Recession and Reindustrialization: Investing Wisely in a Time of Transformation

David McAlvany: Ep #532

David McAlvany:

When you look at say, pension funds and mutual funds today, they are not able to maneuver. They've decided to set it, forget it, and now they're going to have to pay the piper if there's downside. If there's upside, you win. There's downside you lose. And so we are not willing to accept that. We're willing to say active management is not just equity selection as the active management piece, but it's also risk mitigation.

Dr. David Phelps:

Decades ago, I hustled to grow my dental practice and real estate Empire Society patted me on the back and every new deal and patient reinforced the success they said I had. Then my daughter Jenna was diagnosed with leukemia. Nine years, several intense chemo treatments and years of epileptic seizures. My daughter was given one more miracle, a life-saving liver transplant in that hospital. I realized I wasn't successful. I had money, I had real estate assets and a business, but the only thing that mattered was time with my daughter. In that hospital room, I decided to sell my business, leave active income and sustain my lifestyle with my real estate assets. Now Jenna is healthy and all grown up and me. I am teaching others to do what I did and I continue to uncover the principles, strategies and lessons we can apply in business and investing to create ultimate freedom for what matters most to each of us.

Welcome to the Freedom Founders podcast, David McVay, CEO of McVay Financial Companies and host of the McVay Weekly Commentary is one of the key people I listen to weekly. David brings a multi-generational lens to global macroeconomics, precious metals and alternative investments with decades of international economic experience and deep family roots in wealth management, David offers R insights into what it takes to not only survive but thrive amid the major economic shifts. Today in this episode, expect to hear the real motivations behind Trump's economic agenda, why a recession might be by design and how to prepare for it, the hidden risks in hedge funds, private equity and private credit. How to strategically allocate wealth in uncertain times, why precious metals remain a powerful hedge and wealth preservation tool. How active investors can outperform in volatile markets and much more. Please welcome David Albany. David, so glad to have you today to talk about really where we are in a large scale macro world, but also looking at the various iterations in a more granular basis that many of us as business owners, entrepreneurs, investors, are trying to navigate in really quite a tumultuous time.

We'll lay out some of that here on discussion today, but this is where you are so good because you have multiple generations through your parents of looking at this macro world. You travel internationally, you've been involved in the economic ecosystems and you bring a real opportunity for us I think to look through that lens. So since we had the November 5th elections, we've had the inauguration January 20th now of this year, and we have seen the new administration going extremely fast toward their goals and really just causing, as we would expect, a lot of disruption. I'll be the first to say that I think a lot of the things that needed to be done, the wastefulness, the doge geopolitical risks that are out there, do we have more peace? Well, we don't know yet, but there's so many things that were left off the table in previous years that I think something has to happen now, is this the right pace, the right speed?

Nobody can tell but at least something's different. However, that speed robustness of the movement that the Trump administration is making is causing a lot of disruption in the economy and we saw that actually today. I'll just go ahead and date it today we're March 11th. We're a day after we saw some relatively significant drop in the major indices, the Nasdaq, the s and p, the Dow dropped a good chunk. That uncertainty is causing a lot of retraction. The government, the US has I think around $9 trillion if I'm not mistaken, that has to be refinanced, rolled over sometime this year of short-term debt, which has been predominantly what Janet Yellen was selling our debt on short-term basis rather than the long-term. So using the short-term basis, it seems to me that Trump is okay with a recession. I think he sees that there's going to be pain before there's any gain.

I think we all agree there has to be. It looks like he's taken that on trying to push a recession which would maybe drive more uncertainty, drive more higher power towards the absorption of short-term treasuries, which would then decrease the debt that the country has to pay. We know that hasn't changed the long-term end of the curve because we've seen those rates. They've been coming back down again a little bit maybe towards recession, but all this is all interplayed. Amongst the global economics we have tariffs which are I guess typically inflationary, but then again short-term pain for long-term gain, that's a lot right there. So I'll let you grab what you want to like a ballplayer out in the field. You snag whichever ball you want to and let's go.

David McAlvany:

It's easy to feel confused looking at what Trump is doing and seeing how disruptive it is, and certainly there's plenty of pundits who will critique it on the basis of the uncertainty it creates and the volatility that it also creates on the basis of that uncertainty. I think to appreciate what he's trying to do is a helpful starting point. Our best lead on figuring out what his playbook is would be reading Steven Moran's 41 page paper from November of last year. So he's working the private sector and was likely to be tapped to be the head of the economic council and that's what he's been nominated to become. So reindustrialization is a priority. Privatization of the economy and moving away from the government sector, being as large a piece as it is, is a priority and the net benefit of Reindustrialization is that you reconfigure the global trade system and instead of running massive trade deficits, you come closer to balance where we're importing less, we're exporting more, and those two things kind of balance each other out.

Instead of driving huge surpluses with producing companies and countries all over the world that reindustrialization privatization of the economy and seeking a trade balance. These are the priorities. There's a lot of change involved in that. When you're re-engineering a global trade system, there's going to be a lot of people not happy about that. So if you look at our global trade partners, it's in that negative to them. It's potentially very positive for us in terms of an increase in quality jobs and pay and domestic consumption, which can continue at even a more robust pace. You have to assume that we go into recession because the government sector is a large enough piece that if you shrink it back and you have not one for one at the same time replaced it with private sector jobs, you're going to hit GDP growth. So the economy I would say has to take a hit in that transition process.

Their hope is that it's not a very long transition process and they'll become roaring back with much more predictable three and 4% GDP growth instead of sort of the anemic ones and twos that we've seen for many years now. I think that's the goal and it does represent some significant risk for particularly those who are in the investment world and over leveraged have overplayed their hand 930 plus billion dollars in margin debt. So investors who are so confident that the stock market only goes up, they borrowed close to a trillion dollars in house money to double down, they're in trouble, hedge funds in trouble, and if your leveraged speculators, they're really feeling this pressure last week carried over into this week. Arguably we're putting in a market top, and so these are just the early stages of decline in terms of the financial markets. Mr. Bassen has basically said, we're going to have to go through a detox period, which is their way of saying, yeah, we're going to have a recession. Then when you use the R word,

Dr. David Phelps:

No, no, it does.

David McAlvany:

Yeah, detox for anyone who has read the literature, it's a painful process, but one that they hope cleanses the system and puts us on a much better footing for generations to come. Risk worth taking, I suppose if they can deliver on it, if they succeed, there's clearly execution risk. You don't necessarily get to implement and succeed going from ideas to reality, but again, I'm not hearing anything other than the Moran paper about what the strategy is. It just seems to be very haphazard on again off again, and I think that's where a lot of the uncertainty is coming from within the financial markets and where a lot of the punitive language in the media is sort of attacking the White House and saying, these guys are just crazy. They should all be in white jackets and locked away. I think they've failed to appreciate what the strategy is. That's in a nutshell. I think that's where we're starting from.

Dr. David Phelps:

Here's my special request of you, my avid and loyal and faithful listeners. Out of the thousands of listeners I've had in 2024, less than 10% of you are subscribed to the podcast. That means 90% of you are listening to my podcast and yet you're not subscribed. Why not? Well, it's just because you haven't taken the time to do it. I know I get busy to the same thing and I fail to subscribe to the content that I like. So if you enjoyed or found my content helpful, clicking the subscribe or follow button right now will help the algorithms push my content to more people who can find it just as valuable. Plus, if you are a subscriber, you ensure you won't miss any of my content or updates as soon as they come out. I'm personally excited about the upcoming guests books and projects that I'm working on and sincerely don't want you to miss out on any of them. So hit that subscribe button. Stay tuned for more now, back to our conversation.

Yeah, well, I think we have to go back to the personality of Trump, whether you like his personality or not. Many people do not totally understand that, but he is the art of the deal. He's a negotiator. That's been his whole life and I certainly see that many people don't appreciate that and he's thrown out the tariffs. It's certainly negotiating, you could say a ploy, but he certainly is utilizing the leverage that he believes he has in a way to, you said, reorganize the global economy and the trade system where that lands will see. But yes, I think there's going to be detoxification period, the pain that must get through, and as we consider that what I think you and I and many others believe that we are in a period of time where there's going to be a retraction or recession period. Let's talk a little bit about the allocations that prudent investors may be looking at today. Very few have gone through much of a full cycle, let alone a secular cycle. We can go back to the late sixties and seventies in that period of time when we had stagflation and some people are saying, well, we may be in that period of time again, you and I and others that run in the same philosophy say, well, there's a time to take risk off the table. Warren Buffett certainly being one who has taken risk off the table holding more treasuries than the Federal Reserve right now because in his words, there's nothing valid to buy. Start with again, the bigger picture of how we as investors might preserve our assets and wealth and then look for opportunities as they come up.

David McAlvany:

Yeah, I think the simplest two decisions that can be made is what's your allocation to cash? What's your allocation to precious metals? Those are two ways to hedge your portfolio, and you don't have to be a hundred percent in those assets, but look at your risk assets and realize that you need something of an offset. We run a short fund and that's another way of hedging a position, but you can almost look at cash as a sort of short position, takes you out of the exposed positions that you'd have in the equity or bond market and gives you optionality to enter when appropriate, when values are compelling and a short position is just sort of multiplying that theoretical cash position instead of one x being one x to go back in when you're buying something at 10 cents on the dollar, maybe you've got two x to go in and at 10 cents on the dollar.

So there is potentially some gain if you're navigating that and reallocating alternatives have become very intriguing to many investors and it's been a way that they've chosen to diversify assets and the alternatives were popularized by pensions, endowments, high net worth investors with an atypical time horizon, and they were willing to extend their timeframes or accept a greater degree of illiquidity with the expectation being a higher than equity return. So if the classic return in equities is somewhere between six and 8%, they basically said, if we're willing to lock it up, not touch it with an endowment or pension, you're thinking it's in perpetuity. So time is taken out of the equation different than say someone whose retirement has five year timeframe, a

15 year timeframe and a 25 year timeframe, but a definite timeframe where you're going to need the assets. So the things that have been sort of at the forefront of the alternatives, private equity, hedge funds and private credit and private equity, these are your leveraged buyout groups looking to maximize non-publicly traded companies.

They figure that they can manage the company better than if they were in the public sphere. So they may buy a company that is currently in the public markets, take it private, own it, rem it, maybe even they break it up into component parts and resell those various pieces. So that's one version. Private equity hedge funds come in, I mean it's a smorgasbord if you've got somebody to choose from. You've got long short, you've got market neutral, you've sector specific, which might be infrastructure or natural resources. You've got event driven, distressed, debt activist, merger arbitrage, global macro. It goes on and on in terms of the kinds of hedge funds that are out there, funds of funds which are basically like a mutual fund of hedge funds, those would be others that are out there. And then that third category mentioned private credit, which is really just illiquid junk debt if I'm to be honest.

That's what it is, plain and simple. If you couldn't qualify for a bank loan, you can still qualify in the private markets and it's going to cost you more than high yield or junk debt, but less than hard money lending. So somewhere in that range, and it is among the junkiest paper out there, but it's become an institutional staple. It's become one of the most popular asset classes amongst pensions and regardless of the risk attached, they see it as a diversification. Now do I think any of those three are prudent investments today? I think you could make a case for some quantitative hedge funds and for some global macro hedge funds, but I think the majority of hedge funds are at risk because of the amount of leverage that they apply to a portfolio. Essentially they're taking to be fair and somewhat unfair, let's just take a standard equity portfolio and then leverage it four times.

Their outsized returns are coming from the leverage, not necessarily quality of the portfolio. What we've seen this week, as an example, financial Times wrote an article on this last night. This has forced de-leveraging in hedge funds where they've got so much leverage, prices are moving against them, they'll run through their equity pretty quickly because of the size of their footprint in the marketplace. So they're forced to deleverage their positions and forced to sell into the market, which exaggerates the downside volatility That describes a lot of hedge funds, so I would be even cautious there, steering clear private equity and private credit in my opinion, because those two also rely heavily on the cost of capital. If interest rates are high, their assumption has been particularly in private equity that they would be able to buy the company and sell it within a three to five year timeframe at a multiple of what they paid for it.

Now you've got a $3 trillion backlog. There's only about 4.3 trillion in the entire private equity space. 3 trillion of that represents a backlog of companies that they expected to sell, not last year or the year before, but now we're coming up on 2, 3, 4 years delayed because we've had this rise in interest rates. It changed the metrics for their exit. They can't get the numbers that they want, so now they're just sitting on it and creatively, if they need an exit, they'll just sell a company to another private equity company that they own and control and try to capture some profit, pay themselves, pay a few investors back, but you're basically just giving the bag to somebody else. So I think we're in an unhealthy stage with your private equity. This is one man's opinion, but private equity and private credit I think are up against it in large part because interest rates have come up and I don't think they come down sufficiently to get the multiples that your PE promoters need to exit.

Dr. David Phelps:

Well, I've seen some examples that private equity because they can't sell in their three to five year timeframe, but their investors are looking for that bump and getting a little bit impatient. So I've seen some private equity go to the private credit market that you just discussed and recap or refinance at rates much higher, and again, what are we doing here is kicking the can down the road, short term, pay off the people on the front end and you guess keep their fingers crossed that rates will come down. I mean, it's a dicey game it seems to me.

David McAlvany:

David, one of the things that's important to recognize with the alternatives as they're currently viewed is there's an evolution from it being sort of only for the elite hard to qualify participant to a different stage where it's broadly distributed and accessible to the average investor when they have access to it, and now you have private equity and private credit ETFs which you can buy and sell with a click of a mouse. You're taking something that is inherently illiquid and trying to paper over and say, no, no, no, it's perfectly liquid and those two are mismatched.

But I think it's important to remember where you're at in the stage an assets cycle from early adoption to full maturity. By the time you've distributed it into an ETF, the best returns are already in. Lo and behold, if you look at private equity returns over the last 12 months, they're now showing the lowest returns and it's inconsistent with their history. So I to private equity promoters quite often and they're talking about their historical returns and they've got such a delay in their reporting, they're not really factoring in the last six or 12 months, so it's like, look how well we did way back there. Sometimes precious metals are treated as an alternative because they're not a stock, because they're not a bond, so they don't fit that traditional asset category, so they just kind of get stuffed into the alternative category because it's not traditional as we define traditional today, I would describe it as the first alternative asset and probably one that people should still consider in

Dr. David Phelps:

Particularly the last year and a half with the holdings that I've had with your help and guidance in the precious metals. Certainly as we've gone through the volatility that we've seen in the last 18 months and certainly even the last few weeks, I've looked at my precious metals portfolio and it stays relatively calm, not withstanding the fact that it's had a great runup over the last 12, 15 months in terms of the inflation hedge aspect. So that's been a wonderful premium, but even in amidst the volatility we've seen in the different asset classes, the precious metals have remained very, very, very stable. Again, we can only predict, and I know you would probably say that besides being a good insurance hedge, it's a place for risk off asset employment in a period where investors saying, well, I don't want to just sit all in cash or treasuries, but I'd like to have something that maybe provides a little more upside. So again, some balance or allocation amongst that classification would be a prudent thing to do and again, this is your forte, so I'll let you speak a little bit more to that.

David McAlvany:

Yeah, well, when you're constructing a portfolio with precious metals, there's a proper way to do it. If you want more than just a hedge, you could just buy some gold kilo bars and call it good if you're looking for just the hedge, and that's certainly what central banks are prone to do. It's a far more liquid market. They can come and go buying tons at a time, millions of ounces at a time and not move the market. If you tried to do that in silver, you would definitely move the market if you tried to do that with platinum or palladium, it's not even possible with those latter two white metals. It's such a thin market, so if you want a growth component, you can capture ratios. It's kind of the arbitrage between the metals or even premiums depending on where you purchase. Some products today carry no premium but have a history of trading as high as 20 or 30% above their base metal value, and that allows you to compound ounces so you don't necessarily have to see a move in the metals if there's any change in the demand dynamics for this product, all of a sudden premiums are there.

You can harvest those gains and capitalize on having more ounces. I think most people are stuck in sort of a 60 40 portfolio mix. They don't even think of precious metals, and when they do think alternatives, they don't think precious metals either. They think of the three categories we mentioned earlier, so the 60 40 portfolio, it has worked incredibly well in a period of declining interest rates where your cost of capital is coming down, the value of your bonds, interest rates come down, bond prices go up, right? So you've got a winner there and you've also got a winner in stocks because as rates come down, what they call the hurdle rate, if you're looking at the capital asset pricing model, it allows for a revaluation of the company to a higher multiple. So interest rates drive gains and growth in stocks as well as bonds.

The reason why people look at 60 40 and say, or maybe you're getting older and it's the other way around 40, 60, less equities, more bonds, they say more bonds in a portfolio is safer, but safety has nothing to do with price volatility. Safety is really about what happens in the event of insolvency, and that's where you stand in the capital stack. If you're going through a bankruptcy, you're first in line as a creditor, you're last in line as an equity holder, and so there is a diversification and less risk in a bond, but that does not speak to the price volatility in the underlying asset, which is where you have to look at external factors to see what's driving interest rates and ultimately the value of those financial assets.

Dr. David Phelps:

What about the commodity cycle? Where do you see that today and as opportunities for the future and also part of a portfolio allocation?

David McAlvany:

It's super idiosyncratic, depends on what the commodity is. So for instance, we've got to have GDP growth for many commodities to boom. If you're talking about iron ore, if you're talking about demand for concrete, if you're talking about demand for aluminum and steel, it really helps to be in sort of a demographic boom, and that's pretty hard to find these days. We had a massive boom and a huge commodity cycle coming through 2008, 2009 as we were watching China basically shift their economy from being predominantly agrarian to reinforcing their mercantile base and being sort of the exporter of all goods to the world, and so as they migrated folks from the farms into the cities, they were the primary source of demand for copper and iron ore and all of these basic industrial commodities. We don't have that kind of a commodity supercycle today. I think there is a boom in energy, which is in the early stages, and I think there is a boom in the metals in part because you're seeing central banks and reserve asset managers allocate that direction and also in part because as financial assets face the headwinds of higher interest rates, higher cost of capital, people start to look and diversify and that creates a new source of demand, investor demand for the metals, but even within the energy space, it's idiosyncratic.

Take for instance, oil today, oil in some respects is like diamonds. It's a controlled market. We are today the largest supplier of oil and natural gas, largest producer of oil in the world. The US is, we've surpassed OPEC production, but we know that OPEC has at least another three or 4 million barrels per day that they can produce if they choose to. That's the similarity with de beers. De beers sits on this huge hoard of diamonds and they trickle out what's necessary to sell some but keep their margins healthy. They would never want to flood the market because then the price comes down. What we've seen in terms of price volatility with oil over the last few weeks, we know that in April we've got OPEC bringing 130, 140,000 barrels per day back to the market, and they'd like to bring probably closer to a million barrels per day back to the market, so if demand is not sufficient to meet the new supply, prices are going to decrease.

Where we've seen a positive increase 22% year to date is in natural gas where yes, we're a large producer, yes, we're a large exporter and we have growing demand for reliable energy, let's call it reliable energy. The push over the last decade, decade and a half has been towards green energy, frankly not reliable, and that's become problematic. Can't run solar In the uk, you can run a wind farm, but the wind farm is only as good as the windmills as long as they last. Actually, when you look at the capital costs of putting those in place, maintaining them, and then replacing them actually in pretty short order, the numbers don't work. They are renewable, they're clean. We feel better about 'em, but the math is terrible, so you go back to fossil fuels as a way of providing reliable and cheap energy. Natural gas is superior to coal in terms of its clean profile and it is abundant.

We happen to be sitting on the largest stores in the world, and so we're now beginning to export more and more through LNG channels, so we see a bull market in natural gas. Ultimately we see oil catching up, but on a different basis, so it is difficult to talk about a commodity super cycle without managing each individual category. It's one of the things we focus on in our asset management group is global natural resources. That is an expertise of ours, but it's a tough space to manage because every one of them has different supply and demand dynamics.

Dr. David Phelps:

Let's summarize the conversation this way, David, for those who want to preserve, maintain, continue to build wealth and assets, this is a period of time where being much more active in one's portfolio versus the passive investing, that has become more of the default mode that most have gone to because, well, it's worked to a degree, but we're in an era now where it seems that those who really want to navigate the future and have more control, need to be more involved. What do they need to look for and what do they need to move towards to be in that realm?

David McAlvany:

In a rising market, in a rising equity market, all boats tend to rise, and so being a passive allocator can make sense. You reduce your costs and to own the indices. It's difficult to outperform the indices in a rising market when you enter periods of disruption, when you enter a bear market or even just a stagflation, like we were talking about stagflation earlier, a market where you've got some unwelcome factors, then active management pays in spades, and part of that is risk mitigation. We're outperforming the market significantly this year and even looking at last week's T within the equity markets and bond markets and this week also a rough patch, we're outperforming by three to 400 basis points in just that short period of time. That is a result of active management. That is a result of increasing our cash allocations, and so when you look at say, pension funds and mutual funds today, their cash holdings at the most recent measure were less than 2%, less than 2.5%.

I think mutual funds were like 1.6 and pension funds were 2% roughly. They are not able to maneuver. They've decided to set it, forget it, and now they're going to have to pay the piper if there's downside, if there's upside, you win. If there's downside, you lose, and so we are not willing to accept that. We're willing to say active management is not just equity selection as the active management piece, but it's also risk mitigation, and so being proactive, caring a lot about cash. We've got a healthy cash percentage in our portfolios today, and so we'll yield four, four and a quarter percent in current short-term treasuries, and we're not taking risk with a huge part of our portfolio, but the portfolio piece that is growing is growing nicely. Very interesting to see over the last two weeks the differentiation and performance between things that are precious metals related.

These could be companies that are mining it versus the broader equity markets, a huge dispersion in returns. We're seeing growth, we're still seeing contraction in your more traditional assets, so trying to manage risk allocate to quality companies in spaces that are likely to catch tailwinds here instead of headwinds. That's the art and science of our process and how our team operates, so I think it's a value add proposition in this environment, and yeah, just to be candid, in a rising environment where everything's winning, I don't know that paying us extra money is unless you just like us, there is a time and place for passive, but that time and place is not here and not now.

Dr. David Phelps:

Well said. Well, it's been a great conversation, David, and again, I want to just say that you are somebody, your team at McVey Wealth Management is a team that I follow on a regular basis. For our listeners, you can catch David on his McVey weekly commentary, which you can pick up on any of the podcasts from the website.

David McAlvany:

Yeah, if you go to albany.com, that's the best way to navigate to everything. You can find our Precious Metals company. You can also find our Wealth Management group, and if you look at any of the pull down tabs, you can also find our weekly commentary. We've got Hard Asset insights, which is absolutely worth reading if you're interested in hard assets. The Credit Bubble Bulletin, which is also put out every week, and it just depends on how much you want because you could have our Metals podcast, which is 10 minutes each week. You could have our weekly commentary, which is more 30 to 45 minutes. We try to put 10 pounds of mud into a five pound sack and give you what you need to be empowered to think well about the environment we're in. From a macro perspective, hard Asset Insights focuses just on hard assets and what they've done in the last week and the credit bubble bulletin is if you want to swim in the deep end, it's 20, 30 pages each week.

This week was 44 pages long and this is every week, but we try to provide a lot of educational resources so that people are making wise decisions and doing so in a very informed fashion. Our goal to both educate and empower, you'll find that everywhere on our website and you'll certainly find that as you reach out and create relationship with some of our advisors, they need to know you. They need to know your circumstances. They need to know the problems you're trying to solve to best match the resources available to that to customize the solution for you. We've been doing that for 53 years. We love it. We do serving people happy to be a service in any way we can.

Dr. David Phelps:

Well, you do it very well. David McEleney, it's always a pleasure. Thanks for being here today.

David McAlvany:

Thank you, David. Do

Dr. David Phelps:

The most common mistake that I see people make when reallocating their capital during economic downturns or economic fluctuations is well number one, most people don't reallocate. Most people are told by their financial advisors or they're just too busy to even consider where and how and why they might reallocate. Most of us are investors, which means we're long-term investors. I'm a long-term investor. I'm not a trader, so volatility in the marketplace is not something that I get really concerned about, but some people will look at changes in the marketplace and then be in a position where they pull out too quickly from a certain asset class or they may be also following the herd mentality and investing in what family and friends who might influence them to put something in speculative things, maybe like late term cryptocurrency or late term tech stocks oftentimes is the case that I see.

People make mistakes because they just don't have an understanding of what they're doing and they feel that if they're not following the majority that they're making a mistake. I think the mistake is following the majority, but to undo that mistake, you've got to gain some education and take a more active involvement in your financial future than probably most people have to date. There's several things I look at when I monitor the economy for the trends, again, not being a trader, but looking for trends so that I can propitiously reallocate capital at the right time. I look at really consumer sentiment because consumer sentiment, the behavioral psychology is what drives the financial markets. Now, I'm not an over allocator to the financial markets. I like alternatives better, but still I look at the stock market, the Wall Street stocks and bonds allocations and see what people are doing there because when people are pushing those models up as they have been in the recent years, that's a sign to me that we're probably nearing the end of an up market, meaning that equities in this case may take a fall in the near future.

I want to maybe be a little averse to equities and go to a lower profile on the risk curve. Another thing I look at is what's the liquidity in the marketplace? Liquidity is really something that the central banks provide or take away, and particularly our Federal Reserve, which is one of the central banks because we have the reserve currency of the dollar, our Federal Reserve is able, at least still to this point to some degree, influence liquidity in the marketplace by looking in inflation and interest rates when liquidity is tightening up either by central bank obligations or by consumer sentiment. When that liquidity tightens, that usually indicates we are maybe moving into a recessionary period. I'll also look at the herd mentality. Where is the general majority running and putting their money? When I see the big waves of money going into speculative arenas like technology stocks or like cryptocurrency or even in certain aspects of real estate or maybe chasing other types of alternative investments, being late in a cycle is never a good thing.

Being contrarian, in my opinion, while it's hard, it's difficult, has provided me a much better risk averse and hedged portfolio. Not that I haven't taken losses in my time. Anybody who's a regular investor and taking charge of their own capital is going to take some losses, but you learn along the way and become a better judge of allocating your own capital. Some of the best ways for families and small business owners to take action to protect their income and the current economy will be number one to increase more cash and cash equivalent holdings, meaning how much access do you have to cash, whether that's just money in a checking or savings account, or maybe you put it in money markets or T-bills or CDs or US short-term treasuries, even precious metals figures into a more liquid aspect of your allocations. I believe when we're looking at the volatility of the marketplace, having more liquidity, even though it may not earn the kind of returns that we want, long-term is a safer place to be because I'd rather take a little bit less on my return on investment than to lose significantly in my principle.

Also, with debt comes risk reducing debt, reducing the leverage of debt and also reducing any variable rate debt would be a wise thing to do in a volatile period of time. Also, prioritizing as an individual your emergency savings, having cash buffer, ideally six months even better would be 12 months in this current environment, and I think also just in your overall investments using protective hedges meaning positions that will preserve capital rather than always chasing the higher interest rates, the higher returns that are out there and that are possible and we've seen in the recent years, but realizing that those high returns are less likely to be available in the future and more likely will take a reversion to the mean, meaning those asset bubbles will come down and your position in a better place where you're not in those equity markets, your better chance is to preserve capital and then be prepared to go back into the equity markets after a correction is in place and you can ride that market back up again.

This takes some discernment, takes some reallocation psychology, and I think also means you've got to be plugged in with other people that are doing the same thing to gain some of that knowledge and education to make the right moves for your financial future. Most spend their lives optimizing for wealth, net worth and quantity, thinking them the accurate measuring sticks for success or the magical portals into the lives they want. I believe most people are optimizing for the wrong thing. Time is the greatest resource and time is what we all want more of in the end, but it's not just about the quantity of time. It's about how you spend it. How you spend your time is the most accurate measuring stick of the success of your life, so how can you optimize your life, business, and decisions for more time, and how can you upgrade where you spend your time to improve quality and the satisfaction of life? My new book, scaling Time Versus Wealth lays the groundwork for these questions that provides the lens in which you can filter your decisions to optimize for time and how you spend it. You can get your free copy at scaling time versus wealth.com. That's scaling time versus wealth.com and thanks for tuning in. Be sure to click that subscribe or follow button and let us know what you want to hear more of in the future. I'll see you next time.