Investing Armageddon - Transcript

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Tom Mullooly: Welcome to the Mullooly Asset Management Podcast. This is episode number 282. Your longstanding hosts are here, Tom Mullooly, hello. And ...

Brendan M.: Brendan Mullooly, and I think we're going to talk about Armageddon today. But not the Ben Affleck movie. All right. That was a terrible movie.

Tom Mullooly: There was a lot of people in that movie.

Brendan M.: Yeah.

Tom Mullooly: But, wasn't Bruce Willis in that movie.

Brendan M.: Right, he was at the time-

Tom Mullooly: Liv Tyler was in it.

Brendan M.: Yeah. At the time, I guess, Bruce Willis was probably the headliner because that was early on in Affleck's career. I'd say even in hindsight, Willis is probably the star of the movie, right?

Tom Mullooly: Yeah. His career really took off when he shaved his head. It's funny to watch the original Die Hard when he's got a full head of hair.

Brendan M.: Yeah, I always picture him as bald. I liked him in, what was the one, that Disney one? The Kid.

Tom Mullooly: The Kid.

Brendan M.: That was a good one.

Tom Mullooly: That is such a great Movie.

Brendan M.: It is a good one.

Tom Mullooly: I love that movie. But before all of that, he was essentially an out of work bartender in Camden. He's a Jersey guy. He was trying to be a standup comedian. Wasn't really having much success, but he tried out, he auditioned for a role on a TV show called

Moonlighting and he got the job and so he was starring across from Cybill Shepherd. If you can find that show, I guess on Netflix or wherever, it's a great, great thing. And it used to be on ABC, so it was actually on free TV, back in the 80s and he was hilarious. He was hilarious. And then he went from doing Moonlighting to, he did a movie called Blind Date, which was absolutely awful. And then next thing you know he's in Die Hard.

Brendan M.: Well also Armageddon. We'll use that as a jumping off point for non movie topics.

Tom Mullooly: Welcome to the party pal.

Brendan M.: Yeah.

Tom Mullooly: Isn't that his line?

Brendan M.: Yeah, exactly. Nice. Okay. In a recent bit of research by JP Morgan, they put out a something that looked at Armageddonist comments. And so these were from 2010 to 2016 and they were well known hedge fund, famous investor types, making the calls that we see every now and then where they go on CNBC or Fox Business or MarketWatch or something along those lines to say, these are a people going on to these different news channels and, and making extreme calls for bear markets, recessions-

Tom Mullooly: The end of the world.

Brendan M.: Crisis type stuff.

Tom Mullooly: Right. Now these are not money managers in the pure sense. Really wealthy people.

Brendan M.: Some of them manage money.

Tom Mullooly: But I don't think it's something, it's not like where a money manager would say, "Hey, we want to get defensive." It's like you said, this is the top in the market. This is the end of the world.

Brendan M.: Yeah. And, and again they noted too, this was more for fun than anything else. They noted too that this, the list they have is not exhaustive and just to give you an example of some of these calls, they said the list is not exhaustive. We could have included such hits as Bill Gross from 2012, "the cult of equity is dying." Harry Dent from 2013, "the U S has gone over the demographic cliff and markets will crash this summer." I think this is really helpful to now look at them, obviously in hindsight we have the answers to the test and we know that getting out of stocks in 2012 or 2013 was a terrible decision. But at the moment some people probably took them seriously because these aren't stupid people and we'll get into more names on this list, these are well known either famous people, investors, money managers, however they've gotten to the position they're in, people listen to what they have to say. They make these calls. I know that it keeps them on the cycle of being on these news channels, which is their goal, I'm sure. I'm sure they're not acting on these calls with their own personal money but people listen and take it seriously. Like we hear from clients when people like Jeff Gundlach say, okay, so this is from 2016 Jeff Gundlach, “it seems suicidal to buy a broad-based basket of stocks or economically sensitive commodities or emerging markets stocks - all of which are very leveraged to economic growth” from the article in Kiplinger. "Sell everything. Nothing looks good."

Tom Mullooly: It was July, 2016 that was actually right before the market-

Brendan M.: That was the bottom of a recent cycle from then onward until-

Tom Mullooly: Within a matter of days we had Brexit and then a few weeks later we had the U.S. Election and the market went straight up into 2017.

Brendan M.: Right. So from July of 2016 we had a year and a half period of time where we were up like 40%. And again, you know, since then, as we've discussed on previous podcast, since the beginning of 2018 we've had another stretch where we've just kind of been back and forth in the market recently hitting some new highs and potentially breaking out of a range, but nothing to write home about. But this was during another one of those stretches where we had been sideways for like a year and a half, two years. But that was the absolute worst time to be making wholesale changes to your investment plan. But that's not just to, I threw the name out there because people recognize it. Jeff Gundlach's not a stupid guy. And that's not the point I'm making.

Tom Mullooly: He manages largest bond fund in the world.

Brendan M.: Yeah, he's not dumb. But also, I'm not sure that you should be taking investment advice, just point blank from some article that he writes. Because he doesn't know you, or what you're trying to do, or anything like that. And he certainly isn't held responsible when he says it's suicidal to buy stocks right now. Nobody's holding him responsible a year later if that was a bad call.

Tom Mullooly: That's right.

Brendan M.: Nobody remembers.

Tom Mullooly: But yet we get, you know, these people want to remain relevant. They want to remain in the news cycle. So they want to, you know, not want to, but occasionally they'll make these calls that seem a little outrageous. [crosstalk 00:06:46] They do get headlines. They do get attention. It does keep them relevant in the news cycle.

Brendan M.: You don't get on the news by saying hang tight and keep doing what you're doing. You have to make some kind of extremist prediction. And then if you're right, then it feeds off itself and you get to go on there a million more times. And if you're wrong, nobody cares anyway because, so what? They have another guest on next week.

Tom Mullooly: Onto another news cycle. So let's go through some of these.

Brendan M.: Yeah. So what JP Morgan did was they looked at a handful of these different calls, like the one from Gundlach that we just discussed. And they looked at it in a binary sense. So if you read that article and on that day you took your money out of the S and P 500 and put it into the Barclay's aggregate bond index. So just all-in, all-out either stocks or bonds, based on the talking heads, more of which we'll name here. What would your performance have been like if you listen to that call of Armageddon as they're throwing the blanket on all of these?

Tom Mullooly: Okay, so-

Brendan M.: Really fricking bad is the lead here.

Tom Mullooly: Yeah. We're not talking about like Elaine Garzarelli making an offhanded comment in the summer of 1987. This is not 30 years ago. The oldest one that we're looking at is just about nine years old, right?

Brendan M.: Yeah, 2010. But it's looking back through, basically it's looking at through the duration of the bull market that we've been in. All of these calls.

Tom Mullooly: So Nouriel Roubini. He's kind of gathered the nickname on social media as Dr. Doom.

Brendan M.: Yeah. A lot of these guys are notable bears at this point because they do this stuff all the time.

Tom Mullooly: So this was May of 2010, he said there are some parts of the global economy that are now at the risk of a double dip recession.

Brendan M.: Remember that phrase?

Tom Mullooly: Oh very well.

Brendan M.: Do a Google search history. You can see when people were typing in stuff like this double dip recession would be a spike in this 2010 to 2011 timeframe and literally have not heard a peep of it since, because it never happened.

Tom Mullooly: Yeah, David Rosenberg, about just about a year later, June of 2011, "Another recession is coming and soon," so says Gluskin Sheff economist David Rosenberg. He's a longtime bear on the economy and the stock market, and now he says he's 99% sure in June of 2011 we will have another recession by the end of next year.

Brendan M.: Right. So just to pause for a second. So we've got those two. The performance impact of listening to these calls again and taking all of your money from stocks and shifting it to bonds. If you listened to a Roubini in 2010 you cost yourself 60% of performance. If you listen to Rosenberg in 2011, pretty close to that, you cost yourself 55% in performance.

Obviously, this takes into account that you have earned some kind of a return for being in bonds over that time, but this is the differential between what you could have had if you stuck with stocks and didn't listen to these guys. Or you know what you got if you shifted to the bonds.

Tom Mullooly: Just stayed with your allocation, even if own some bonds but had equity allocation.

Brendan M.: And that's an important point, because we are vehemently against these all-in all-out. This is for illustration only. Making these kinds of calls at all, whether these people were right or wrong, that is just really, really risky stuff to be doing and not necessary for any investor to reach their goal.

Again, I think it just illustrates the ramifications of listening to these people. This is as extreme as it would've been, but these guys were wrong. They didn't nail it at the time and, Rosenberg even said he's 99% sure that we're going to have another recession by the end of the next year. Meaning end of 2012 cause he made that prediction summer of 2011. That didn't happen.

Tom Mullooly: So Mark Faber in May of 2012 was quoted as saying, "I think we could have a global recession either in the fourth quarter of 2012 or early 2013. That's a distinct possibility." When asked what the odds were, he replied 100%.

Brendan M.: If anybodies talking about the odds, I think, that's a good question to ask people when they have strong views like this. Like, I think that a bear market is going to happen. And I think the two questions that you want to ask when somebody tries to make a prediction like that or to tell you that they know this are, "Okay, when?" And, "How sure are you?" Because it asks them to be intellectually honest and to apply some probability to this. And if you ask somebody how sure they are and they say 100%, you shouldn't listen to anything that they have to say from that point forward because they are full of crap. 100% sure? About something like the economy or the stock market. How could you yeah absolutely not. That's im-

Tom Mullooly: You're better off using that line from Dumb and Dumber, "99%. So you're saying there's a chance?"

Brendan M.: Yeah. You know I don't like 99.9 either because that's basically like saying a hundred but you're being-

Tom Mullooly: Want to be a little cautious and kind of cagey a bit.

Brendan M.: I think the better thing is to use the Anchorman line, "60% of the time it works every time." Cause those are probably more like the odds of what you're looking at. More like coin flip odds or something closer to 50/50. I mean if somebody has a hunch and it's based on smart sounding, good intelligent research, I mean I think if the person is an honest person, they'll tell you, look, I think this is going to happen, but I'm 60%-70%. I mean that's at least being honest out there.

Tom Mullooly: So older podcast listeners may remember the name David Stockman. Because Stockman was the budget director in the first Reagan administration. In fact, don't quote me on this, but I believe he was the one who coined the term trickled down economics. He later left the White House in a dispute with Reagan, because we were supposed to have budget cuts that came with the tax cuts, spending cuts.

Brendan M.: We're always supposed to.

Tom Mullooly: Yeah.

Brendan M.: They never happened.

Tom Mullooly: That side never happened.

Brendan M.: They never do.

Tom Mullooly: But anyway, he's gone on to really become Permabear on the markets and the economy. Anyway, March 31st, 2013 Stockman said, "When the latest bubble pops, there'll be nothing to stop the collapse. If this sounds like advice to get out of the markets and hide out in cash. It is."

Brendan M.: March of 2013. So that was the end of the first quarter 2013, which was a pretty good quarter for stocks, if I'm remembering correctly.

Tom Mullooly: The end of the first quarter of 2013 the market was up about 15%

Brendan M.: Right, and it had another 15 to go before the year ended.

Tom Mullooly: Pretty much, yeah.

Brendan M.: So a good year to hide out in cash, I guess.

Tom Mullooly: Yeah. Did we talk about Peter Schiff?

Brendan M.: Sure. Yeah. I mean this guy is a gold bug if there ever were one, right?

Tom Mullooly: Yeah, so this is around the same time. This is May 30th, 2013. Peter Schiff said, "We've got a much bigger collapse coming." Again to point out what you just said, "I'm 100% confident the crisis that we're going to have will be much worse than the one we had in 2008." And then he said on MarketWatch, "The crisis is imminent. I don't think Obama is going to finish his second term without the bottom dropping out and stock market investors are oblivious to the problems."

Brendan M.: Well, if market investors were oblivious, it was definitely a lot better than taking his advice, because Peter Schiff, where is he on this in terms of a performance?

Tom Mullooly: Yeah, not so hot. He's down between 35 and 40%.

Brendan M.: Right on that call. So that was a good one. And just for good measure, injecting political opinions into the take too. Good stuff. Mixing politics and investing.

Tom Mullooly: I'll say it. Thanks Obama.

Brendan M.: Well.

Tom Mullooly: Okay, what about Carl Icahn? Now I remember Carl Icahn from the 80s as the corporate raider, the takeover guy. But you know the last couple of years, I think since Twitter was invented, this guy has now taken the Twitter and he tweets out these market calls, and then he gets invited on to a CNBC and some of these other places and he starts talking about the economy and starts talking about markets in general.

What did he say in 2015?

Brendan M.: I'll just jump ahead to the end of his quote where he says, "I do think you're in a very massive bubble and when it bursts, it isn't going to be pretty. It could be a bloodbath." Another situation where in hindsight, this is 2015, it's probably about 40% ago on the S and P 500 or the Dow, so not great.

Tom Mullooly: George Soros-

Brendan M.: Famous macro hedge fund guy.

Tom Mullooly: Yeah. Made a huge bet on the pound, British pound, years ago and really killed it. He did great. That's really how he made his name. But in January of 2016, "Global markets are facing a crisis and investors need to be very cautious," He told an economic forum in Sri Lanka, "China has a major adjustment problem. I would say it amounts to a crisis. When I look at the financial markets, there's a serious challenge, which reminds me of the crisis we had in 2008."

Brendan M.: So to the accompanying chart that cost you about 30% and performance if you went all-out based on those comments. A couple more on here, I think at this point the gist, has been understood though, is that this won't end. There is endless thirst for these big name people to come on to shows and the reason people want them to come on is because they make these bold predictions. And they throw them out there and they don't have any repercussions for doing so. They're probably not doing the same thing they're recommending with their own money. They're not hiding out in cash or getting all out of stocks. I would really doubt that, but we also don't have to listen.

Or we can hear what they have to say, consider it thoughtfully, and wonder if it means anything within the context of your own personal situation. But just taking these things as gospel because these are rich, successful, famous investor types?

This is quantifiable evidence that listening to these kind of calls, I mean even at this point, the amount of money that it would have cost you listening to these people? They could be right eventually, but they could have also cost you so much money that it nets out to nothing. Even if you do nail it by following them into or out of the market at some point in the future. They're not consistent. I don't know what else to say. I mean this kind of stuff is really harmful to investors.

Tom Mullooly: I do want to bring up one at the bottom of the page. Only because I know in the next 12 months we're going to hear a lot about politics, and this is not any kind of particular call on politics, but Paul Krugman, who is an economist, won a Nobel prize. He writes regularly for the New York times. This was immediately after the election in 2016. He said, "It really does look like President Trump and the markets are plunging, so we are very probably looking at a global recession with no end in sight. I suppose we could get lucky somehow, but on economics, as on everything else, a terrible thing has just happened."

There's going to be a lot of people in the next 12 months who want to make bets. And they want to bet their portfolio on the outcome of an election and that is just a terrible thing to do. Whether you're right or wrong, ultimately it's not really going to have any impact on you, whoever's in the White House honestly, it doesn't really have an impact on what's happening in the markets. If they really want to worry about what's happening in Washington, watch the Supreme Court watch what Congress is doing.

Brendan M.: Right. Even that I think has a limited impact on what's going to happen. There are reactions to headlines. There will certainly be a reaction. I think that's an important clarification to make is that there will be a reaction to election results. The initial reaction tells us absolutely nothing about the direction of the market for the duration, the remainder of your investing lifetime, and what we need to make happen to over that horizon doesn't change because power changes in the White House, or whatever happens or Congress gets shuffled up. If you're making changes to your portfolio based on politics, I think as evidence two times on here, we had somebody scared of the markets because of Trump. We had somebody scared of the markets because of Obama. Both of them were wrong.

Regardless of what side of the aisle you fall on, mixing politics and investing, bad idea. But the media will tell you otherwise. They'll be happy to either confirm what you want to hear, or enrage you because they disagree. And if you're injecting that into what you're doing with your money, I think you're setting yourself up for a bad time.

Tom Mullooly: Well said. I'll also piggyback on a phrase that you just mentioned about the initial move off of an event or news is probably not going to be a long lasting move, and it may not even have an impact on your portfolio.

Over the years, I've sat through so many purchasing managers reports that come out at 8:30, employment reports that come out first Friday of the month, interest rate decisions from the FED, and you'll see the market zigzag violently in the first 15, 20, 30 minutes after that. We really can't tell if it's good news or bad news for weeks, maybe sometimes months after these news events get announced and we start to see a trend in these events going on. Hanging your portfolio decision, in or out, on who's going to get elected-

Brendan M.: Quick question. How many regime changes in the White House have you seen over the course of your career?

Tom Mullooly: Got into the business in Reagan's first term, so Reagan for two, Bush, then we had a Clinton for two, then we had Bush again for two. That was W. Then we had Obama for two. And now we have Trump.

Brendan M.: Right. That's eight or nine?

Tom Mullooly: It's eight.

Brendan M.: Eight regime changes. And where was the Dow Jones industrial average, just in ballpark terms, when you started working in the business?

Tom Mullooly: 1300.

Brendan M.: 1300 and where are we today?

Tom Mullooly: 27,000.

Brendan M.: Right. Okay. I rest my case. I'm just saying like every one of those regime changes, I'm sure, there were at least a group of people in this country who felt like it was the end of the world. It wasn't.

Tom Mullooly: The problem. Now everybody has a microphone.

Brendan M.: Yeah, absolutely. It definitely exacerbates things, but no need to buy into it any more than we would have in the past.

Tom Mullooly: That's our message for today. We appreciate you tuning in and we'll catch you on the next episode.