Demetri Kofinas:	00:00	Today's episode of Hidden Forces is made possible by listeners like you. For more information about this week's episode or for easy access to related programming, visit our website at HiddenForces.io and subscribe to our free email list. If you want access to overtime segments, episode transcripts and show rundowns full of links and detailed information related to each and every episode, check out our premium subscription available through the Hidden Forces website or through our Patreon page. Remember, if you listen to the show on your Apple Podcast App, you can give us a review. Each review helps more people find the show and join our amazing community. With that, please enjoy this week's episode.
Demetri Kofinas:	00:50	What's up everybody? I'm Demetri Kofinas and you're listening to Hidden Forces where each week I speak with experts in the fields of technology, science, finance and culture to help you gain the tools to better navigate an increasingly complex world so that you're less surprised by tomorrow and better able to predict what happens next.
Demetri Kofinas:	01:13	My guest this week is Peter Boockvar, Chief Investment Officer for Bleakly Advisory Group and a regular on CNBC where he provides market commentary about fed policy, market trends, economic data, stocks, bonds, you name it. Every now and again I like to bring people from the media onto this program to get their take on the market and to hear what their colleagues are thinking about the latest economic data, news and information and how it's impacting the narratives being constructed by the press to explain what we're seeing and what we can expect to see in the coming weeks and months.
Demetri Kofinas:	01:53	I've noticed a significant shift in how the media has been talking about markets recently. Even the words that they've been using to describe develops that in a different time and place would have elicited positive commentary are being characterized today in bearish terms. I asked Peter for his interpretation of some of the recent economic data including the latest manufacturing numbers out of Germany, as well as the recent anecdotal data provided by Apple in their 1,400-word letter to investors that led to a 10% drop in their stock price, their worst one day performance in five years.
Demetri Kofinas:	02:31	We discussed recent comments by Fed Chairman Powell, the prospect and performance of financial stocks, concerns about liquidity, the government shutdown, trade, China, marijuana stocks, electric vehicles and what I believe is the resurgence of Democratic Socialism as a powerful force that markets will need

to contend with in 2020. With that, let's get right into this week's episode. Peter Boockvar, welcome to Hidden Forces.

Peter Boockvar: 03:03 Great to be here. Thanks.

Demetri Kofinas: 03:04 It's great having you on the program. I was telling you before we started, what I'm most interested in, the reason that I asked you to come on the program is not just because you have an understanding of financial markets, but you're such a regular commentator and you're present in financial media, and I'm really interested in how the narrative has I think shifted in financial media and how investors are looking at the market today I told you with no material impact or difference in objective reality.

Demetri Kofinas: 03:36 You would I think differ with that a little bit. I'm curious what you have to say. How is the media and how are investors looking at the market in 2019?

Peter Boockvar: 03:46 Well, let's take a step back because I think we have to look at the steps that led into 2018 and 2019 to have perspective on that. So you talk about the financial media, look at 2017, okay? Come off the election, we had an extraordinarily low level of volatility. In fact, volatility for the last call it since probably 2010 has been very muted, helped out by central banks. So 2018 actually gave us a bout of volatility that people just weren't used to, and especially after what we saw in 2017.

Peter Boockvar: 04:22 So when you get short market moves, well, people start paying attention. How do they pay attention? Well, they turn on the TV or they turn the radio on and they listen to what the news is. So you get big market moves, that's attention-grabbing. What the ISM did doesn't make people turn the TV on, but when the Dow is moving three, four, five, 600 points a day, well, that is attention-grabbing and that becomes important to the financial media because it also on the reverse becomes important for the economy because financial markets and the economy are so intertwined.

Peter Boockvar: 04:58 So we go into 2019 with very limited visibility on how this grand central bank experiment is going to play out on the reverse. Where does the Chinese economy go? There are signs that the US economy is beginning to slow so we didn't have a hissy fit in the fourth quarter in the financial markets for no particular reason. There are legitimate reasons why we saw what we saw.

Demetri Kofinas: 05:27 What were the ISM numbers in December?

Peter Boockvar:	05:29	Well, we saw the ISM numbers, last week the manufacturing number, that was soft, and we saw the services number yesterday that was weak as well. We saw an NFIB small business optimism index today that fell to the lowest level since late 2016. It's the lowest level since late 2017 but some key components fell to the lowest level since November 2016 which was the month of the election.
Demetri Kofinas:	05:54	The Germans also had some industrial numbers that came out today, right? The German economy?
Peter Boockvar:	05:59	Yes. So the third quarter in Germany was a contraction. It was the belief that that was temporary because the European Parliament had some auto emissions rules that came into effect that delayed shipments. People assume that we would get a fourth quarter bounce-back and so far we have not. We saw a weaker than expected factory order number out of Germany. We saw industrial production today was weaker than expected, which comes on the heels of obviously softness in China, soft data in Hong Kong, soft export numbers in South Korea. This is a global slowdown that we're right now in the midst of.
Demetri Kofinas:	06:37	Good numbers came out in December though, right for their labor market?
Peter Boockvar:	06:41	Well, the consumer, both in the US and actually Germany, is actually holding in. The unemployment rate in Germany at 5% is the lowest since reunification. They reported retail sales also yesterday. They came in better than expected.
Demetri Kofinas:	06:52	Mm-hmm (affirmative).
Peter Boockvar:	06:53	The industrial side is what's particularly soft.
Demetri Kofinas:	06:56	We should note today is actually, what are we, the eighth today? We're going to release this in a week's time, so this is Tuesday, January 8th just for the audience to know. You mentioned the return of volatility, which is an interesting thing I was thinking about. First of all, volatility is pretty much at its historic average right now, correct?
Peter Boockvar:	07:12	Correct. At 20, yes.
Demetri Kofinas:	07:13	Yeah, and you said that volatility has been pretty damp since 2010, especially since 2012, and we were living in this period that I think PIMCO had coined the phrase - El Erian had maybe coined it - the new normal. I wonder are we just moving from

new normal back to normal and that's just freaking everyone out?

Peter Boockvar: 07:33

Well, the new normal was in terms of economic growth rates, so yes. In terms of volatility we're back to the long-term average, but that's not something that people are used to. When you look at the suppression of volatility and the release of it, well, there really isn't a blueprint for what we're experiencing when you have negative interest rates and you have the explosion of central bank balance sheets.

Peter Boockvar: 08:03

That's not something that we're used to or have any experience with, so a move in volatility from 10 to 20 when you've suppressed it as much as we have is still a rather big deal. There's the assumption that you can go from extreme to normal without going to the other way where the pendulum is swinging the other way first before you actually set onto normal.

Demetri Kofinas: 08:28

Before we turned on the microphone I told you another data point that stuck out to me was Chairman Powell's speech at the American Economic Association's Annual Meeting in Atlanta. He was on a panel I think with Yellen and Bernanke?

Peter Boockvar: 08:41

Yup.

Demetri Kofinas: 08:42

He made the most sort of generic vanilla remarks in my view, but markets seemed to really take some relief from that. His point was basically yes, of course we will take into account the effects of asset price that climbs in the stock market as a forward indicator. We will take it into account when we decide whether we're going to hike again next time. It seems to me that markets are exhibiting a higher level of anxiety than I would have expected around the continued rate rises and balance sheet contraction of the fed. Besides just this existential angst, do we have any material reason in the data to be anxious about this?

Peter Boockvar: 09:22

Well, you have to understand that market psychology many times, a bunch of children. If they don't get their candy when they want it, they throw a tantrum. Central banks have been giving out the most amount of candy for a long period of time, so that's the mentality that every time a central banker of importance speaks, every time there is a meeting, well, there is always a big response to that if there is even the slightest change of thought and words.

Peter Boockvar:	09:57	I think what we saw proves how influential central bankers have been in manipulating not just markets, but industrious psychology, both up and down, and that we can have such drastic moves, whereas in early October Powell says we're a long way from neutral and then he a few months later says we're close to neutral. Then at the December F1C meeting says autopilot with respect to the balance sheet and then he talks about it being flexible. It shows you that there's still this addiction to wanting that candy from central banks.
Demetri Kofinas:	10:35	You know, the fed has gone from being, I mean, they were an institution that didn't even talk about what rate they were targeting to an institution that then said this is the rate they were targeting for decades. Now we're at a place where this thing of forward guidance where they've been coddling markets so long. To your point, I wonder if forward guidance is actually ties the fed's hands more. In that sense it's less worth the benefit. It's something that I think went to a new level with Bernanke that it wasn't the case with Greenspan. With Greenspan they were just like a general sort of confidence in the maestro, right? Those were different days.
Peter Boockvar:	11:11	Monetary policy has turned into a game of semantics, okay? So forward guidance is inconsistent with data dependency. Greenspan raised rates at a measured pace but he did it at every single meeting, eight times a year.
Demetri Kofinas:	11:26	You're saying leading up to 2008.
Peter Boockvar:	11:28	Yeah. So I'm saying that they try to manipulate markets not just with the actual rate moves and balance sheet adjustments, but with their words. They think that their words can somehow influence behavior. It's such nonsense, all of this, but unfortunately the problem is that you've inflated asset prices to such an extent that if you don't get that help from central banks to the same extent, well, then you're just going to have an adjustment.
Demetri Kofinas:	11:52	Well, we had that period where bad news was good news for financial markets. Remember that where if markets looked at negative economic data or anything they could perceive as negative because it would suggest the fed was on it and they would just pump more to liquidity. I forget what period that was. Maybe it was between 2008 and 2012? That risk all period?
Peter Boockvar:	12:11	When QE1 began all the way through the end of QE3.

Demetri Kofinas:	12:14	Are investors, because this is also again, this is a different world because they're not just dealing now with the fed's rate decisions, they're also dealing with the fed's balance sheet decisions, right? How are investors differentiating between the fed's balance sheet operations in terms of runoff and contracting the balance sheet and their interest rate targeting?
Peter Boockvar:	12:35	Well, the interest rate targeting is much more visible. It shows up not just with their announcements, but it shows up in the cost of capital. It influences the yield curve, it influences LIBOR and we're in a world with a lot of floating rate debt so there's a direct influence on what the fed does with respect to interest rates.
Peter Boockvar:	12:52	The balance sheet is sort of I don't want to say a mystery, but it's a mystery in terms of its investor influence, in terms of psychology. You know, QE, it really was an asset swap, is you give me your bond, I'll give you the cash. The cash that the bank took just went back to the fed. So not all of that money made it out into the real world.
Demetri Kofinas:	13:12	Right, IOER.
Peter Boockvar:	13:13	In the economy and in markets. So a lot of the QE was psychological. Now there's plenty that's still filtered out there. I mean, can't discount the effect of QE that Europe and Japan had when they suppressed rates to nothing and enforced people to take a lot of risk. So on the reverse side, the monetary base is shrinking. The level of reserves is shrinking.
Peter Boockvar:	13:32	The inflation tinder which essentially is QE was, is getting pulled back and it combined with the ECB that's no longer expanding their balance sheet and the Bank of Japan, which is basically cut QE in half and is actually stepping away from inflation targeting of 2%, this fed put that was at the money is now far out of the money. So it's harder to quantify the direct impact of QE. It's easier to quantify more of the psychological impact as opposed to rates going up. Rates going down is much easier to quantify in terms of the cost of capital.
Demetri Kofinas:	14:08	In some of our past episodes we've discussed the role of these extraordinary monetary measures on liquidity and emerging markets and also in corporate bond market. Are those two areas in particular, and I also will mention that heading into Christmas the financials got hammered. They were down I think 25% by the end of December off their highs and 18% I think in three weeks' time. In general, I think it was the second worst December we've had. Are there certain areas of the market that

		you and investors generally are looking at more and the media perhaps is paying more attention to than others as canaries in the coal mine?
Peter Boockvar:	14:51	Well, the first canary that really popped was the splintering of the FANG trade. I mean, that was the driver of ...
Demetri Kofinas:	14:58	You're right. When was that? End of the summer?
Peter Boockvar:	15:00	... of the economy.
Demetri Kofinas:	15:00	When did that begin?
Peter Boockvar:	15:01	It sort of started with Facebook and then you had Netflix that reported disappointing subscriber numbers in the beginning of the year. That's really when it started to separate. Then of course Amazon disappointed with their last earnings release. Google also disappointed with their last earnings release, so Apple of course had its own problems. Many months ago I said the FANG trade is dead in terms of those stocks trading as one group and that you're going to have to analyze each of them on their own with their own individual circumstances. Those are the leaders in the markets.
Demetri Kofinas:	15:37	It does seem kind of odd that Amazon would be grouped up with Facebook, doesn't it? What do they have in common?
Peter Boockvar:	15:42	Well, exactly. It was fast-growing and market caps that were ...
Demetri Kofinas:	15:46	So interesting.
Peter Boockvar:	15:46	... somewhat aligned in terms of size, but at the peak, FANG plus Microsoft made up 17% of the S&P 500 so that was key, but then you got to September and you started to splinter the FANG trade. Overseas markets had a rough year up to that point where certain markets went into bear markets, and then you started to get to the ruffle 2000 and then it spread to everywhere else.
Peter Boockvar:	16:12	The problem with eh banks is the yield curve is inverting on the short end and banks are still very economically sensitive. If rates are going up and there's less demand for loans, at the end of the day that's what banks do, they make loans.
Demetri Kofinas:	16:26	But also, isn't that also though good for banks in another way because it helps them make more money on the carry?

Peter Boockvar:	16:31	Right, but if my loan growth is slowing, well, where am I going to get growth?
Demetri Kofinas:	16:35	Well, so the question is has that traditional lending model broken down? What has been the change in how banks generate revenue today versus let's say 30 years ago?
Peter Boockvar:	16:43	Well, there's still massive loans books to households through mortgages. Well, housing is slowed. Housing is in a recession.
Demetri Kofinas:	16:51	Right, so what's that do to your mortgage book?
Peter Boockvar:	16:53	Wells Fargo in particular, huge mortgage lender. Credit cards, CNI loans, banks still reliant on loans. Maybe not to the same extent because we have a more developed capital markets on the corporate side, but banks are still in the business of lending.
Demetri Kofinas:	17:11	You mentioned Apple before. I want to talk about Apple. It's something that I don't think we've ever discussed Apple on the program. I'm really interested in having a conversation about it with its recent miss. I think that's a big deal and it will open up the conversation for a number of things, but before we get off of the fed I want to mention Steve Mnuchin's press release from the Treasury and stuff that happened in December.
Demetri Kofinas:	17:32	That was so bizarre. I couldn't remember something like that in recent memory of something that was so out of left field. The Trump Administration of course has done this stuff all the time, but it never felt so personal. It never felt like it was, you know, in the domain of financial markets. Is there a consensus ultimately about what that was about? Was that just a dumb thing that he did or did it mean something? Are we supposed to draw something out of that?
Peter Boockvar:	17:56	I think it reflected a level of clueless-ness. The liquidity of the banking system is fighting the last war. I think we've pretty much addressed that after the '08 crisis. Just because markets go down, that doesn't mean it's an economic calamity, so I really believe that it was a level of clueless-ness on his part.
Demetri Kofinas:	18:13	Did he just want to get in front of the camera? Did he just want some attention?
Peter Boockvar:	18:16	I don't know. What I do know is that the administration was panicking in December for the decline of the markets and they were doing everything they could to literally get involved and try to stop the decline of the stock market.

Demetri Kofinas:	18:30	You think Trump called Steve Mnuchin on the phone?
Peter Boockvar:	18:33	Look what followed. The Saturday before New Year's Trump tweets, "Talks are going great with China." They did everything they could to stem the decline in the stock market. So you live by the stock market and you die by the stock market if you're a president that is so dependent on it, but also we're an asset price-dependent economy. That goes back to Greenspan and that the last two recessions were driven by declines in asset prices whereas most economic cycles before that were typically inventory cycles.
Demetri Kofinas:	19:05	I'm looking for this tweet that you sent out, Peter, recently. It was a Wall Street Journal article. I can't find it now but it had to do with ... Well, here it is. "Among the growing risks investors are assessing their own fear," from the Wall Street Journal. I think the point had to do with the nominal value of assets, of wealth basically to GDP. One of its highest points since when, since the 1920s?
Peter Boockvar:	19:26	Well, ever. Well, if you look at net worth as a percent of disposal income, remarkable. We're at 700%. We're far above where we were in '07 and even further above where we were in 2000. So that explains the difference between what the value of people's assets are, whether it's their house, their savings, their stock portfolios versus actual disposable income, which is what an economy generates. Now that article talked about net worth relative to GDP, but it's still the same concept.
Demetri Kofinas:	20:00	Right, exactly, 100%, yeah. In this it has this phenomenal chart. In 1980 the ratio of household financial assets to nominal GDP was around 2.25%. Today it's above 4.25. It's like 4., I don't know, like 4.4. Remarkable. That's something we've talked about on the show which is the difference between wealth and income and the huge wealth gap.
Demetri Kofinas:	20:21	Basically I think what stuck out to me about that article is how important are the help of financial markets, the nominal value of assets more important today than they used to be? Can a decline of financial markets spark a recession? Is the economy more sensitive to what happens in financial markets today than it would have been let's say 20 years ago?
Peter Boockvar:	20:43	More than ever before.
Demetri Kofinas:	20:44	More than like 1987 where markets collapsed, went down 22% and the economy continued to grow.

Peter Boockvar:	20:49	Exactly, and because that net worth number is so large relative to the actual economy.
Demetri Kofinas:	20:54	Right.
Peter Boockvar:	20:55	The fed knows this, that's why Bernanke wrote an editorial in the Washington Post explaining why he's doing QE, because he talked about the wealth effect and lifting markets and how that would spur consumer spending. Well, what did they think was going to happen when we saw the reverse and we saw QT instead of QE? You were going to get a reset on valuations. So there's a big difference in the value of the S&P 500 when you pay 17 or 18 times earnings versus when you pay 14 or 15 times.
Peter Boockvar:	21:25	Without any change in earnings, just that multiple rethink leads to lower prices, so right now, 2018, I would really define mostly as a P multiple rethink. The issue facing 2019 is you're going to potentially combine that PE multiple rethink lower with global growth that's slowing that could then lead to the E part of the PE that will also go lower too. So we're lower PE on a lower earnings number leads to a lower stock market.
Demetri Kofinas:	21:56	The rethink, you're saying that investors will demand a lower price to earnings ratio in order to be invested.
Peter Boockvar:	22:04	Exactly, and what they're willing to pay.
Demetri Kofinas:	22:05	In fact, doesn't that go back to my point about the shift in investor sentiment that doesn't correspond to any objective reality, it just seems to be a change in the narrative?
Peter Boockvar:	22:14	Well, a lot of it is trading off what's the fed doing? The fed's cutting. That's good. The fed's hiking. That's bad. When the fed is easy ...
Demetri Kofinas:	22:22	That's interesting.
Peter Boockvar:	22:23	... let's pay a higher P multiple. When the fed's tightening, let's have a lower P multiple. Sometimes it's as simple as that in terms of investor mentality.
Demetri Kofinas:	22:31	I wasn't sure if we were still in that dynamic. I wonder if it's still as strong as it was. I was actually thinking before you came in when we were talking about forward guidance, I don't know if you're familiar with these trigger warnings in the schools and stuff like that. We've covered them on the show. We had

		Jonathon Haidt on the show. Maybe markets need a trigger warnings now. Everyone's gotten so sensitive. Financial markets just need more than ...
Peter Boockvar:	22:52	It's amazing how much a decline in markets now relative to the past affects psychology. Whether it's someone looking for an apartment in New York City where the financial market presence is obviously pretty large because of the dependency economically to people see just moves in interest rates, moves in the mortgage rates. Mortgage rates go from 4.5 to 5% and you see a collapse in REFI's.
Demetri Kofinas:	23:21	We have a tremendous amount of debt.
Peter Boockvar:	23:23	Well, that gets to the problem, is ...
Demetri Kofinas:	23:25	Isn't that the bottom line?
Peter Boockvar:	23:26	... small changes in interest rates have the pronounced effect because you have big dollars of debt where even small changes in interest rates means big changes on a dollar basis in interest expense and the cost of funding.
Demetri Kofinas:	23:41	That's a huge problem for China too. We're going to get into that when we get into Apple. Before we get to Apple, one more thing I wanted to mention or I wanted to ask you about, which is the government shutdown. Generally speaking, financial markets, and this goes back to the point about Mnuchin's tweet sort of riling everybody up uncharacteristically, the Finnish markets have been largely indifferent to the Trump Administration's actions.
Demetri Kofinas:	24:03	If anything, they've taken positively to the change in regulatory rhetoric and taxes, right? But now, when this episode airs, if the government is still shutdown that will make it the longest on record I believe. That will beat the 1995 Congress, the Newt Gingrich Congress. In your view, how is market sentiment react to the shutdown this time around? It seems like this time it feels different.
Peter Boockvar:	24:27	Well, it feels different because of the potential of the length of it, but markets are desensitized to these government shutdowns because I like to say that you have death and taxes as a certainty, but you also have a certainty if the government shutdown it's going to soon reopen.
Demetri Kofinas:	24:41	That's a good one.

Peter Boockvar:	24:42	So the pressure now is getting really extreme. To me what tipped it over is hearing the stories about TSA employees at the airports that are calling in sick.
Demetri Kofinas:	24:51	Or prison guards. I read a story on prison guards.
Peter Boockvar:	24:53	Now we're at a point where I have to believe that this is going to end rather soon, so to me it's more of just an annoyance, a nuisance, good for the politicians and nightmare for everybody else in terms of psychology but not really having much of an economic impact at all.
Demetri Kofinas:	25:11	So what happened with Apple? Fill our investors in on the news that moved markets of Apple's stock price. I think it dropped by 10% the day after Tim Cook made some comments and they released a 1,400 page letter revising their revenue estimates down because of lower than expected iPhone sales and blamed primarily on China and on the Chinese US trade war. Give us some context for this.
Peter Boockvar:	25:38	Well, the context is the smartphone market is basically flat lining. It's completely saturated.
Demetri Kofinas:	25:43	That's been going on for a while now. That's right.
Peter Boockvar:	25:45	In fact ...
Demetri Kofinas:	25:45	I've got actually a chart right here from 2013. When was it? It began like around 2015, 2016 ...
Peter Boockvar:	25:50	Mm-hmm (affirmative).
Demetri Kofinas:	25:51	... it started to flat line?
Peter Boockvar:	25:51	Apple smartphones unit volumes have flat lined the last couple years. They've been able to offset that by these price increases.
Demetri Kofinas:	25:58	Right.
Peter Boockvar:	25:59	Well, then now they've reached a point where price increases, people are saying, "Well, why do I need to buy an iPhone," particularly when you're in China and all you need is access to WeChat owned by Tencent and you don't need to get into the Apple ecosystem. You want to get into the WeChat system. You can get that from any phone, an Android or an Apple.
Demetri Kofinas:	26:17	That's all in the Cloud?

Peter Boockvar:	26:19	Well, WeChat is basically their messaging service, their payment system. It's a lot of different things in one that that's what the Chinese want, so Apple's losing market share not because the Chinese consumer and the Chinese economy is slowing, which it clearly is, but they've priced themselves out of the market and that's their problem. In addition to having the biggest contributor to their profits, the smartphone, being a completely saturated market that's no longer growing.
Demetri Kofinas:	26:46	So how much of Apple's problems are Apple-specific and how much of this is do you think related to the trade war? Let's take the Apple-specific headwinds first. I did a little research before you came into the studio today when I was preparing for this episode because I was a huge fan of Apple for a very long time. As a customer I'm really disappointed with their products for years now. One of the things that I noticed very early on after Steve Jobs passed away was that they began to complicate the interface. You know, this is an anecdotal complaint here. I don't know if you've noticed it, I don't know if you're an Apple user or you're a Samsung user.
Peter Boockvar:	27:23	I have a Droid here, but my whole family's got Apple.
Demetri Kofinas:	27:25	Yeah, so it used to be very simple. I mean, ever since Tim Cook took over it's hard even just navigating the backend. Features show up, I never use them. I don't know what they are, so the company has changed, right? It's not the same company as it was. Also, the number of employees, I have this here somewhere, when Apple, I think when they launched the iPhone, here it is, they had 17,787 employees. Today they have 132,000 and that's doubled since 2012.
Demetri Kofinas:	27:54	So this is a much different company. I was struck when I found in the interview, there was this interview by Steve Jobs, it was part of the Lost Interview Series I think where he was talking about I think Microsoft and IBM. He certainly mentioned IBM by name if I remember correctly, but he made the point about why large companies struggle to innovate. He said that when a company becomes big they begin to focus on process.
Demetri Kofinas:	28:20	They look at how successful they were early on and they say there must have been something magic in the process and so they focus on process. They promote people who are great at process and they don't have people that are great at content, great at the technology, at innovation at the top. I feel like that was the first thought I had when Steve handed the reins over to Tim Cook.

Demetri Kofinas:	28:39	Tim Cook's a process guy. He's not a content guy. He doesn't have that magic so it's a very different company and they've done very well, but I wonder, first of all I guess, this is super long-winded, Peter, one thought is how do investors look at Apple? Do they look at Apple because we used to look at Apple as Steve's company. In many ways Tesla I think is sort of the watered-down version of Apple in terms of how investors look at it today. They give a lot of credit to Elon, they're not really so worried about the numbers. How are investors judging Apple today based on the past and what are the challenges that the company has as you see it?
Peter Boockvar:	29:17	Well, based on the valuation after the earnings announcement, they're obviously skeptical of what that next new thing is to drive growth. It's really hard to create a product, a mass market product, that was as successful as the iPhone. It's probably the most successful consumer product ever invented in terms of its scale and size and revenue. Before that they hit it with the iPod.
Demetri Kofinas:	29:44	Yeah, and iTunes.
Peter Boockvar:	29:45	Right, but iTunes was sort of like an accessory to iPod, so to create the iPod, the iPad, the iPhone and sort of strike it three times ...
Demetri Kofinas:	29:55	Well, the Mac too.
Peter Boockvar:	29:56	Yeah, but the Mac was a much smaller market share, but they didn't create the iPad in terms of the technology but they globalized the concept of something that's not a Notepad.
Demetri Kofinas:	30:09	Mm-hmm (affirmative). Then they went and stuck a stylus on it by the way. All these things, my point ...
Peter Boockvar:	30:13	Yeah, but I'm saying it's hard to do this once and they did it three times.
Demetri Kofinas:	30:16	Did the watch totally bomb?
Peter Boockvar:	30:18	I think the watch is fine, but it's not as distinctive and there's a lot of competition to that iWatch and it's just not going to be the same kind of product, so I understand that Tim Cook is certainly not Steve Jobs and people can accuse him of not having the same sort of innovation pipeline that they had, but again, it's really, really hard to create a successful mass market product on the scale that they were able to achieve with the iPod, iPad and iPhone.

Demetri Kofinas: 30:52 I mean, there are people that haven't complained about their watch to me, but no one's told me anything enthusiastic about it, but I think what's interesting, to go back to this thing about process, whereas Steve Jobs was focused on products and innovation, Apple has I think just tried to milk the products they already have.

Demetri Kofinas: 31:10 Made the point about the increase in the prices on their phones. They really relied upon the fact that they're a luxury brand and also this new thing, which I think is smart, around security, but I don't know if people believe that. I mean, they had some positive news stories around the San Bernardino and things like this, like fighting the government to protect the rights of their users, but I don't know how much people believe that actually their stuff is safe on Apple and that's like a product differentiator. I don't know. I don't see kind of how the company can justify its stock price just if they're relying on innovation. I don't see ...

Peter Boockvar: 31:45 Well, they're trying to really scale the services side. They're trying to say okay, you're a user of my product and I'm going to then try to sell you as much as I can as you access that product, whether it's store, it's music, it's going to be movies and they just announced a deal with Samsung on the TV. So that's what they're trying to do, but that's not the same sort of growth story as they had in the past.

Peter Boockvar: 32:09 The Apple growth story we saw in the last 20 years is over. You can't replicate that, but that doesn't mean that it won't be successful in other ways, but that 20 year run is over and unlikely to be replicated again.

Demetri Kofinas: 32:24 It's kind of like shale oil to renewables. You're fracking. You're finding a way to get more of the existing technology out of the existing technology, but you're not innovating. You could do that successfully for a very long time, and I'm no expert on it, but let's take the second side of this which is the China story, right? China's something we've covered for a while and it is a web of confusion, its economy, in so many different ways. How much of this story do you think markets are interpreting as being China-specific and trade-specific?

Peter Boockvar: 32:59 China being the second biggest economy, of course everything they do matters for the rest of us. There's clear evidence of dramatic slowing in China. I don't think that's in doubt. The question is to what degree does it further slow? How does it affect its trading partners and what can the Chinese do, if anything, to try to control the slowdown?

Peter Boockvar:	33:27	Now their economy's been slowing for the last five years. This is not new, but they know they've reached a point where the excessive credit growth that was driving that growth needed to slow. We're now seeing them trying to try to put Humpty Dumpty back together again to some extent to try to stem the slowdown in the economy, but it's slowing. It will continue to slow and everyone should be prepared for the repercussions to the rest of the world.
Peter Boockvar:	33:58	That being said, longer term I'm still very bullish on China. One thing that we've done that will backfire on us with respect to these tariffs is China realizes they can't depend on us anymore. They're going to depend on not only their own ingenuity and creating their own industrial powerhouses, but they're going to trade more with their own region.
Peter Boockvar:	34:18	They're going to trade more with the Europeans and we've awoken a giant that well, was already awake if you see what China's created over the last 20 years, so they're going to have some short term problems, no question, but China is going to be a major competitor for the next 20 years and their economy again is slowing and it's going to have repercussions everywhere. To me they're a giant and it's still going to be a very exciting story longer term.
Demetri Kofinas:	34:45	Do you hold any hope for a resolution in the next two years?
Peter Boockvar:	34:49	Well, I think we'll get a short term cosmetic restitution within the next month. So both sides are pressured to do something. I said months ago that there was a third player at the negotiating table and that was the market. The Trump Administration saw was happened ...
Demetri Kofinas:	35:06	They're very sensitive.
Peter Boockvar:	35:07	... in the markets in the fourth quarter and the market was basically at that table telling Trump and Lighthizer and his advisors you better make a deal because look how we're going to react if you don't. China has their own legitimate economic weakness that they're dealing with and they know that if they want to maintain these supply chains that have been created over the last 20 years, they need to come to a deal because they don't want to see their manufacturing base all of a sudden go to Vietnam and Bangladesh.
Demetri Kofinas:	35:35	It's an interesting story and development, this trade war. I think one of the reasons for that is I don't know, no one knows just

how impaired China's economy is as a result of this and how asymmetric that relationship is between how much it hurts them versus us.

Peter Boockvar: 35:52 I hear that argument a lot. We can continue because China's going to get hurt more than we are. Tell that to the American farmer who just lost their biggest customer and who is after selling 30 million tons of soybeans is now back but buying three to four million. Tell that to the average small business that is reliant on products from China that they can't get anywhere else that is an input to their finished product.

Peter Boockvar: 36:16 So this idea that oh, China's going to get hurt more than us, therefore it's okay, to me the tool of tariffs in addressing our trade issues with China, particularly on the theft of US technology was a really stupid idea. We're going to look back on this and say what the F were they thinking?

Demetri Kofinas: 36:36 Well, we both know David Kotak and when David was on the show he talked about you know how he has the investor conference up in Maine and he was speaking with some lobster suppliers up there who have been totally crushed as a result of the tariffs, but I do think that there's a big part of the country that's looking for a fight. They want a fight with China and they want to fight generally speaking and there is a lot to be I think upset about.

Demetri Kofinas: 36:59 I've had actually a listener who has I think has been constructively critical about my view around the extent to which the Chinese government has taken advantage of US companies with respect to IP and such, so I want to grant that point, but I think there is some truth to that. I think the problem has been ...

Peter Boockvar: 37:17 Oh, there is. My issue is how do you address it?

Demetri Kofinas: 37:19 Yeah, exactly. The question being like is there a strategy behind it? There doesn't seem to be a strategy to take advantage of the beer muscles, you know what I mean? Of the bold rhetoric. So I was going to say speaking of beer muscles, but I don't know that beer muscles relate to Tesla, but I want to talk to you about Tesla a little bit because Tesla for me has been like the Bellwether stock for this bull market. I think it has benefited from the cheap availability of capital. It has I think imbibed the euphoria around Silicon Valley and technology.

Demetri Kofinas:	37:54	Even though it's not a tech company they have a lot of the hopes and aspirations of investors and it's been remarkably resilient. It has been so freaking resilient in the face of SUC regulations, generally really crazy number of executive departures, I mean lots of what could be just devastating news. What do you think accounts for the resilience of that stock price?
Peter Boockvar:	38:15	I think it's Elon Musk. I think if it was anybody else ...
Demetri Kofinas:	38:18	What is it about Elon Musk? Larry Ellison was out. Today, yesterday I saw a clip on Bloomberg. I don't know if you saw it. There's too much stuff for you to see, but he was speaking at some conference and you know how he is now on the board and he's I think over his over a billion dollars' worth of stock ...
Peter Boockvar:	38:33	Yeah, he's up to a billion dollar holding, yeah.
Demetri Kofinas:	38:34	The second biggest investor and he was talking about, you know, he was sort of poo-pooing Tesla's critics but he never really made any substantive statements. He made a point about like people are being negative on Tesla because of the numbers, but I don't think people are being negative on Tesla because of the numbers. I think they're being negative on Tesla, well, some of them might be, but I haven't seen a substantive path towards profitability. Have you?
Peter Boockvar:	38:59	Well, there are people that know this story a lot better than I do. All I know is at least with the model III is they need to get a certain number of dollars per car of north of 40,000 in order to make any money doing this. I think it still remains to be seen whether they can make this a viable business going forward.
Demetri Kofinas:	39:14	Doesn't your bullshit detector go off when you listen to Steve Jobs? I mean, not Steve Jobs. Freudian slip.
Peter Boockvar:	39:19	Yeah.
Demetri Kofinas:	39:19	Yeah, you know it could have been Steve Jobs, but Steve Jobs delivered. Elon Musk. My bullshit detector goes through the roof.
Peter Boockvar:	39:26	In the history of markets there are always storied stocks. Some actually work out and many do not. I think the question with Tesla is they've gotten to this point and they have been putting aside Musk. They have a very high market cap. They have a lot

		of debt. They have high priced cars and are they going to be able to survive ...
Demetri Kofinas:	39:48	The onslaught of competition.
Peter Boockvar:	39:49	The onslaught of competition and the next downturn where not everybody can pay 45 to 50 grand if financing is not as easy as it once was and their more expensive models, how are people going to respond to that? Also then losing the tax credit ...
Demetri Kofinas:	40:05	The tax credit.
Peter Boockvar:	40:06	... on the part of buyers who use that as an incentive to buy the car. So hope, faith, friendly capital markets, a cool technology, a charismatic CEO, so that gets you to here. Now the true test comes is how do you get from here to there? There being sustainable profitability that sort of grows into its valuation.
Demetri Kofinas:	40:32	I should say this too, I've had some listeners, one also who recently subscribed to our subscription service who have been critical of my criticisms of Tesla. I love the car. I think it's amazing. I've driven the Tesla. It's one of the most amazing cars I've ever driven. Like I said, my bullshit detector goes off with this company and you made a good point about financing. It brings us back to the corporate bond market and bank regulations.
Demetri Kofinas:	40:55	A lot of this has changed. These companies have relied heavily on the bond market and Tesla in particular. You said storied stocks. Before we conclude our interview I want to talk about these marijuana stocks. I know you have some affiliation with one company. You're on the board of a particular company. You can tell us about whatever you can tell us, I don't know, but I find this fascinating because marijuana stocks for me are in the same bundle, it's these three stocks: it's marijuana stocks, crypto and Tesla.
Demetri Kofinas:	41:19	These three fall in the same area because they're so I think driven by sort of the story, right? What is going on with marijuana stocks and what do you see for them in 2019?
Peter Boockvar:	41:32	Well, let's look at the actual business itself and then we'll get to the stocks. I don't think there's any denying the explosion of the industry. That's because what was behind the scenes is now legitimate in the states that have legalized it. So we know that there's a huge demand for medicinal and recreational marijuana.

Peter Boockvar:	41:52	Well, if that's the case, well, you're going to have companies that are going to service that huge demand. The industry is exploding in size, so then you throw in obviously publicly-traded companies mostly in Canada that are trying to now take advantage on the growth side, the dispensary side, the service side and yes, valuations have disconnected but they disconnected in the late 1990s as well when it came to the internet.
Peter Boockvar:	42:17	There wasn't anybody questioning the internet and the technology and whether it was going to explode in size and breadth. It was a question of can these companies make money servicing that industry and survive? So a lot of the companies today are servicing a wildly fast-growing industry where there's legitimate demand and a lot of these are legitimate businesses but have valuations that are more trading on hope in terms of how big these companies can get. But I don't think there's any question, anybody doubting the legitimacy and the actual growth of the industry.
Demetri Kofinas:	42:53	Of the market. I was at Robin Hood this year and one of the best presentations was of a big bear not on the industry itself, not on the market, but some of these companies like Constellation Brands and I don't remember the other names. There were three in particular that he had marked as giant shorts.
Peter Boockvar:	43:08	Well, Constellation paid a big dollar number to get a piece of I think it was Tilray.
Demetri Kofinas:	43:12	Tilray. Tilray was another one. When did that deal happen?
Peter Boockvar:	43:16	Or was it Canopy Growth? It was either Canopy Growth or Tilray.
Demetri Kofinas:	43:17	Canopy. It was those three that he mentioned, Canopy Growth, Constellation and Tilray.
Peter Boockvar:	43:21	Right.
Demetri Kofinas:	43:22	But he made another point about Canada being a really shitty place to grow marijuana because it doesn't have much sunlight and it's Canada.
Peter Boockvar:	43:28	Yeah, so a lot of those are warehouses as opposed to greenhouses, but the issue that those companies face, and that's where they're trying to differentiate themselves, is at the end of the day it's a commodity product making cannabis where

		the value that that product, that crop so to speak is going to go down just as any commodity product.
Demetri Kofinas:	43:48	As you go high.
Peter Boockvar:	43:49	Right. Well, that's why they're trying to differentiate, create brands and specific medical strains and trying to be more of a value-added producer rather than just another commodity producer where only the lowest cost producer wins.
Demetri Kofinas:	44:05	Where are we now in the United States in terms of legalization? So Colorado, California.
Peter Boockvar:	44:10	We have 30 states that have it ...
Demetri Kofinas:	44:11	Fully legalized?
Peter Boockvar:	44:12	That either have both or medicinal.
Demetri Kofinas:	44:16	Which ones have full legalization, like you can smoke it on the street?
Peter Boockvar:	44:18	Well, there's Washington, there's Nevada, there's Oregon ...
Demetri Kofinas:	44:22	Colorado, right?
Peter Boockvar:	44:23	... obviously Colorado, Massachusetts. So we're ...
Demetri Kofinas:	44:26	Massachusetts, really? When did that happen?
Peter Boockvar:	44:28	Yeah, just within the last couple years. So we're adding more of these it seems like every election. New Jersey is on their path to ...
Demetri Kofinas:	44:36	New Jersey.
Peter Boockvar:	44:36	... legalizing recreational. New York is looking to legalize recreational, so it's headed in the direction of all states at some point.
Demetri Kofinas:	44:42	So does that mean we get like coffee houses like in Amsterdam where we're going to have like ... If New York legalizes, is that, they'll need licenses, but that's a pretty remarkable ... Again, this is not related to any market question.

Peter Boockvar:	44:54	Every state will have its own rules, but right now it's at the dispensary level where you need ID to get into a dispensary and you have to be 21 in order to purchase.
Demetri Kofinas:	45:05	So two more questions. Well, maybe more than two questions, but two more sort of topics. One has to do with what I think is a huge phenomenon or force that's sort of I think intractable that no one's discussing, which is the Trump phenomenon is a right wing populous event and I think that we can be confident not just based off of what we're already seeing with this new crop of Democrats coming into the White House but given something we've discussed before, which is value of assets to nominal GDP, basically the wealth gap, we can expect to see, it would be more than reasonable to expect to see a left wing populous to come into the White House at some point.
Demetri Kofinas:	45:50	Maybe that will be 2020. Based on Cortez, a recent interview she gave on 60 Minutes, she mentioned raising taxes to maybe 60, 70%. Forget numbers and things like that, I think just generally speaking no one seems to be discussing the impact of tighter regulations and higher taxes that are sure as shit coming let's say in a few years if the Democrats take over the White House.
Peter Boockvar:	46:15	Right. I don't think markets are going to think about that until 2020. They're not going to ...
Demetri Kofinas:	46:19	No, for sure.
Peter Boockvar:	46:20	... really start pricing that in now because we don't know how this all plays out. We don't know how the economy is going to be or who the Democrats decide to run against Trump. I do want to bring this back to the fed and central banks inflating asset prices relative to disposable income. So in this discussion of inequality and the haves and the have nots and the rise of populism generally, at least on the left, is going to look how much they make and look how much these others don't and let's take from them and give to others.
Peter Boockvar:	46:55	Well, you've had our central bank that has helped to inflate of assets, of things that people own but not everybody owns those assets, but I think the more people ...
Demetri Kofinas:	47:08	So the problem isn't solved by raising taxes or lowering interest rates when the issue is the wealth disparity, the wealth transfer. The real problem is that there is a huge discrepancy in wealth that didn't exist 30 years ago.

Peter Boockvar:	47:22	Right and again, central banks have inflated the stock market. Who owns stocks? It's mostly ...
Demetri Kofinas:	47:30	People that can afford to do it.
Peter Boockvar:	47:31	Exactly, so well, that's what happens when you inflate the asset of what people own when many others don't own it.
Demetri Kofinas:	47:38	What I meant was not so much that I expect CNBC or Bloomberg to be covering this immediate issue, but the way that the media covers politics is really the social dynamics of it, the social issues are the really big thing, right?
Peter Boockvar:	47:52	Because that's what sells. It's emotional. It sounds good, but Socialism to people sounds good. Everyone gets stuff for free and medical care and education and this is great, but then they should go to Venezuela and see how that all works out.
Demetri Kofinas:	48:11	No, no, I hear you, but I'm just saying I guess this is what I mean. I think the way that the sort of blue wave is being covered, it's covering like the Me Too Movement, it's covering social issues. It's not covering this thing about wealth, which I think is going to be the biggest story in terms of the difference between Democrats and Republicans to the left and the right. I think it's going to be the difference and I think the Republicans are eventually going to come on board in the same direction as the Democrats because I just think the wealth disparity is so great that everyone's going to demand to do something about it.
Peter Boockvar:	48:42	Well, it will matter when the economy turns down.
Demetri Kofinas:	48:46	Oh, for sure.
Peter Boockvar:	48:47	When you hit a recession, that's when things come to the surface. Not until then will you see it to the same extent.
Demetri Kofinas:	48:53	So speaking of that, my last question really is a practical one, which is do you think at least in the interim that stocks are over-sold at these levels? That the declines we saw in December offered some really good opportunities to pick up certain equities, and if so, do you have any sort of ... This is not financial advice. I have no ...
Peter Boockvar:	49:12	In the short term, no question. People understand that if you have cash to buy stocks, a bear market is a good time to buy stocks. You want to buy stocks in a bear market because that means that those prices have been marked down.

Demetri Kofinas:	49:24	Are we in a bear market?
Peter Boockvar:	49:24	Valuations are attractive. I believe most likely we are and that we did get dramatically over-sold. The market got what it wanted in terms of the fed backing off in probably a China deal, but I still think we are in the midst of one. I still think now we're going to start to see the economic repercussions of the global slowdown and that earnings have topped out and margins have topped out and that for those with short term time horizons who don't have much cash, I recommend raising cash.
Peter Boockvar:	49:56	For those that have long-term time horizons that have a lot of cash, well, they should welcome declines because you want to buy stocks at cheaper valuations which I think the market will present itself. I know people like to look at the price to earnings ratio and say okay, we're trading 17, 18 times and it's not two or four at a whack. On a price to sales basis, which is another statistic I like to look at because it's less manipulated than earnings, got to where it was in 2000 this year. So we were as over-valued on that statistic as we were in 2000.
Peter Boockvar:	50:28	That's not a good time to be buying stocks if you need cash over the next couple of years. So yes, I do think it's more likely than not we're in a bear market and this is going to take time to play itself out.
Demetri Kofinas:	50:41	Peter, I want to thank you for coming on the program, also on such short notice. I really appreciate it.
Peter Boockvar:	50:46	Thanks for having me.
Demetri Kofinas:	50:47	That was my episode with Peter Boockvar. I want to thank Peter for being on my program. Today's episode of Hidden Forces was recorded at Edge Studio in New York City. For more information about this week's episode or if you want easy access to related programming, visit our website at HiddenForces.io and subscribe to our free email list. If you want access to overtime segments, episode transcripts and show rundowns full of links and detailed information related to each and every episode, check out our premium subscription available through the Hidden Forces website or through our Patreon page.
Demetri Kofinas:	51:28	Today's episode was produced by me and edited by Stylianos Nicolaou. For more episodes you can check out our website at HiddenForces.io. Join the conversation at Facebook, Twitter and Instagram @HiddenForcesPod or send me an email. As always, thanks for listening. We'll see you next week.