

# What They're Not Telling You About the Economy: The K Shaped Collapse

Dr. David Phelps, Jeremy Knauff: Ep #533



## Dr. David Phelps:

Jerome Powell, he's always dancing the tightrope. We see it, right? But that's kind of his job, right? I can't fault him for doing it because if he really told us what he really knew, everything would crater. So you have to take that into mind when you read the media, read the political pundits. You have to always bear in mind what's really behind the curtain. Okay? It's not what they're saying. I hate to say it, but it's not what they're saying. 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.

Today's episode is a bit different from our usual format, no guest q and a or interview per se. Instead, I want to share a conversation I had with a friend and colleague of mine, Jeremy nf, that unpacks what's really going on beneath the surface of our economy. With shifts happening fast, my team is publishing this conversation ahead of schedule, just me and my responses unfiltered. I've been having a number of private conversations with investors,

economists, entrepreneurs, and insiders who are watching what's unfolding just like we are. And what I'm seeing is clear, the system we've relied on for the past 50 years is unraveling. That might sound dramatic, but the numbers, the trends and the geopolitical shifts are all pointing in the same direction. In this episode, I'll walk you through what I'm seeing from the macroeconomic headlines to the policy shifts you're not hearing about and how it all affects you, whether you're a dentist, a business owner, or simply someone who wants to protect what you've worked hard to build.

Here's what we'll cover the end of a decades long credit supercycle and what that means for us dominance, why inflation is not an accident. It's a calculated hidden tax used by central planners, how we've created a KS shaped economy, one that benefits asset holders and punishes the working class, the truth behind helicopter money and why it might have permanently broken the system. Why tariffs and Trump's economic strategy are more than politics. They're about forcing a global reset, the real risk behind rising interest rates, debt rollover and the bond market's, quiet, panic and how market volatility and public sentiment could trigger a much deeper correction. Now let's get into it.

**Jeremy Knauff:**

So there's been a lot of talk lately about everything that's going on in the economy, inflation, tariffs, the economy, investing. I guess let's start by kind of unpacking what's happened recently. There's been a lot of really impactful changes in the economy, so I think that's probably a good place to start. Why don't we go ahead and let you explain what's going on in the economy and what that means,

**Dr. David Phelps:**

Jeremy. We've had a what's called a KS shaped economy recovery, let's say. We can go back decades and decades, but let's just go back to maybe just the most recent downturn and fiscal stimulus that we saw, which was out of Covid in 2020. Let's just go that far back. We can go back many, many times further back. Let's just take that for example, is when something happens. Again, COVID, no one could predict that Black Swan event comes in and creates and then the government takes over and that's again another political event. We don't need to talk, go back and retrace again, but it is what it is, right? We can't change what it was. What came out of the Covid experiment and stimulus and monetization and helicopter money to save the day is what's really been happening for decades and decades and decades, just on different scales, different levels.

And what happens is it all stems from the fact that we went off the gold standard of the dollar back in 1971 when then President Richard Nixon through the advisors he had, which was a time not dissimilar to what we had now, but where there had been a lot of inflation and really stagnant growth in the economy back then. And the rest of the world was asking to actually to trade the greenbacks, the dollar for actually what was backed by that was gold. We want our Gold France and other countries that we want the gold, and they started taking the gold reserve down considerably. And Nixon and his advisors back then said, well, wait,

hold on here a minute. This isn't looking so good. We're running out of gold. And that was really probably the first time that the realization came to the fact that we were right then starting to create what today we would call trade deficits. Up until this early seventies, we didn't have trade deficits. We were a creditor nation. We were definitely the superpower in many, many respects. But coming out of World War II and the Bretton Woods Agreement where the dollar reserve became the basis for everything else, that's what we started to write on. And those were good days. I mean, coming out of World War II, this country was on fire.

Our military came back home. We had already cranked up a big manufacturing base, which was producing all that we needed to fight, help fight the war with the allies. And then we had our men came back again and started the baby boom, of which I'm a product of that to say came out of that wonderful time when there's prosperity in this country and a lot of good things were happening. And over time that prosperity so many things turns bad. And what happens then? We turn from a gold standard to what we now know today is fiat currency, which means there's no backing to it. And so I'm going to go fast forward. Now to get to your point. We ran these decades of becoming a debtor nation and with trade deficits, and as a result, the elites, let's say the top 10%, those who have assets, who have been able to procure wealth, particularly like my age when I came from nothing, but I had these great tailwinds behind me.

So as long as I went out there and did something productive with my life, I actually could build up savings and then make investments out of that and had the benefit of a declining interest rate from 1980 all the way down to 2021, back down to about zero. So that was a big benefit. And we had covid and then if you had assets during covid, well, all this helicopter money that came out and PPP loans and everything, that was just free money that came out. And again, those people who had assets put into more assets and create these asset bubbles that have been turned out really, really well for the top 10%. The problem is, is that let's just say the bottom 50% who are hardworking, blue collar, call it middle America, right? The middle class, which really should be the driver of the economy, should be the bulk of what drives an economy.

They've been really taken to the till and they're tired of it. And Trump ran on the basis of we're not going to put up with that anymore. People are middle class, you hardworking people deserve a better ride than what you've been getting. And so Trump was all about, heck the heck with you, wall Street, we're focusing on Main Street and we're going to change this thing. And Trump got that mandate. We saw it. It came in and he has wasted, to his credit, he has wasted no time. He has been on fire from moment one, he was ready to go. He's been ready to go for four years and give him credit as opposed to the last administration who did nothing, absolutely nothing. And we really had no president, no leader. Trump is doing things now. There's certainly a lot of room for opinion, and that's what we're going to talk about today.

There's room for opinion about everything Trump's doing. I get it, but at least he's doing something. I'm never going to fault somebody for doing something. And I think he has at

heart what he believes is best. He's trying, he and his administration are trying to reverse bad policy that's been running for decades, if not let's say at least 50 years. Matt, let's go back 80 years to Bretton Woods. I mean since then we've run on grift in graft where the elites, those who control the money supply the Federal Bank Reserve, that's been the play and everybody else, it takes it on the chin every time there's a fiscal problem and the stock market starts to drop down and lose capital, who comes to rescue? Well, it's the Fed, right? And fiscal spending and government spending, it's just like, we'll just lay it out there. Well, the wealthy don't take a hit on that at all.

In fact, the wealthy do even better. But again, it's the hardworking middle class that we claim that we care about, that we want to preserve their ability to live. And by golly, we better because they're tired of it and Trump is trying to reverse course. So I'll just kind of stop there and then we can get into what's happened last week. That's a lot to spit out there. I tried to give you 80 years in about five minutes. I don't know if I did a very good job, but those are the pieces I see on a macro basis.

**Jeremy Knauff:**

Absolutely. So there was a term you used in there. I don't know if you think it's worth expanding on, but Khap recovery, I've heard you talk about this before. Is that something that's worth expanding on a little bit?

**Dr. David Phelps:**

Sure. Well, we always want to see a recovery when there's been some kind of a correction recession, we always talk about, and that's the way the market cycles work going back over a hundred years. We go into these boom bust cycles. And again, there's reasons for that, but part of it is because of we have no backing for our fiat currency. So we go through these boom bust cycles and we want a recovery. But the recoveries we've seen as of late, even going back to at least 2008, but again, 2020 covid instead of having a recovery that's generalized for the entire country. So let's say we've been down here and recovery would start to slope back up again economically well, instead of overall economically. We have instead, if I can get my hand around here, we have a K. So if you can see, these are the legs of the K, right?

If you have a vertical line here, so there's a K. So the upward part of the K arm would be the elites, the people who have assets, those who have businesses and invest in the stock market or real estate assets or whatever they want to. And the bottom leg of the K is unfortunately the middle class people that are not in the top 10% or top 20% that have suffered. And instead their wages don't keep up with the inflation that continues on almost unabated over long periods of time. They don't keep up. And so they become marginalized and their ability to maintain a standard of living even close to the top 10% is way off. So you have this khap recovery and the K is the gap between the two, and it's a big gap. And that gap is bad from a lot of reasons.

I mean obviously it's not fair. We can always say life is not fair, but it truly is not fair. The problem too is Jeremy, is there's an underlying social construct, a cultural construct that people are just not going to take it. Not like in China it's a totally different culture as we know. And in China they have to keep their people also happy, but they do it under a different construct. Here in this country, people can go out and protest peacefully or not so peacefully if they care to do so, whichever they want to go. But that's what we see. And the issue that we have in our country also, which again for most western and democratized countries is the same, is our leaders go through terms and our presidential term is four years. You can get a second one if you do well enough or buy your way back in, I guess is another way to look at it, but maximum is eight years.

And so it gives the populace the opportunity if they're discerning and smart enough to look at one administration and say, well, didn't do so well, so we are going to vote you out. Now again, unfortunately the populace is overall not so discerning. And so it's kind of you wonder like, well, why do people vote the way they do? But that's a story for another day. The issue is that in other countries, let's just say Russia and China, they definitely play the long game because there is no cycling of administrations. You get what you get. Whoever gets in power, they're there for the long term. I mean she not going anywhere. Putin probably not going anywhere. So that's a benefit for those leaders to play the long game in the US and other developed countries, the leaders are perversely incentivized to try to make things happen on a short-term gain basis to appease and make their voter base happy as much as they can across the board as much as they can.

And that's what I think is an issue for Trump or any leader of our country, is if you're trying to play the long game and do what's right for the country, most of this country is unaware of the negative perverse incentives that create the issues that they're living under. It's just we don't have enough education in this country. You not go back to talking about financial acumen. Well, that's the reason why we need more financial acumen because the voters, unfortunately, the mass voters don't get it, and so they get appeased, but the short-term gains that the administrations create to save the day for them, create bigger problems down the road, she Putin others that have their dictatorships don't have to play that game. So we're at a little bit of a disadvantage there, but I know we're going to get into some of that discussion here in a few minutes.

**Jeremy Knauff:**

And this is where that term that you used earlier, which I don't think I've ever heard you use the term helicopter money before. I don't know that I've ever heard that, but I love that terminology for what you're talking about.

**Dr. David Phelps:**

So to be clear, there's different ways to stimulate the economy, and we're going to talk a little bit about qe, quantitative easing, what that's look like, lowering interest rates, expanding credit or the money printer. But helicopter money is where the feds, rather than trying to

push the money, the extra credit expansion through the banking system where the banks here flush with capital and they can go make loans instead they just go directly to consumer. So it's directly to consumer. You think about a helicopter just going throughout the country and just dropping paper money down on everybody. Well, that's essentially what they did. So consumers got it right to their hands during covid and could go right out and spend it directly. They didn't have to go to the bank or qualify for a loan or they could just actually go spend it. And that shortly jumped to start the economy, but at a major cost to us in terms of the purchasing power of our dollar, which is inflation, which is again a big problem that we're still fighting. And I think we'll continue to fight until there's some other kind of reset, which I don't know if we're going to have or when we might have it, but it's potentially out there.

**Jeremy Knauff:**

And that's where that whole khap recovery you were talking about comes into play. And this is something you talked about in your column at newsmax where you wrote that article a few months ago. I think it was talking about how the economy just doesn't work for the vast majority of Americans anymore, which a lot of people love that. It's something that people can relate to. And I think we're seeing a lot of that right now with what's going on in the economy with the stock market, which is plunging. I think checking your IRA these days is kind of a masochistic experience. So let's talk a little bit about what you see there. Why is this happening? Why are we seeing these collapses like this? Why are we seeing growing inflation, all of that, and now we've got to talk of tariffs as well, which is exacerbating all of these problems. So what do you see from that perspective?

**Dr. David Phelps:**

Well, we have to recognize first that inflation is really a hidden tax. Again, it's something that the monetary elite, the controllers of the banking system, the central banks, that they utilize inflation to be able to expand the credit markets. In other words, print money, which makes everybody feel good. So if you get a raise or you get the PPP loans or however it comes down to you, well you feel good. What you don't realize is that they're sucking it away on the backend through inflation. Because every time you go out to buy something to maintain your standard living, whether it's utilities or your mortgage loan or your car insurance or your home insurance or property taxes, or you go to the grocery store, we know and people have seen it for the first time in 40 years, the massive increase in the cost to live.

So you feel good on one side. And again, the upper 10% when they can look at their 4 0 1 Ks, which over the last 15 now 16, what 17 years since the GFC have demonstrably gone up, right? Well, real estate has demonstrably gone up. We've got cryptocurrency, we have precious metals that in the last year and a half have gone up. And those who hold those go, that's great. I feel really good. It's the positive wealth effect. I feel good, but again, that's only a fraction of our populace. Most people are still fighting to try to keep up with inflation because wage base labor has not increased at the same rate as inflation. And again, you can't really even denominate by looking at the CPI I've talked about this is the government over

the years has continued to reformulate how they calculate CPI, and they use different factors and different metrics only to placate so that people don't get the real story.

I mean, that's the job of government unfortunately, is to lie and placate because if they don't, they have uprisings in the streets. So they always try to paint a different story. Everybody does that to some extent. I mean even the current administration, as much as I'm for them and I want them to get good things done, it's bumpy. It's bumpy, it's going to be difficult. It's not going to be easy. Powell can't come out. Scott Bethe, secretary of the Treasury can't come out and they can't say what's really on their minds or heart. Why if they did, they take the market? That's not saying that they're liars, but I'm saying you always have to paint as best picture you can when you're responsible for a lot of people. In other words, if you just come out with bad news and Powell came out with bad news all the time, which of course he never does, he's always dancing.

He's always dancing the tightrope. We see it, right? But that's kind of his job. I can't fault him for doing it. If he really told us what he really knew, everything would crater. So you have to take that in mind when you read the media, read the political pundits, you have to always bear in mind what's really behind the curtain. Okay? It's not what they're saying. I hate to say it. That's not what they're saying. So you asked about inflation. Yeah, inflation is always going to be with us until if there's ever some kind of a reset or a debt jubilee, you go back to the biblical times and where there's just a big reset. It's just like, okay, all debts are forgiven.

Well, but see, the problem is Jeremy, nobody wants to take the hit on their side of the equation. We talk about no gain without pain, and I think that's really what Trump and some of the other cabinet people are saying. And this is true. Look again, and you can even go back and point to some of Trump's first administration. Again, I am not pointing a finger at them. They had to deal with Covid at the latter part and had to start creating stimulus, and then Biden took it and put on steroids. So I'm not pointing a finger because I think they were doing the best they could, but all of this inflation and trade deficit has been going on for decades. So we can go back and point fingers at every administration, some more than others, but look, it's overall and nobody wants to take the hit for it.

Meaning Jeremy, would you be willing just, would you be willing to cut your retirement plan in half just to save the day? And you're going, Hey, why me? Right? Why should I, I've lived under my means and nobody wants to take the hit, but somebody has to take the hit. And if they could spread the hit out evenly, it's impossible to do by the way, evenly maybe. Maybe. But we could take it. But again, think about people that are living paycheck to paycheck. How much margin do they have to take a little more hit? I don't think they do. So Trump has kind of said in recent weeks with the tariffs to heck with Wall Street, let it do what it's going to do. He even said in some of the recent interviews, when he is asked about is there going to be a recession?

And he's kind of said, well, it's going to be tough. It's going to be tough going forward. I mean, that's as close as he's come to being. I think really frank with the American people. I think he could have done that earlier, but at least he's saying, what's mine? You can't

continue to save the day for everybody or the stock market or even the dollar. I mean, there's so much counter play globally that coming in with something like tariffs thinking, we're going to get to that. But that's like a blunt object. Just like the Federal Reserve has a blunt object called interest rates on the short end, end of the spectrum, they come in with that blunt object called interest rates to either try to pound down demand and decrease inflation or to gin back up the economy by lower interest rates. That's all they got.

And Trump's saying, okay, I got to do something here. I can't fool around for two years here and just try to do this easy because I tried that before and the deep state swap is so deep that I think Trump just feels like, okay, I'm going to take it here. History may paint me as the villain, but if I don't do something for the country, that's really what I believe about Trump. I believe he really is a patriot as much as people don't like the way he spins things and tweets things. But you know what? He doesn't need to do what he's doing. I mean, he's the one guy, Jeremy, you and I both agree with this. He's the one guy of all the people who ascribe to be president who doesn't need to be president. Yes, is he a bit of a narcissist? But I think you have to have a narcissist in place who doesn't really give a flip about himself.

I mean, he put himself out there. They've been trying to assassinate him twice and probably everywhere he goes, he has to keep that in mind. I don't know if I could take that. I don't know. I don't know if Jeremy, I wasn't in the military. You put yourself in all of our military people, you put your life on the line. Well, Trump is also, he's really doing that as well. I mean, we have to agree. I mean, he's a target all the time and who's going to do that, right? Who in their right mind would do that? Only somebody who really cares about the long-term and doesn't give a flip about his legacy or what they can write about in history books. I believe he really says, I'm going to take this and I'll take it on chin, but I'm going hard here. And no one else would do that. Certainly not the last administration who were just bought and paid for left and right. I mean, we got to get over that stuff because that doesn't ever work.

**Jeremy Knauff:**

Absolutely. The way you were describing the news and politicians and whatnot, talking about what's going on. I think a good analogy, I dunno if you know this, but my father was a firefighter and paramedic, and I kind of see a situation similar there where the paramedics treating the guy on the road that just got in a nasty car accident and they're sitting there telling him, oh, you're going to be okay. You're fine, you're fine. Meanwhile, half of his organs are laying outside of his body.

And then of course you've got the other side where you've got all the bystanders who are like, oh my God, you're going to die. And these are two both extreme sides of the equation and neither of them are being completely honest. So the question I have for you is how do we kind of look at that from an economic perspective and cut through the hysteria? One group is telling us everything's great, pay no attention to the man behind the curtain. And then the other ones are like, oh yeah, the world's on fire and we're all going to die tomorrow.



How do we cut through the hysteria and know what to listen to, where the correct information is?

**Dr. David Phelps:**

I think each one of us at needs to probably become a better student of history. But who's going to go do that? I mean, you and I do. We enjoy these conversations. We do like to go back or we like to talk to other people who also look back at history. But again, it comes back to what I said earlier about how we vote as a nation. And until we have a nation that's more educated and wants to be more educated, either a self-education or just a better system in the public education marketplace, the dumbing down of America is real, is very real. You and I both know it. And so the mainstream majority of good people look good people, hardworking people. I'm not trying to denigrate them, but they're kept so busy trying to put out fires in their own lives. I get it.

You don't have time to go learn something now, but I think we have to. And that's really what I think comes down to who you and I are. And again, a circle of people that we're privileged to be invested with who are also wanting to get the message out wherever we can to try to educate people to. You've got to be more discerning about what you're picking up. If you're just going to social media and Instagram or Facebook or TikTok for your news media, well they've got you, right? They've got you. Because they're just giving you soundbites of stuff that is never interconnected, never doesn't make any sense. You have to be willing to go down the rabbit hole. Or if you're not willing to do that, that would just tell people, step up and find people in your circle of influence, your community, your church, whatever it is that you actually feel like you can value.

And don't be political about it, just people who actually walk the talk and live a life of values and learn from them. I mean, that's another way to do it is just find people who seem to have values and seem to be based, it doesn't matter, left or right, blue or red, even from people that aren't politically aligned with my beliefs. If they're logical, rational people, I don't mind having a conversation with them, even a mild debate. That's good. That's good. And again, America overall, generally speaking, isn't willing to do that. So they just take what they want to hear, and as long as they're taking care of the government promises, they'll fix every problem. And every time the government gets into fix the problem, they make it worse. Every time the government gets involved in something to make college education cheaper or housing cheaper, what's it do?

It balloons it up, right? I mean, it's just the whole system is out of whack because the incentives that we've created in the voting mechanism that we have, and particularly it's more so obviously more so in Congress because we've talked a long time about we need term limits there because well, look, it's human behavior. I might do the same thing if I even aspire to be there, who wants to serve there? Because you're going to get pummeled to death if you try to do the right thing. Or you just go in and you go, okay, well, you got me. I'm a game player now, and I'm just here to get what I can get. And it's a bad, bad system, but it's

what we got. So I didn't answer your question with any really great solutions other than just a better educated populace would be a good step if we can pull that off.

**Jeremy Knauff:**

And that is a lot tougher to achieve than I think most people realize. I actually just kind of stepped in it myself a few days ago. I was commenting on something on social media about the tariffs, and I was quite wrong. I found out as our friend Carol Roth sent me a private message later on to say, Hey, no, you're wrong. And that's an incredibly horrible and uninformed take on this. And I'm like, oh man, that was like a gut punch. But I think most people, they don't seek out the information, but B, when they get something they don't like, they'll push back. They're going to argue, well, no, well, you must be wrong. You must be stupid. And I think there's that accountability thing. But in that, the tariffs, that was a topic we had touched on earlier. That's one of the big things that people are talking about right now and the impact that it's having in a lot of different areas, the stock market being one of them, trade and supply chain and all of that. So what do you see going on there right now?

**Dr. David Phelps:**

As I said earlier, I believe Trump's art of the deal. I think there's a lot there because that's how he's lived his whole life. Again, you can like it or not like it, but he has always been known as a very strong negotiator. He wants to negotiate from a position of strength, and that's what he's used his whole life. Will it work? We don't know yet. Again, he came with, as I said, a blunt force instrument and basically just laid it on the line. He started first with our neighbors to the north and south in Canada, Mexico. Obviously China's always been on the hit list and certainly he's got his eyes on China. And then he just decided to come out what week, 10 days ago with just across the board tariffs and then the reciprocal tariffs on top of that and itching it up.

So I think to an extent, he's using it as a negotiating tool, which if that starts good conversations in some respect, then that's good. And I know they stated that a lot of countries, I think, I dunno if last count I heard was like 70 countries. I think there's 195 countries that, so 70 had come forth, probably those that count at the higher level of commerce that basically said, well, we want to negotiate. We don't know what that looks like yet, but that's what's been said. China, on the other hand, which we kind of expect said, so sorry, not playing ball, come and take us on. That's going to be interesting. And again, I don't pretend to be an expert in all things economics or tariffs. What I do know is there's just so much contagion with so many different variables that it's just too hard to predict because so much of this has to do with human behavior.

It's not just math and stats and Excel spreadsheets. You can try to perform with this out and go, well, if we do this, this, and the deficit comes down here and we reshore and we get some tariff money coming in and we can lower taxes. I mean, you have all these pieces. And I don't know if AI could pull off figuring this stuff out because again, there's the nuances of how people, that's well, citizens and leaders are going to react. What we don't know, Jeremy, is

Trump's negotiating in this way, is that, what are the second, well actually first, second, and third order consequences because there's always downstream consequences, which again, they're difficult to predict. And so we have to see how they play out. But there's countries who are saying, yes, well, we'd like to work with you, us and rebalance some of the deficit.

But on the backside, there's a number of countries, including China creating their own cohorts. And this actually started unfortunately with the weaponization of the dollar against Russia. When Russia attacked Ukraine in 2022, we immediately confiscated Russia's sovereign wealth that we had in treasuries said, we're taking it, we're going to hold it. Well, when you start that, you're crossing a Rubicon that says to other countries, whoa, we thought the dollar was the reserve currency we could all count on, and we could have commerce. And they say, well, now there's rules. Now there's rules. And now Trump's saying, yeah, there's rules, now there's more rules. We're going to change what is being stated as unfair trade policies. And certainly if you just look straight up at the deficit and some of the unfair policies, which have been elucidated country by country many times over, and certainly with China and all the backside games that they play, I get it, I get it.

But this has been built up over again, decades, decades, decades, decades, decades where it's allowed to happen. And in some regards, we go back to Bretton Woods, that actually what we have today started there by the US being the largest creditor nation. We had all the gold and we had the industry, the manufacturing base to produce, and we were the big producers. We were basically rebuilding Europe because we had all the manufacturing here and we were cranking it out. And so that's how we started out. And as we crank it out, then we were rebuilding Europe and also say at the same time, we will create the NATO alliance and we we'll protect the Seaways of the world, and as long as you all, we will buy our stuff. So it was kind of a quid pro quo, and everybody was good until unfortunately, everybody, at some point it starts to get greedy.

I mean, we all have innate tendency. We all have some tendency to say, well, this is good, but I'd like to squeeze out a little bit more. Or I'm the powerful one here. Could I get a little bit more out of this? And again, other countries have done that. China being the big one. Well, you could say, did we make a big mistake in 2001? Let's see, that would've been, that was Bush. I thought it was Clinton. But anyway, we allowed China into the World Trade Organization for the first time in 2001 thinking. And again, not incorrectly thinking, but hey, when we've been turning from a manufacturing base over many decades, of which we really did well to really a service-based economy where the innovation of this world globe comes primarily from the us. I mean, just look at everything that we innovate, but where do we have it built?

Most of it's built offshore because why? Because we can have it built more efficiently and with cheaper labor and cheaper products somewhere else. So again, this has been a big benefit to us. We in this country overall, even all the way down from the wealthiest all the way down to people that are in poverty have all been lifted up. We've been notched up. We all have, wherever you are on the ranking scale, we've been notched up. So it's not like we've been crushed down, beaten up. What's really happened to us is again, decade after decade,

administration after administration has particularly coming out of 71, when Nixon, the Nixon shock took us off of the gold standard. That's where it got out of hand. That's where trade deficits first started to happen. So if you want to blame it on somebody, blame it on Nixon and his advisors.

Because if they wouldn't have done that, we wouldn't be here today. We might not even have trade deficits. But that blew everything out because then when every administration needed more money to appease the natives, you just crank up the printing. Well, what's that do? Well, it devalues the dollar, which is on the other side. It creates inflation and increase the trade deficit. So we built this up in Trump to his credit, but I think it's going to be difficult. How do you turn back 50 years of perverse incentives and you do it in less than 18 months? That's what he's trying to do, and it's going to be rocky, it's going to be disruptive. And that's why they're saying, they're trying to say, we're playing a longer game. The problem is, is this country prepared to play a longer game? I don't think so. I think there's too many people who are going to take it on the chin or taking 'em on the chin right now or are going to be crying out and by the midterms if there isn't something in their stalking that makes 'em feel good, Trump's best efforts. I don't know that they play out. That's just my big picture. I hope I'm wrong. I hope I'm wrong, but I don't know.

**Jeremy Knauff:**

I hope you are wrong as well. And I don't often say that. But I mean, this is a topic. You've held this position for a while. You've written about this in a number of outlets. So unfortunately, I think you're correct. There's two things that you touched on that I want to run with here. One is related to manufacturing, but before we jump into that in regards to the tariffs, there was a lot of chaos with that. But recently, Trump had paused the tariffs. I think it was a 90 day pause. I don't know if something new has happened since then, but what is your take on that? And if there's something new, what was it?

**Dr. David Phelps:**

Yeah, what happened was the 10 year treasury, the bond, our debt started to rise in yield or interest rate started to rise. They or the government needs that interest rate to go down because we have about \$9 trillion of US debt. Again, talking about, we haven't talked about our debt in our deficit spending much. But see, that's the other big picture that's different today than it was 40 years ago when Reagan took office. And there's some similarities, but the big difference is we've got exponentially massive debt and deficit spending. So what they wanted to have happen was to see the 10 year go down the federal reserve. Powell does not control the tenure. Powell can, to some degree, thinks he can control the short end of the stick, and that's what they try to have him to do. But the 10 was going up. Well, if the 10 year goes up much above, again, what I've read much above four point a half percent that it's a big problem, and it rose from 3.9 to right at four point a half. So 60 basis points in the matter of a couple days,

That kind of a lift is not only bad for our country and having to refinance our debt, massive, massive amounts of debt. But what it also does is there's so much leverage in our system. We live in a financialized world. Again, we don't produce anything really anymore. We live on arbitrage using the reserve currency, the dollar to play that game, and massive, massive hedge funds, massive in hundreds of billions of dollars. Play this arbitrage game with the treasury. And as long as the treasury is not moving a lot, it's always going to fluctuate some, a little here, a little there, then they can play the trade game in arbitrage on massive scale. But when it jumps that much, then margin calls start to happen because the hedge funds are leveraged through the banking system. Well, the banking system sees that their position in two days gets changed abruptly, and the basis says, Hey, we need you to ante up and we need some capital back in.

We need some equity back in because your position's getting out of hand. And what can the hedge funds do, sell their positions? Well, when you sell massively into a marketplace, what happens to the valuation of what you're selling? It goes down. And when the bonds go down, the yields go up. So I believe, this is my belief that Trump and his advisor said, whoa, Nelly got to pull the plug on this one. And so they put the 90 day pause in place, and I think that let the markets go, okay, thank you, thank you, thank you. But still, the issues with the arbitrage with the hedge funds, it's still in there. See, the problem is, Jeremy, unfortunately, you can't take a massive economy like the us, the massive GDP that we have. And you can't just turn it on a dime. You can't switch it one day this way clockwise and switch back the other way, counterclockwise.

It's not that nimble. It's like, it's like the Titanic. You can't just go, well, captain left. And then it's like, no, no, no back. Right? You can't do that because there's so many other consequences that bleed out overall, and it starts to cause a lot of disconnect. And again, I talk about contagion, and I think that's still heavy out there right now, and we're still in the midst of it. And there's probably some hedge funds that are in bad positions right now. And that factors into the banking system, which factors into, let's say, other assets like real estate, which is already having some problems today. It factors into the interest rates that consumers are paying, which by the way, if you're a friend of the Fed, you can borrow at the overnight rate of today, what? Four and a quarter. If you and I on our credit cards, guess what? We get to pay, but not 22, 29

Or 29. See, that's what I'm talking about. That's the disparity between those who have wealth and are connected to those of us who are not connected. And that's a bad system. It's a bad system there. But that's what we've got to, there was a big hedge fund called Long-Term Capital Management, the acronym LTCM. Look it up sometime 1998. Now, this was a hedge fund that was backed. The principles were Nobel Prize winners in economics. Smart people knew their stuff, and they played the same game at a lower level. I think they were maybe a hundred billion. Now, these hedge funds a day are multi hundreds of billions. So a lower base game that long-term capital management in 1998 almost blew the system there. And again, what happens is when you're too big to fail, guess who bails 'em out?

**Jeremy Knauff:**

We do.

**Dr. David Phelps:**

We exactly. We do. See, that's the problem. Is the risk off to those that are too big to fail, lets them keep taking big risk in the marketplace. They know they're so big that the taxpayers do, the government will bail them out. And again, people are just tired of it. And that's why I think Trump is trying to do the best he can to start breaking it. So he's starting with tariffs and coming with a big, big stick, really a big stick, and trying to break down the system. It's almost like instead of trying to nuance the system a little bit, which some people say, well, you should. People say to Trump, you can't go out there and do that. You need to have a little discussion with Japan and have a little discussion with Europe, a little discussion with Xi. It's like, but you know what? He's tried that before and they all say, go somewhere else. He had to come in and go hard and make everybody snap, snap to attention and realize, oh, no, this is real. And who could outlast who? And again, there's lots of stuff we can outlast most everybody else. China's the biggest exporter on the planet right now globally. And so they have a problem in that if we're not buying their stuff, they haven't got a problem because, well, if you can't sell your stuff, then you got a problem on our hand.

All the stuff that we're going to buy it is going to come at a higher price. So both sides of the country, particularly those of us who are average consumers, people in China, people in the US and worldwide are going to pay a price. And again, it's like, are we willing to pay a price for a certain duration of time? Will our world leaders get it together and actually reset a system that has more fairness in it, or are they just going to come back and do it to us again? That's the problem I think we have today is nobody trusts their government because they've been, it's like Charlie Brown and Lucy. It's just one more time, Charlie, I'll hold the ball for you. Come on, I got it for you. And that's boom. It's like, how many times can you take that, right?

**Jeremy Knauff:**

Yeah. I think we're definitely collectively as a whole across the globe coming to that realization. So what happens happens in 90 days, then we get to the end of this pause and we've got a few different paths. How does this

**Dr. David Phelps:**

Play out? I think a lot of it depends upon what's happening with going back to the tenure treasury. I think that's a big one that our government's focused on. I'd say probably more so than Wall Street. But again, nobody likes to see Wall Street and the stock market decline too much because that's become a proxy for the economy. It's not a true proxy. I mean, most people don't have much in the stock market could care less, but what the news media says, oh, well, the stock market is back up, or it came back up, and people all the way down the rank and five go, oh, well that sounds good because it must mean my job's safe, or something like that. So we put a proxy on that. So it's not good to see it make a correction. But look,

we've been running outside of that short term two or three month blip during covid, which I don't really count as a recession or correction.

We've been running since the GFC 2008, 2009. What's this, 2025? Does that do my math? I mean, where it's like 17 years without a major correction, at least a normal correction not caused by a black swan virus, kind of unheard of. And so there's always going to be a reversion of the mean. When you have asset bubbles that through the financialization of the system, there's always going to be a point where there's a reversion of the mean. Meaning that meaning there's a mean of an intrinsic value line that you can put across any asset. You want to stock market, real estate gold. And when something blows up through the top, at some point it's going to come back down. And then when it usually comes down, it doesn't come back down to that mean line. It actually goes below it for a little while. Kind of like you drop something into the water, it goes below the surface, then Bobs back up again.

Could that be happening through all of this? Dunno. So I think to answer your question about 90 days is it's just going to depend on what's happening in the overall marketplace. Honestly, if Trump's able to get some good progress made with his negotiations, depending on what China does, if China breaks down a little bit, and the problem is, I think she, well, Trump is too, they're both ego driven. I mean, they're two guys, right? They're two bulls. They're two bulls. And neither one of 'em wants to back down because especially in China, that really, if you do that as a leader in China, I think you're done. It's almost like she will fire up and start World War III before he let himself be. And I don't say that with a smirk because who wants that, right? But I think for someone who's like a caged tiger, almost like maybe Putin felt like with his need to take on Ukraine because NATO was not taking Ukraine off the table in terms of taking Ukraine into nato.

Again, that's another piece for another day. But I think Putin felt like, you know what? I don't have any choice, right? I'm not excusing the behavior. I don't love war at all. But she could get in the same position. Well then we're playing chicken here and does Trump again, like he did with the 90 day pause, does he pause out and go, okay, I don't think he wants to do that. Because as soon as Trump does that, then who's got the upper hand? But then again, do we put our countries and our lives in the world at stake? These are the existential questions serious that have to be dealt with. And this is high stakes, high, high stakes that we're dealing with today.

**Jeremy Knauff:**

Absolutely. So what will the Fed, or I guess a better question would be what can the Fed do about everything that's going on right now?

**Dr. David Phelps:**

The Fed has very little control at all. Jeremy? Very little control. It's the bond market that really controls bond market controls the stock market, okay? That's why you have to see what's happening with not the short-term interest rates. Because again, the Fed can play with those and they will. And that gives sometimes some short-term juice to the economy,

but at a big cost on the backside. Or they played raising the rates up to tamp down inflation. They can play around with that. But it's the longer term, the 10 year, the 30 year bonds, that's what you have to look at because that's what really portends as to the real strength or weakness in the economy. So the Fed, again, they're between a rock and a hard place. They're in a box as is really, I think to some degree with the entire administration doing the best they can.

But again, they were handed, they knew what they were getting handed. I mean, Trump is not oblivious in the cabinet. He's put together, not oblivious, but they were dealt a really bad hand. So they walked into it, not colorblind at all. I mean, let's give them credit. They walked into it knowing what they had a big fricking mess. Exacerbated not all the fall of the last four years, but certainly exacerbated to a great extent in the last four years. Again, administrations before certainly had their hand in it. So I think these people are taking this on hopefully, hopefully, because they care about the country and they don't need the money. They don't need the grift and graft that they are really in there to just take it on the chin where they have to and try to make something happen that starts to bring a better level playing field back to the global economy. Because yeah, it's way out of whack. And something was going to break sometime, Jeremy. It's just that Trump has, his mandate is to get in there and go fast and hard as he can right now. And again, that's dangerous for him, rather than playing the game and kicking the can down the road, everybody does, just so we can get reelected. He could play that game. And I appreciate the fact that he's not, even though it's disruptive and could cause some pain, I appreciate the fact that he's not doing that because everybody else does that.

**Jeremy Knauff:**

Yeah. You touched on some of the things from previous administrations. What are some of the residual effects from the previous administration that are affecting what's going on right now?

**Dr. David Phelps:**

Oh my gosh. Well, whoever you want to say was in charge. It certainly wasn't President Joe. He was just, everybody knows today I, they're writing books about it now. Everybody's covering up and writing books about it, saying, well, we kind knew. So it wasn't Joe, but the cabal behind him that were pulling the strings, basically. I don't think that the people that were pulling the strings give a rip about this country. I think grift graft, and I think some of those people actually hate the us. I'm just going to say it. They don't like the us. They don't like the fact that the US has been a country for many years of exceptionalism of a country who is built on freedoms and choice. People don't like that. And I think, so what happened was is that there's a lot of coverup, a lot of economic coverup, a lot of handouts.

I mean, everything from forgiving student loans to hiding what should be a lot more foreclosures, which again, we're starting to see more foreclosures. Again, I'm not happy about people getting foreclosed on, but by releasing and removing the responsibility that we



all should have as individuals, whether we take out a loan to go to college, or we take out a loan to buy a car, or we use FHA to get almost nothing down loan, taking advantage of these things without the responsibility where we're sitting back going, well, government, I'm in a class that's a victim because we're just been handed, given the hand here, and somebody save us. And so Biden's right there to do it every time, because again, he's playing politics. He wants to stay in power, his people want to stay in power, and it's all about power.

There was more, what was the other program, Jeremy, that we talked about? I forget, but there's another program that we know that he forestalled. He was for stalling, foreclosures. Oh, I know what they actually were paying the mortgages, right? Paying the mortgages and didn't tell anybody. Just paying, telling people going back several years. Hey, it's too tough for you. No, don't worry. We'll pay the mortgage for you. Don't tell. We'll just take care of it for you. We'll put the balance and the interest on the backend. You know what? You got a lot of equity in your house and prices are going up, so it'll all be good. It'll all wash out. And again, it's so perverted because do

**Jeremy Knauff:**

You happen to remember what the number was on that? How

**Dr. David Phelps:**

Many? I don't remember the number, but it was in the

**Jeremy Knauff:**

Millions.

**Dr. David Phelps:**

Yeah, it was huge. And again, how are we training our citizens in the form of being responsible and actually wanting to learn how to make it in still the greatest country in the world? Why do people pour over from the border to come here? Because there's still opportunity. How are we training our citizens and young people to be responsible and actually look for the opportunity rather than to sit back and be stupid about everything they do in life and just look to the government to give them money or give them handouts? Because life's too tough, right? Because you can't afford a home. You can't afford a car, you can't afford food. So here, we'll just keep feeding you. And that's socialism, right? That's socialism. Which in the history of every country who's tried it does not work. And why we have people in this country who think it's going to work or want to sell themselves to the voters as we'll, give you universal basic income, and we'll pay for this that for you, we'll pay that for you.

We'll give you housing. It's like folks, it work, read history, it never works. So we've got to retrain our citizenry to understand that the handouts have been given. The price that we're going to pay today going forward for generations to come, unless this gets turned around, is going be immense. It is not going to work out. The American standard of living has been

built on debt over many, many years, and particularly the last decade and a half, massive debt. And we've been really living off the future we pulled from the future to today, which means what's left out in the future isn't so hot unless we make some major changes and take some sacrifices.

**Jeremy Knauff:**

Yeah. Well, how does this all play out in the, I guess let's say the first, the short term and then the long term, these things like hiding the mortgage delinquencies and paying people money to basically sit around and all of these wonderful socialist policies that a lot of the politicians are pushing these days. How does that affect things like the stock market, the real estate market, hell, even the job market?

**Dr. David Phelps:**

Well, yeah, a lot there. I think that we certainly could see some correction, who knows how quickly when it happens, but I wouldn't be surprised. Not predicting wouldn't be surprised if during this next year, next months the stock market equities could see some really significant correction, very significant, nothing to hold it up and Trump administration are coming forward with a lot more transparency about everything and that's what's been hidden in the past. The consumer sentiment, I'm sure you've looked at it recently, university of Michigan puts it out, is dropped massively in the last two months. Consumer sentiment is what drives the economy, drives the GDP, when the wealth effect, even those who don't have money in the stock market, they start seeing it dropping. It's a trickle down reverse of what Reagan wanted when he wanted trickle down economics to work. This is trickle down reverse wealth effect, which means everybody from the top on down has to tighten up.

Well, that doesn't drive much growth. And Trump, again, to his credit, he wants to unleash the economy, right? Well, we have a great American engine. It's just been constrained massively by government regulation, socialism, a crony capitalism by previous administration for sure. So he wants to unleash that and he'd like to try to drive the economy with growth. At the same time, he's trying to also reshore or protect American jobs by forcing countries to either pay massive tariffs or to build factories and plants here in the us. Sounds good at paper, but that's again, a long game. And particularly again, the problem comes in is that if I'm a company and I'm thinking I have to pick up and go to the cost expense to move my manufacturing to the us, and how long is Trump going to be with us here in office or maybe just to the midterms and then all of a sudden things get flipped on me.

It's like, so who's going to do that? See, that's the problem where we don't have someone who can say to our trading partners, Hey, if we negotiate this, this is where it's going to stand because they're all going, yeah, I don't think so. We'll play a game for a little while, but we're on the backside. We're going to be making our own deals because we can't rely on the US anymore to be that superpower that really is allowed and created the trade and the great globalization that we had for many years. Well, that's going back in reverse. And so the cost,

everything goes up greatly. So see, we have all these dynamics that are at play and they don't all support each other. Unfortunately, that's where problems going to occur. So stock market I think could have a big correction. We're already seeing other leveraged equities, certainly in real estate, taking it on the chin, and that's housing with foreclosures coming out now, they're not going to protect that anymore.

I think again, we can see a bigger correction there, which has been put off for a number of years we've been watching and waiting hasn't happened. I think now it starts to happen more so because again, when the consumer, the mortgage payer starts to, when push comes to shove and there's no more leniency, and if you, sorry, you can't pay your mortgage, we're just going to take the house and there we go. So that happens energy. So energy costs, which is part of all of our lives. Certainly if energy demand is lower because of a global recession, which is what we're seeing right now, that could be good for the consumer, that could be good for the overall economy. It's not good for people who like oil and gas, but again, somebody's got to take it on the chin. We can't all have what we want.

So that piece is good in terms of the overall economy to see oil and gas staying at a nominal amount or maybe even go lower with the recessionary forces we have here, but the overall inflation, the consumer inflation products we buy, if the terror stay in place and there's not some reversal or something that happens relatively quickly, then our cost of living starts going up. And again, who's that hurt the most? Well, the people that are responsible for most of our GDP, 70% of our GDP is consumer spending. And if the bottom half can't spend much, then can the top half carry it? No, the top half carries a lot of it, but top half's going to start ratcheting back. I mean, I see in people that I deal with right now, most people who are typically heavy investors in different market segments, they're all looking for liquidity right now.

They're all saying, no, I think I want to ratchet back. I don't want to put my money out over here or here last year I would've done it this year, not so much. So that starts to slow the whole economy down and the whole idea for Trump to grow us past the deficit spending, that's going to be a problem. And then tax revenues go down and then they're also trying to get more tax cuts, which again, I get it, but you're trying to do all these things together and they just don't all coalesce together smoothly or evenly. They're disjointed and that's what's going to be difficult for the economy. And that's why I think we'll see a lot of volatility. I think we'll see corrections in the stock market, but you could have days where it bounces back up and then days where it's down again, uncertainty is the enemy of the markets, uncertainty is the enemy of the markets and we certainly have that now. So it's not going to be pretty Jeremy. I think it's a time where people have really got to be clear about what they need versus what they want would be a place I would start for everybody, what do you really need versus what you want? And maybe you put off what you want and create some margin in your life, your business for a little while until we see where things are going to sort of land. And I don't know when that's going to be.

**Jeremy Knauff:**

This ties into something that I've heard you talk about a lot lately, and this is a major secular cycle and kind of like a decoupling. Talk about that for a minute.

**Dr. David Phelps:**

Yeah, so I look at there's terms like the fourth turning, which Neil Howe has written several books on the fourth turning. That's a good reference guide to look at these multi-generational shifts, not just a market cycle shift of 10 to 12 years, but going back 80 years and looking at different segments, generational changes. Howard Marx calls it the sea change. Howard Marx has been in the credit markets, private credit for decades and decades, a very, very wise guy that I often follow. So sea change, the secular change is I believe that we've been in this credit supercycle credit, we've used credit, we started using credit again back coming out of Bretton Woods and we've our system based on the reserve currency, the arbitrage, the spread, the ability to create money out of thin air with no current recourse. And I believe we're at the end of that credit supercycle, meaning we're going into a reset.

And I think Trump has just pulled it forward and saying, we got to get on it. So I think that a lot of what people experienced in the past in terms of the markets and using leverage and 401 Ks and even real estate and whatever your thing was or has been, I think the model is shifting and it's shifting on a long-term play, not just over the next couple of years until we let things play out. I think we're going through a major shift and unfortunately, I think also that again, the American standard of living that we've gotten used to for a bulk of the country is going to be not what many of the younger generation had hoped it would be. Well, we know many of the younger generation are frustrated right now, are they not? I mean, we see it all the time, right?

They're very exasperated and I get it. I get it. So I think there's a reality that's setting in that you can't just have everything you want and put it on credit and not worry about it. And again, that goes for everybody. I'm not just talking about younger generations, that's everybody. Anybody who's been living on credit because credit was so cheap and you had access to credit, and if you just waited long enough your 401k or your equity in real estate or the stock market or crypto was going to save you, I wouldn't plan on that. I think we're going to be much more, have to get back to more fundamental roots of what basic economics provide for the shift is here. And I think certainly the next months, the next quarters, the next years are going to be written up as a significant turning point in our history books.

Just like we've looked back at certain segments just today at just going back as far as Bretton Woods in 44 and 45 after the World War II and Nixon shock in 71. And we can look at again, market cycle changes.com crash in 2000 and the 2008 GFC, these different shifts. This is a big one. This is a big one. Kind of like Bretton Woods was a big one after World War II, and I'm not hoping we have a war war, but I think we're having an economic war at least right now that's making some major shifts. And so I think this is a period of time that people want to study cycles and say, huh, what's this going to mean to me if we go through this massive change? We're shifting 180 degrees. I mean, we really are going from what we knew to a

totally different market and we don't know how long it's going to take to play out where things are going to land, but it's, it's going to be disruptive.

**Jeremy Knauff:**

Well, since you mentioned war, how does this whole situation play into our superpower status?

**Dr. David Phelps:**

Well, we've been fighting a proxy war, have we not? We've been feeding Ukraine and I think that's been downshifting mightily, which I'm personally a fan of. So that's changed. We still got obviously always tensions in the Middle East, always tensions there. I haven't kept up lately to see what's going on. We certainly have Iran and I know Trump, Trump is very hard on Ira, thank goodness, because they're a big catalyst for disruption. And then we have China who I don't think China wants to go to war. I think they'd rather also play economic games. But again, push comes to shove. We've kind of been watching with a little bit of a squint eye on China and Taiwan. Does she do something to take the pressure off of him from an economic standpoint?

There's a lot going in the media right now where she has really Jim been gin up his people and pointing fingers at Trump, the US and saying they're the aggressors, they're the bad people. And that plays, that plays. So what citizenry wants to go to war, but if you play it up from that standpoint and you only give your people what you want them to hear, that indoctrination, he can pull that off. It wouldn't be pretty, it would be nasty. And again, does Trump blink on that or does Trump bully up and say, come on, that could be really the worst outcome of all this. I pray that doesn't happen.

**Jeremy Knauff:**

So it kind of sounds like there's not really any solutions, just a bunch of really bad

**Dr. David Phelps:**

Always trade-offs, Jeremy. I think that's the point is there's no direct solutions to any of this. It's always going to be trade-offs. And do we have the leadership, not just in our country, but the leadership throughout the world, and particularly the more prominent leaders, the more prominent powers economically and militarily, are they in a position to be better at communicating, negotiating for the betterment of the world, or do egos get in the way and the power play come into where that's their incentive Again, we just have to hope and pray for the best in times like this.

**Jeremy Knauff:**

So one of the things that I'm seeing here, I've heard you talk about a lot is some of the correlation with Reagan's early presidency. What does that look like from your perspective?

**Dr. David Phelps:**

Yeah, Reagan came in after we had years of higher inflation and stagnant growth. That was the stagflation of the seventies that was started out with Nixon in '71 and that Nixon went to Gerald Ford for a couple of years, and then we got Jimmy Carter in the office, and it was just a period of time where it was very difficult if you had parents, grandparents that were living in that period of time and go back and ask them what it was like, it wasn't a great period of time in this country. And right prior to that, we had Lyndon Johnson who created the Great Society, and so that stoked a lot of inflation. He helped take us right into the Vietnam War, which we know how well that worked out for us. All the wars we seem to get ourselves into by leaders who take it as their mandate to do that.

So Reagan comes in, obviously with a mandate also because the malaise in the country was pretty significant. And also we had the Iranian conflict and we had a number of our personnel that were basically locked up there and Carter couldn't bring him back and Reagan did. Reagan came in somewhat like Trump. He's not the same personality, but Reagan believed in strength, power through strength, and he came in and cut the tax rates and started again, a lot of growth, a lot of expansion through growth. Now there was a lot of deficit spending that happened, but Reagan's policies of unleashing the economy, kind of like Trump's wanting to do, grew us out. The first two years were very difficult. First two years back, back-to-back recessions, 1980 and 1982, Paul Volcker was fed chairman. We didn't have the massive debt we have today. It was only in the billions we're in the trillions today, massive change

**Jeremy Knauff:**

Like

**Dr. David Phelps:**

A rounding area, like a rounding era. And so the political wherewithal for Paul came in under Carter, but Reagan's the one who said, Hey, this inflation isn't working out here. Inflation was way up in the double digits, way up. And so Volcker took the interest rates, the short-term rates we talked about earlier, and just ran 'em up to 20% and just decimated the economy. I mean, stock market, everything just decimated and had back-to-back recessions. And then after that, the economy unleashed and everything went up, stock market went up, everything was good. Everything was good for a good number of years until we went through another cycle again, but we never went back to the high inflation rates. A lot of it because of the globalization we talked about. So trade. So trade really started to open up a even lot more, and so we had the cheaper labor and products that were being shipped to us in this country.

So our country want to consume more stuff. I mean, that's how our life is improving. We get all this great stuff, great products that were made by countries. I remember back in the sixties, a little side note here, I remember back in the sixties and when I was a kid and I go to Radio Shack, which we lost Radio Shack, I'm so sorry, we lost Radio Shack, but I took to

Radio Shack to buy some walkie talkies and on the boxes made from Japan. Well, back then it was like, oh, made from Japan, you don't want that crap. And then look what came on. We have Toyota and we have Sony and great products. So that was kind of funny that we always said back then it's like, oh, we don't want to buy their products. But then after while I was like, oh yeah, we want their cheap products because actually make pretty good products and we can buy 'em cheaper and it raises our standard of living.

So all that was happening, but Reagan had two back to back tough years until things started to move forward. Trump probably is going to have somewhat the same thing. I don't know what levels and how he navigates through this, but it's not going to be, like I said, it's not going to be pretty. When you take a hard stand on something and you're convicted and draw a line in the sand and say no more of this, that or the other, then there's going to be trade-offs, and I think hopefully Trump and his administration and his PR people can portray that well enough to the country that the country will back that. That's what I hope, right? Because the country sentiment can turn on a diamond. Of course, there's so many people that want to keep the grift in the graft that putting out negative messages and just throwing barbs at Trump all the time. So it's so easy to twist people's minds when there's layoffs and they can't afford the things they want and they're stacking up debt on their credit cards. It doesn't work out too well for people. And so I think the sentiment's got to be held as long as possible.

**Jeremy Knauff:**

How much time do you think we have?

**Dr. David Phelps:**

Well, like I said, the midterms is probably the calling card, and so that's what, November of, let's see, yeah, it's 18 months, so next year. Yeah, so we're right at about 18 months, aren't we? From the midterms of 2026? Yeah.

**Jeremy Knauff:**

Okay.

**Dr. David Phelps:**

I think that's the time he's got to try to get something on the table that will not just look like a benefit, but feel like a benefit to the bulk of the country. It's got to feel like a benefit. Something's got to change in their living structure, their debt structure. Something's got to change if he can, and that's not the stock market for them. I think that's where he is got to try to focus because no other administration does. They just kind of try to appease them and give them stuff, which again, we've talked about how that works. It doesn't work at all. And Trump's coming in and saying, Hey, I want to make this a fair playing ground for everybody, but to get there, we're going to have to go through some stuff that's not going to feel very good.

**Jeremy Knauff:**

Do you think that there is enough time to get the kind of results that a majority of the American populace would look at and say, Hey, we're on right track, let's keep going this way.

**Dr. David Phelps:**

That's probably a question that we, I can only guess, and I'd love to be part of the conversations that the people that are on the inner circle are having. I'd love just to be a fly on the wall to hear how they're talking about that because yeah, we know that you can't play the short game, meaning give stuff to people to appease 'em all the time. That doesn't fix your long game, but how do you do something enough in the short run that doesn't screw up your long game? To me, that would be the strategy. And again, I don't know what their pieces are on the table that they're shifting around. I don't know what all the pieces are that they're looking at and how they're lining up. That would be interesting to see. So I can't play that game, not even close to that world, but they've got to have something pulled off to say, if we do this, this and this, then at least this piece over here, whatever that piece is, should be or hopefully will be enough to make people feel good enough that we can call that out real time and say, give us the rest of our term here because we'll keep making this happen.

We've got to give something to the bulk of the American people that let the people say, okay, we trust this government to do the right thing. And a big part, as you know so well is PR and media, and I think they have some really good people on the media team. They've just got to really stay on top of it in a big way and don't ever lie to the American people, as I'd say. I mean, don't get caught lying to American people, I should say it that way. Don't ever get caught lying to the American people because you do that just like we saw in the last administration over and over again, I don't care who you are on spectrum, nobody can tolerate that. And I think that's what people voted against as much as they voted for somebody to do something

**Jeremy Knauff:**

Different. And once you lose the trust it's over with, that's not a thing that you're going to win back, especially within an election cycle. Exactly. So what do you think people should be doing right now? Let's say your average American, what should they be doing different in the market, in the economy, covering the spectrum from just basic managing their own budget all the way up to investing? What should we be doing right now?

**Dr. David Phelps:**

Well, I think definitely managing your budget. The basics that we can talk about all the time, but it's a true law, is live beneath your means. Save as much as you can. Just start by saving, saving where you put that, investing it. I'm not a big fan of putting a lot into the stock market, but for the average American to put something in or just in a basic bond fund or



something, yeah, it's not going to get you 20%, but there's no 20% out there to get today without massive risks. So don't even try that.

You can buy some precious metals. You can go to Costco and buy gold and silver today. So nothing wrong with that. Again, I'm not giving financial advice, but my main point is the discipline of living beneath your means to the extent you can. And again, I understand people trying to buy baby formula and put food on the table, having extra savings is not a thing for you, and I hope that we can revive the economy so that you can, but I would say you also got to teach your kids, and again, we all tend to spoil our kids because we want them to live a great life and we've got to teach our kids that there's a cost to everything. And so having your kids learn to be happy with less stuff might be a good thing for all of us, all us to do.

Because I don't care if you have all the money in the world and say, well, it doesn't hurt me, but you're hurting your kids if you just make it, if it's gravy train and your kids erritory. To really help your kids, besides helping them get the best education possible is to make them understand what money's about and what it takes to earn money, what it takes to keep money. They've got to learn that even the basics when they're young, that there's a trade off. You've got to do something of value to earn that money and then how you spend it or save it. There's consequences both ways, right? So doing that, I would say that skill sets, whatever you're going to school for to learn, learn. But today there's a huge opportunity, as you and I both know Jeremy in the trades, this country has lost so much of the abilities in this country to build things, to fix things and manufacture things. If I was a young person today, unless I was just gifted in, could be an aeronautics engineer or something, I would be learning how to install HVAC systems or plumbing or electrical. There's so many great trades that are needing good people today, and that doesn't mean you can't climb the ladder and have your own business someday. It's wide open. You just don't need, not everybody needs to go and learn how to be a hedge fund operator on Wall Street. Lemme put it that way. I don't think we need more of those.

**Jeremy Knauff:**

No, I think we've got enough of those. I've actually been teaching my kid how to weld lately. That's something he's been really excited

**Dr. David Phelps:**

About. Well see, that's kind of thing. I don't know how to weld. I barely know how to hammer a nail, so I would be calling your kid and paying him big bucks to fix my right iron fence. He could come in and probably charge me a hundred bucks for something he could do in five minutes. I don't know, have equipment, dunno how to do it. So those skills are immensely valuable today. I have people in my neighborhood who all the time are going, do you know anybody who knows how to? And a lot of times it's just dealing with electronic stuff, right? It's like the kid next door, brilliant, call him in here and he can fix your stuff in a

heartbeat and he could actually make some decent money instead of what you and I did like mulans,

**Jeremy Knauff:**

Right? And nowadays a lot of these people can just find business left and right through groups on Facebook or stuff like that, which is very different than when you and I first started businesses.

**Dr. David Phelps:**

Absolutely, yeah. We actually had to go knock on doors and talk to people,

**Jeremy Knauff:**

Which none of the kids want to do these days.

**Dr. David Phelps:**

No, you want to text and get your off of Instagram, so whatever.

**Jeremy Knauff:**

Yeah, absolutely. Well, so alright, so obviously getting better control of the budget is a big thing, being a little bit more conservative as far as investing goes. What do you see as some of the big risks? What do you see as some of the big opportunities?

**Dr. David Phelps:**

Well, when you go through big changes, whether it's a market cycle business cycle, which is shorter term, but we're definitely in that or a secular cycle like we've talked about, there's new rules of the game, lemme put it that way. There's new rules of the game and it really gives an opportunity to people in the reset to actually have an opportunity where they haven't had before. And that's everybody that's through the entire spectrum. We just talked about where jobs and opportunities will be for younger people who are trying to figure out where to go. A reset means you've got new opportunities on the investment side, same thing. Think right now is the time to be more cautionary and probably maintain a higher degree of what I call liquidity cash, cash equivalents, treasuries, precious metals or assets that you could sell relatively easily and not getting caught into a fire sale where everybody's trying to liquidate it all at once.

So more liquidity, being patient and gaining an understanding of what you like to invest in or what you think you would like to invest in. There's going to be opportunities in all sectors, all sectors in stock market equities, in private credit, real estate, energy, precious metals, commodities. What I think people should do is study up. You don't need to know everything but study up. Find people that are involved in some of those areas of investment allocations. Find people and buy them lunch, dinner, get inside their group, participate however you can. This is for everybody and learn through other people. You need some access points. You can

always access the basic financial markets, you can always access those easily. And there's nothing wrong with those, but I think there's been way too much emphasis put on the financial markets. The financial markets have overall been pretty good.

They have their ups and downs, right? They're volatile. I think the play in the financial markets is going to be downplayed to a significant degree, not in just the next few years. Even notwithstanding a correction, I think it's going to be going back to the sixties and seventies where the financial markets are going to be pretty dead across the water. A lot of that stagflation, which means if you have inflation and no growth in your investments, you really are losing ground, you're losing ground. So you can't deal with a lot of that. Now, again, I'm not saying don't put anything in the markets that does give you some liquidity. So nothing wrong with that. But most people that I talk to, Jeremy, that are high income professionals, have some net worth and wealth. Most of them have put the majority of that into the financial markets and ride those waves until they don't work anymore.

And I'd say right now, probably not a time, I would probably reduce some of my exposure there and learn to invest in what I call real things, hard assets, tangibles, that would be like land real estate, the right real estate at the right time, energy, right energy at the right time. Again, these things are going through a dislocation right now, so I'm not saying take your money and go jump into these things right now, but start understanding them getting access points. Again, commodities. I think we're a commodity down cycle right now, particularly with a recession. We see more down cycle. So wait, learn, watch. But the reason I like real things, tangible assets, hard assets, what we call alternatives to the stock market, Jeremy, is because the government can't make more of real assets. The government can make more of the financial products, which they've done all along.

I think the day's coming to the end there, the credit super cycle is coming to an end, which means the financial markets and all the grif and the graft and the bubble assets that have been created over there, those days are over for the most part. And I think people should start to look at how do I put my money, my investments into real things, businesses. That's a real thing. Real property, as I mentioned before, real assets. It's not as easy as the financial markets, not as easy, but who wants easy? Because easy means when there's something that's easy, that means there can be a lot of manipulation if it's not easy. Good point. Yeah. If it's not easy, it's more inefficient. It means it takes some work, some effort, some connection, some education to be involved there. But the government has a much harder time, if at all, manipulating it and they can't make more of those things. So that's what I would

**Jeremy Knauff:**

Say. I like that. And there's something connected to this that I've heard you talk about in some of your presentations and I can't for the life of me remember the quote, but it was something from Jeff Bezos. Do you recall what I'm talking about?

**Dr. David Phelps:**

Yeah, well yeah. Jeff Bezos would say, don't focus on lemme start over. Don't focus on what's changing. That's what we always do, right? We see everything shifting and the market's going crazy. Oh my gosh, that's changing over here. Bezos would say focus on what's not changing and to your point, what doesn't change? Well land, and I'm not saying you need to go out and buy land. If you need income, then buy land that has something on it or forestry or you can get some income but land, the government can't make more land or the government itself can't make more real estate or the government can't make more gold or silver or the government can't make more bitcoin, the government can't make more of that. And so that's what doesn't change financial market. Oh yeah, they can play games with that and they do and have been for a long time. But again, because of all the things we talked about today, the trade, what Trump is doing, I think that financial market, the credit supercycle that we've lived off of for many, many decades is coming to an end and I think watch and see, come back and let's have this discussion again in a few quarters next year. Let's see where the market is then. I could be completely wrong, but that's where I am putting my emphasis is on things that don't change.

**Jeremy Knauff:**

I love that. We have covered a very wide range of topics today here. Is there anything I haven't asked you about that you think people should know from a financial perspective?

**Dr. David Phelps:**

We have covered a lot, Jeremy, and I don't know if there's anything else that I could add to really a great conversation with you, which I always enjoy because we have these often, every week we go down different rabbit holes and I think that's what makes us all sharper. I think I said a little bit in the last few minutes, but I think you're becoming more discerning in your own right. Look, everybody has an area of focus in their life. You have a skillset, you have a career, you've got skills that you learned in going to school and that's wonderful. That's your active income, that's investing in yourself and always do that first. The additional investing in yourself though would be to create a broader level of skillset and knowledge so that as this market shifts and changes, you've got connections to additional knowledge bases, skillsets.

And the best way to do that is to do connection through other people. And you can do that in your local community if you're younger. But there's mentors everywhere and seek them out. Seek out people in your community. If you're younger, people who would be glad to take you on as an apprentice in their business part-time after school, or in between gap years at school. Find people that you believe have a lot of wisdom and have a business experience that you could just hang around with and do stuff for them and get paid some money. That's not going to be your career. That's for younger people. I think the same thing bodes well for those who are already in careers and in their active income years and maybe doing fine right now, but again, you don't know what you don't know until you expand your horizons, which is, I'm so glad I did when I was younger because I went into a great field of dentistry.

Technical skills allowed me to create a great living trading time for dollars. But at the same time, I put my skills out there in a whole nother format and I had no formal education in really what was the financial markets of being real estate and in negotiation and how to use leverage, how to manage, how to deal with people. There's so many skills I learned outside of my formal training that really gave me the latitude to have more resiliency and redundancy in my life as I went through my own twists and turns in life. And that's what I try to get back to young people here. Don't just be so zeroed in on one thing that's going to make it all for you. That's important to start with, but you've got to round yourself out. And that means being around other people. You and I do it all the time. That's why we're in the groups we're in. That's why we invest in ourselves through other people that we find wisdom and the resources. I always say your network is your net worth. Your network is your net worth. The people you know that you intentionally put yourself around is what's going to provide you for the net worth that you need to create the resiliency and the autonomy and freedom that you so want for yourself and your life and your heirs.

**Jeremy Knauff:**

I love it. Well, I think we'll close that on a strong note there, and I would encourage anyone who's watching this to follow you and follow the advice that you give. You've always been a wealth of knowledge and I've always heard everybody describe you as the smartest guy in the room, regardless of which room we're talking about. So I think people could definitely benefit from your knowledge.

**Dr. David Phelps:**

Jeremy, I always appreciate the conversations and you're very kind to say that I don't ever want to be considered the smartest one in the room. I want to be in rooms where I am also challenged. But I think that's the fun of being in those kinds of rooms because none of us know everything about everything, not even close. We might know something about one area very, very well, and that's great, but that's where again, you want to collaborate with other people because you don't need to know everything. You just need to know somebody who knows something. Right. And that's the key. Take everything in life.

**Jeremy Knauff:**

Love it. Awesome. Well, we'll call it a wrap for tonight, and I look forward to our next conversation.

**Dr. David Phelps:**

Great. Thanks so much,

**Jeremy Knauff:**

Jeremy. My pleasure.