating. It first took a big dump, which is kind of surprising, but the market's now anticipating what this might mean for the economy even though any medicine he's going to put in is going to take several months, probably second half of the year at least to take effect. The market's already anticipating positive effects and I think rightfully so. I've been concerned we were going to have a bear market and I think if Hillary had gotten in, the bear market would have been full bore by the first part of next year, a historic bear market. I think Trump has reset that whole thing. We're likely I think to have another 18 month, maybe 24 month extension.

This is one of the longest bull markets for stocks in US history but more importantly, I think it's going to be different. It's not going to be a rising tideless haul of boats, small cap, mid cap companies are probably going to be the preferred areas and certain sectors like oil and gas for example, but I do believe it's going to extend that. At some point in time you have to have a recession so we hope he has all of his good stuff in place before we have another bear market or recession.

David: Yeah, I think historically, haven't most of the recessions occurred in the first couple years of an administration? Again, things are different every time we go forward but a lot of times the policies they put in place, but I think Trump will have, as you said a resurgence in the economy and the business sector. What about the wildcard, it's not really a wildcard, but no one talks about it except a few people like yourself, and that is our national debt and our continued deficit spending. That's something, again, Trump is inheriting that's doubled in the last eight years and to me, some point Jerry, where does that become an effect. How far can we keep pushing that down the road, how much does the Trump effect, can that carry things forward before again, the debt becomes an issue? Tie that in if you would to what you think interest rates may do. The FEDS starting to bump them up a little bit, how high can they really go?

Jerry: Good questions. First of all, with the economy, I think Trump ... It's kind of first things first. Trump has not talked about the entitlements much except to say he's going to renew them the way they are right now, which I think that that's the only thing you can do. If you look at what's happened, George W. Bush tried to reform social security in the very first year that he was the second term and it basically shot him down. He was a lame duck from that point forward. To tackle the entitlements, that's a huge issue. It's not an immediate crisis but it's going to become a crisis if we don't tackle it so I think first things first, he's got to fix the problems with the economy and get us to the point where we can begin to grow as fast as we can possibly go given the demographic headwinds that we have today.

Secondly, the $20 trillion worth of debt we have today, again that's only the tip of the iceberg, that is the portion of debt that has currently been overspent. In other words if you accumulate all the deficit spending from George Washington through the end of Barack Obama, we've got $20 trillion worth of debt and more than half of that came during the Obama administration. That will become a crisis at some point if it's not taken care of. It's kind of like, medical guys would appreciate this, a slow growing cancer in the patient. Right now, the patient's not feeling a lot of ill effects from it because it's a slow growing cancer, it's kind of isolated, it hasn't spread throughout the body, but if we give it enough time and we don't do anything to arrest the growth of that, it's going to be a big issue. As a matter of fact, it has the potential to be a worse crisis than 2008, probably within the next 12-15 years, maybe the next, I don't think five years, but sometime between now and 2030 would be my guess.

We've eventually got to tackle the entitlement reform because social security, medicare and medicaid and the food stamps and all the things the liberals have spent all this time building up, and I'm not against necessarily any of these programs per se, especially social security and medicare, but the issue is, the politicians get elected by giving away stuff and spending money they don't have. They get re-elected by giving more and so the tendency is there's not an accountability long term to worry about the spending for the government because they have a two year political cycle if they're in congress, six years if they're in senate, four years if they're president and so long term pain, they don't care about. They care about getting re-elected, they care about the squeaky wheel getting the grease, the lobbyists.

All the campaign ... My wife did a session with a lady named Andrea Lafferty who runs the traditional values coalition in Washington and they did a deep dive expose, if you will, on the national institutes of health. They found our government spending things like $750,000 for a study to see how do prostitutes spread venereal disease at truck stops and all these academic studies were based on gay studies. They had pictures of doctors that were in charge of big grants, millions of dollars worth of grants and they had a picture of them all going on a party dressed in drag. A lot of that money is waste. That's sort of a drop in the bucket in a way, but the government's gotten out of control. We don't know, no one knows how much spending is taking place. She went and confronted the first aid, the secretary of staff of Kay Bailey Hutchison who was a senator who was on that board. At first he said, "We're not going to cut your benefits, we're not going to cut your benefits." That's how he started the conversation.

She sort of set him up. She flips open this book which shows these gay guys in drag spending all of our money and she said it was like he recoiled. It was like you had slapped him in the face. He recoiled back in his seat like, that's not the national institutes of health. Wait a minute, the senator is on the board. It's no offense to Kay Bailey Hutchison. She was a pretty good senator, but he had no clue this was going on. When you get to the point where that's the case with the government, something's got to change because it's uncontrolled and it's not accountable to the people. The issue is, government has gotten too big, all these entitlement programs have gotten way out of control and it's going to create a massive crisis in the next 10-15 years if we don't do something about it.

First things first, I don't think you can tackle that right now. You've got to tackle the other things. Prove that you have a track record on fixing the economy, get America where it's truly energy independent so we're not worrying too much about what's going on in the middle east and whether we can pay our gas bills for the average American consumer. Get those things fixed and then maybe tackle that in the second administration assuming he gets one.

David: Very good. Jerry, you and I are just almost exactly the same age and when we were both coming out of school, I was coming out of dental school, you were coming out from your education to go into the financial industry. That was 1980-81, interest rates, Paul Volcker came in to try to tamp down the inflationary aspects of that era from Jimmy Carter, mortgage rates were up 18%. I was a kid that was putting some money in money markets and I was getting 16-17%, I thought, "This is great, this is great." Of course, rates have been coming down ever since and now look where they are today. Little bit of bump here by the FED, but in Europe, negative rates. Talk to us a little bit about where you see rates going, and again how much affect does the debt have and how much control does our own government via the federal reserve which is supposed to be an apolitical branch, but whatever it is, how much control is there? What do you see?

Jerry: First of all I see rates rising from here for the foreseeable future, at least until, my guess and I would say David I reserve the right to change my opinion later, the issue is I'm thinking that the economy will probably have a downturn in 2019, would be my guess right now. Part of that will be this very factor, inflation is starting to build under the surface. Now, it's not really bubbled up to the surface where it's apparent, but if you've ever boiled an egg or something and you watch the pan and you're like, "When will this thing ever boil?" You begin to see these little beads develop on the bottom of the pan before it gets to critical mass and gets hot enough to boil, that's sort of where inflation is right now. I'm not talking about 1970's era inflation, not at this point. Maybe next decade, but not now.

The issue is, wage pressure is building, the Atlanta FED wage tracker is running up about four percent a year now and it's accelerating. Everything's kind of a geometric curve on the wages. Of course, wages are typically 65% of the average corporation's cost factor, wages and benefits, so I think inflation's going to get, again, not extreme like the 70's but it's going to get more pronounced in the next two years as we move forward. Infrastructure spending, I do believe will be good for the economy. That's going to put upward pressure on commodities. I think oil has bottomed out and is going to be rising pretty significantly over the next two or three years. I think it's a great buy right now at this point, by the way.

Saudi Arabia kind of fell on its own sword trying to push too much oil into the market when it was weak a couple of years ago and now they're facing a crisis of their own because their deficit to GDP was 15% and ours at the worst of the crisis in 2008 was 10% debt to GDP so they're sitting there going, "We've got to borrow money on the bond markets," and, oh by the way, if people don't like you over there you have an Arab spring. It's a little bit different in that world than it is here in the United States where you just de-elected or voted out of office. Over there you get your head chopped off if enough people get mad at you. They've kind of realized, whoops, we've carried this too far and it didn't work real well.

The bottom line is, I think inflation will be more of a factor in the next two years than it has been, again by god's grace, we were one of the first that identified deflation as a pressure. We said this all the way back in the 2000's before anybody was thinking about this because we said hey, there's going to be a big rollover with the demographics as the baby boomers move past their peak in consumer spending which occurs in about the mid 40's and by the time we get to 2010, all the baby boomers will have passed that point in cycle. There's only 41 million baby busters, following the baby boomers that can't drive the economy as fast as the boomers did. We said, number one this is probably going to be deflationary in its impact. I never anticipated that Wall Street would do the crazy things with funny money lending and leveraging it 30 to one or whatever they did, but that's really what created the crisis more than anything and made it more acute.

In early 2009, we published a series, matter of fact I don't know if you went to that conference we did, but the title of it was Deflation, Friend or Foe? We started talking about deflation really in depth and what that meant, in January of '09, which was before we even hit the bottom of the cycle yet, we hadn't even hit the bottom in the market yet, they hadn't even passed the we're not going to mark this to market type stuff for the accounting boards. The bottom line is, deflation, we began to talk about it real deeply at that point, almost everybody else was saying, "Oh we're going to have all these green shoots and everything's going to bounce back faster than ever," and I'm like, "No way." They're pushing on a string, you burst the bubble, Humpty Dumpty's fallen off the wall, you're not going to get him back together again, not the way he was.

I think all those things are still in play in Europe. Japan has a lot of issues with deflation. China has too much in commodities, but the US has mostly burned off the bad debt from the real estate crisis and I think inflation's going to be more of a factor. I think interest rates will probably be climbing, at least the next 18-24 months. At some point, they usually take it a little too far and that usually pushes us over the edge into a recession. Although I'm more concerned about the stuff overseas that can go wrong than I am in the US. I think we're still in better shape than anyone else. I think the foreigners are proving that because they're buying US real estate and they're buying US stocks right now.

David: Let's talk a little bit about US real estate Jerry. Again, you've got such a wide spectrum of knowledge and I know you've been talking a little bit more about real estate, at your last conference a couple months ago in October, definitely went in that direction. Talk to us a little bit about real estate and what you see as maybe opportunities there and maybe even also the use of, I call it, good debt or good debt leverage when they're using to acquire capital assets that really produce?

Jerry: Yeah, I think using debt prudently makes sense with real estate. Right now I would either be fixing long term rates at this point or the other alternative is, if you're going to do variable rate financing, you may have one more shot at interest rates. You were talking earlier about when we got out of school. I remember that very well too. I was just getting into the financial industry and money market mutual funds were paying 19%, which was unheard of. Most people, they didn't even know what a money market mutual fund was. They were like, "What is that?" It just got invented so interest rates were at extreme highs then. We probably hit, what we call the secular low in July, meaning the low for all time. Rates move in really gigantic ways.

We had a huge interest rate spike that started from essentially the end of the great depression, world war two and interest rates and inflation ratcheted higher in sawtooth fashion from all the way from world war two until 1981 when we hit the peak when Paul Volcker was trying to stomp out inflation, which is when you and I remember the 19% interest rates. Then they've been falling in sawtooth fashion all the way since then. Now in July of this last year we may have hit the all time low for ever.

That depends on what happens, I think, again, I'm expecting a Trump bump for the next 18-24 months. The next recession, we could go back and test those lows in America. Europe, its negative interest rates which are starting to creep back up a little bit. Japan is also that way. Negative interest rates are a really bad idea. Europe is in a Quagmire.

It kind of reminds me of the old jungle movies we used to see when we were kids where Tarzan's trying to save people and somebody falls in a bunch of quicksand and they're slowly sinking and Europe's doing that right now and unless they have a Trump revolution going on over there and it looks like some of that's starting in some parts, they're stuck because they have too much socialism, they don't have a dynamic enough economy, people tend to view employment as almost lifetime, it's very difficult to get people out of six week mandatory vacations. They've really got somewhat stagnation in their economies. France for example, 57% of France's GDP is government spending, which is pretty astounding and so 14 of the top 15 socialist nations are in Europe in terms of debt to GDP from the standpoint of how much their government spending makes up the economy. That's ridiculous.

We all know, if you remember basics and 101 of economics, monopolies are the least competitive, worst economic mechanisms possible. There you are with the government taking up 57% of your economy. They're going to have to change. I believe they're going to have an age crisis much sooner than us. I think there's probably going to be a fracturing in the Euro zone at some point in the next year or two. Essentially, if we look at, let's say a year or two out, let's say we get a Trump bump for 18-24 months and it could be a really good one by the way. People are getting more optimistic and more enthused by the day almost. I know the honeymoon will be over after a while then the hard work's going to have to sit in, but I still think we're probably going to get an 18-24 month bump. The issues that are facing Europe, Brexit could create some problems. Italy just had a referendum, they decided no, they weren't going to reformat their government. Italy has the worst banking system in the world. It's actually worse than it was in 2009.

I made a statement earlier David, we were talking and I guess I never finished the point. In my whole 36 year career plus all the years that I've studied of the economy and the markets, I've never seen a situation where basically there is one bull market in the world and that's the United States. If you look at the stock markets across Europe, Japan, China, the emerging markets, all of them are in bear markets right now. There is one bull market in the US. What's happening is the foreigners are not dumb, they're going, "Hey, the United States came back faster, their economy's stronger, their economy's more dynamic," even with the strangulation that we were going through with the Obama administration with taxes and regulation. They're pouring money into the United States stock market and also in real estate.

What I think real estate, if you look at crises sequentially, we had a real estate crisis in the mid 80's and early 90's, then we had a recession in 2000, 2001, 2002, then another real estate ... Generally you don't ever hit the same area twice. It's kind of like in 2000 you had the dot com crisis. 2008 we had a real estate sub prime crisis. I don't think we're going to see a big crisis in real estate. You may have a little bit of a dip, but I do think that over time real estate's going to do extremely well in the US. One of the reasons for that is the pensions of the world. The pensions of the world and the United States in particular are very very underweight real estate. If you look at their portfolios, globally real estate makes up pretty close to a third of all financial assets in the world. If you look at real estate, stocks, and bonds, which is where most of the money is in the world, it's about a third, almost a third. In the United States the average pension plan has 2.7% in real estate right now, which I think is ridiculous.

We've had this situation since 1981 under Volcker where interest rates have been falling, falling, falling and falling in a sawtooth fashion, which means that anybody that invested in bonds are seeing the value of their bonds go up as interest rates go down. The pension managers of the world, that's the world they were raised in. They're kind of like, "Well if it ain't broke, don't fix it." I would say to the pension managers, it's broke now. You need to make a change because they've been projecting seven and a half, eight percent rates of return forever. That's not happening right now. The S&P 500 has made about four percent in the last 15 years in spite of the rally we're having this year. If you go back all the way to 2000 its made just over four percent a year on a buy and hold basis. Bonds, okay, well whoopty, we're going to get two or three percent on our bonds? How you going to get your seven and eight? It's just not get there.

What they're going to have to do, especially as inflation turns, I think we've hit the turning point for inflation in the United States, as inflation begins to accelerate over the next five, 10, 15 years, real estate's going to be more and more important part of the portfolio of individual investors and the pensions. Big institutions of course is where the big money is and so that money I think is going to gradually begin moving more and more into real estate going hey, inflation could be a factor coming. By God's grace we were one of the few that identified deflation early on. I think we're also going to be one of the few that say inflation is now the issue. As a matter of fact our October conference we did, it was entitled Get Ready for Inflation Now. Of course I wasn't even anticipating Trump was going to make it at that time, but okay, it's time to start looking for inflation now, not deflation anymore at least in the US.

I think of course certain types of real estate will prosper the most from inflation. All will prosper generally, but I think obviously there's certain sectors and all you really want to do is think about, what has the ability to raise rents the quickest if you get into an inflationary environment, but generally I'm very positive about real estate. We were very small percentage of our portfolio in real estate back in the 2000's because I was concerned about a real estate dump with the demographic issues. We had very little in real estate and we very carefully selected and what we did worked very well by the way, by God's grace through that cycle. We are significantly heavy in real estate for the portfolios now and believe it or not, this is investment heretic in the rest of the investment world. In bonds, we literally have zero dollars in bonds right now. We have managed accounts we have absolute return type strategies, but our portfolios are real heavy in real estate and will continue to be for the foreseeable future.

David: Jerry, these are great insights and I've just got to thank you so much. People who've been listening today, you can see why listening to Jerry is like drinking from a fire hose, but it's great stuff Jerry, you're an encyclopedia of knowledge and experience and you're so well rounded that's why I really appreciate where you come from. Again, this is a interview with Mr. Jerry Tuma, the author of From Boom to Bust and Beyond, also Smart Money Newsletter. There's also a weekly e-letter that comes out and you could also pick up Jerry's weekly radio show, Smart Money Radio by going to the website, www.cornerstonereport.com where you can find more about Jerry and archives of the show and reports. Jerry you're a prolific speaker, writer, author, love everything you do and I think people would be wise to connect with you on some basis.

I know I do on a regular basis because you keep me pointed in the right direction and give me, really the balance of information I feel like I need to make the best and most astute judgements I need to about my own portfolio.

Jerry: Thank you David, appreciate the compliments.

David: All right Jerry, thanks again. Have a great day and we'll talk again soon.

Jerry: All right. Thank you.

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