Up The Stairs And Down The Lift Shaft

Ross (clip): When you see coronavirus, the global economy supply chains, how will this fundamentally change the economy?

Alan Day (clip): Firstly, it's going to shrink the economy because, one, we're just either not able to spend or we're not going to get the goods and services that we were getting previously. And then the knock on effect to those less developed countries that rely on that spend is going to come. So how big and how long that goes on for is a hard read. It's whether how quickly they can contain this, whether it turns into a full blown pandemic or it just gives us a shot across the bows that we can deal with. I've not heard of people coming up with cures yet. So unless we're starting to look at that, because you can guarantee the strain will evolve, right? So where we are now, unless they can do something quickly, it's going to get worse.

Ross (clip): Is this the first big domino to crash Planet Ponzi?

Mitch Feierstein (clip): Yeah, I believe seriously that this pandemic - I think it's already a pandemic - is the first domino to fall. I think it's actually the spark in the tinderbox created by the central banks. And the thing's just going to go poof. And they're going to look for this to place the blame. And the blame should be placed squarely on the heads of the central bankers. And we need to say we can't look for the guys who caused the problem to come up with a solution because, as Albert Einstein said, the definition of insanity is doing the same thing over and over and expecting to achieve a different result.

Ross: Welcome, Renegade Inc. Mitch Feierstein, friend of the show, always a pleasure. Welcome.

Mitch Feierstein: It's great to be back here in the studio in London, live.

Ross: At last. That clip we've just seen, you were right. It was the first big domino to fall. Where are we now insofar as markets, central banks are, now we're on the other side of the pandemic, where do you see we are?

Mitch Feierstein: Well, you know, as we discussed back then, I think this COVID crisis - it was a major crisis in pandemic that we predicted and spoke about - allowed the governments in the central banks to print enormous quantums of money. But this has been a trend going back to 1998, if you think about it. The first bailout was long term capital management, which was one billion dollars.

Ross: Like chicken feed now. Chicken feed.

Mitch Feierstein: And then you went to the next crisis, which was the dot com bomb in 2000/2001, where the Nasdaq dropped from 5,200 and today down to 1,600.

Ross: Then you went to Bernanke's housing crisis. Don't worry, nothing to see here. Wallop.

Mitch Feierstein: Correct, which was probably what close to a trillion dollars in bailout, so they're getting exponentially larger and larger. And then, of course, we went to, now we're at the COVID crisis, which is the the next crisis, which is tens or hundreds of trillions of dollars in bailouts and guarantees, hidden. And I guess the next crisis will probably be the climate crisis, which is QE extension again.

Ross: So what are you getting out here, that all these crises are camouflage, if you like, for central bankers, policymakers, to print more money and throw it into what is a broken economy?

Mitch Feierstein: Yeah, well, actually, it's a broken system, and I think what it's done is it's bailouts for billionaires and eviscerates the middle class.

Ross: When you talk about climate change being the next, what you're getting at is it's a next scam. Am I reading that right? Because what we've seen with COP 26 is lots of private jets flying in. Is what you're saying - I'm reading between the lines here - that they're flying in for handouts.

Mitch Feierstein: Yeah, absolutely. The billionaires want to collect part of the trillions. I mean, now the biggest problem with climate change is you had 400 private jets flying in, the richest people in the world. And Bill Gates, of course, was on a yacht, with Jeff Bezos having a birthday party on the biggest super yacht in the world.

Ross: Were you invited?

Mitch Feierstein: No, I wasn't. I was snubbed again. I guess I'm not getting Christmas cards from anybody anymore for being on this programme.

Ross: Well, we're doing something right.

Mitch Feierstein: Yeah, exactly. But the issue is, look, if people were serious about climate change, then they would tax these private jets something like 250,000 to 500,000 to land in any airport.

Ross: Not going to happen.

Mitch Feierstein: Exactly. Of course it's not, but private jets are 50 percent of the aviation emissions. So if they really wanted to make a change, you could do that. But look, the Duke and Duchess of Disney out in California, commonly known as Harry and Meghan, I mean, fly around in private jets, and they lecture people from their $14 million lectern out there to tell people, do as I say, not as I do.

Ross: Vladimir Putin recently came out and he said, We are not like the West. He said we don't print money like candy papers to solve any economic or societal problem that comes up. He also said that he's spoken to his central banker, and he said, how is our economic plan coming along? And he compared her to central bankers in the West, saying, actually, she's way more fiscally responsible. Do you agree with that?

Mitch Feierstein: Well, absolutely, because if you think about it, in the late 90s, Russia had a bond default, so they learnt their lesson on fiscal imprudence. And now Russia probably has one of the best run central banks in terms of oscillating between surplus and slight deficit. But they're probably one of the least debt detonations that are out there right now. So they're fiscally responsible. And I think the West believes in the Stephanie Kelton model of Magic Money Tree, a.k.a. modern monetary theory who's advising Bernie Sanders, Crazy Bernie, who's running the head of the Senate Finance Committee. And he just thinks get those printing presses on 11 out of 10 because we're just going to keep printing, printing, printing. And, you know, this is ending badly. As we're seeing in a lot of the numbers. I think we have a PPI chart that illustrates....

Ross: Talk us through it.

Mitch Feierstein: OK, so this illustrates that the central bankers are yet once again lying about inflation.

Ross: Because they said it was going to be transitory. Turns out it's here to stay?

Mitch Feierstein: Yeah, that's exactly right. But we've discussed this before, months ago, in another clip, and I said, it's definitely not transitory because you're seeing ancillary signs that real inflation is probably closer to 20 percent. I mean, look at the PPI chart. It's just gone ballistic. It's just gone....

Ross: Off the charts.

Mitch Feierstein: Off the charts.

Ross: Printing more money, if we come to the US margin debt. Now this chart is in the billions. Just talk us through it from an investor or a money managers point of view. Tech bubble, housing bubble, tech and housing bubble. If you look at the margin debt at the bottom here, it's dropping off. What does this tell you that's going to happen in markets?

Mitch Feierstein: Well, it's not telling me a lot, except it's telling me that there's an over-extension and we're in one of the most egregious bubbles. It's a grotesque asset bubble and it's manifesting itself in the valuations in the equities markets, the bond markets, the property markets and the credit markets. And this can only end one way. And that's very badly.

Ross: You've been warning about this for an awfully long time. Did you ever think that the money printing would be on this scale?

Mitch Feierstein: No, that's the problem is that you can't - and I've always made a caveat - saying that you can never pick the top of an outrageous bubble like this.

Ross: You also have a mantra.

Mitch Feierstein: What, you can never taper a Ponzi scheme? And they can't really taper this. And that's why when they tell you that they're going to raise interest rates, they can't.

Because if you figure out what the actual total amount of debt is when they raise the interest rates, they won't be able to pay the interest on the debt.

Ross: So it just crushes the economy?

Mitch Feierstein: That's exactly right.

Ross: One of the big problems that we see economic commentators constantly talking about the stock market as if it's the real economy, and no one really makes the disconnect, actually, because there isn't a connection between the two is there? What we're seeing are huge amounts of money borrowed at almost zero and then used to buy back stock. Just explain that and what that does to a company and why that doesn't really reflect what's going on in the real economy?

Mitch Feierstein: OK, well, it doesn't reflect what's going on in the real economy. We've got a record amount of buy-backs right now in the US stock market. It's going to be well over a trillion dollars. It's estimated by the end of this year. So basically what the CEO suites are doing is they're buying back stock and saying, Oh, our earnings went up because the multiples are different. So all the CEOs are making boatloads of cash because their pay is linked to the stock or they're being paid in equity. But if you look at interest rates again going back, you said near-zero. No, actually, when you look at real interest rates, they're negative, they're deeply negative. And you know, quite frankly, if 30 years ago you told me when I entered these markets, they're a little bit longer, you saw 18 percent treasuries or 20 percent interest rates. If you told me that there'd be trillions of dollars in negative interest rate yielding bonds, I'd have you put in a straightjacket and taken away to a mental institution. There's no way anyone would ever believe that would be possible. So this is where we've come. So it's complete monetary insanity. But it will come back to haunt people in terms of hyper inflation, I think.

Ross: Do you think that because everyone always uses the parallel of Weimar Germany. Do you think that's really the case?

Mitch Feierstein: Well, I think that it has to happen eventually because it's just a matter of a time series. I mean, as we discussed in the opening part of the show, you went from one billion in bailouts now to hundreds of trillions in less, in what, a little over 20 years. So eventually you're going to hit the end of the road and US dollar hegemony is going to be what suffers this eventually, because somebody, I don't know if it's going to be China or Russia or a combination of other countries, is going to come out with a currency linked to hard assets like oil, copper, silver, gold and exchangeable or fungible for something. Because right now, a currency is a promise of a government to repay its debt. So the US dollar is the reserve currency of the world. It's been for a little over 100 years, you know, before that sterling for 400 years. But when people realise the United States cannot pay back its debt, then obviously people will lose faith in it. And if another country like China says we're going to have a gold backed Yuan, then that's going to be the dominant currency. So I see that is happening. It can happen overnight and that will cause a massive problem, you know. And we already have hyperinflation in selected asset classes. I mean, look at the exponential increase in housing prices when if you inflation adjust for real wages back to 1980 were flat to lower. So there's got to be a correlation to earnings and house prices. And when those markets become untethered to each other, you're ripe for a disaster.

Ross: Are you starting to see that in the bond market and does it start in the bond market because now what we're starting to see are negative yields?

Mitch Feierstein: Well, yeah, the problem with the bond market is all of the supply. And what's called debt monetisation, which is illegal....

Ross: That's all very technical for our viewers. In layman's terms.

Mitch Feierstein: So basically a way that a government funds itself by issuing bonds and they pay interest rates, but basically we pay you nothing, but just like WEF said, you'll be poor and you'll own nothing and you'll like it. That's Klaus Schwab's Great Reset. And this is part of it. They issue bonds, but you have one government entity issuing the bonds and another one buying them. It's like you have 20 quid in this pocket and you say, Oh, I'm going to take it from this pocket and put it in this pocket and what have you really accomplished? That's financialization. It's the same thing with the stock buy-backs. All you're doing is bringing earnings from the future to today, so you can put it in your pocket. But then you cannibalise the company going forward. So you're destroying a profitable growing organisation. Instead of using debt to build something, you're destroying something and taking a profit out. But there is a silver lining to all of this because there are undervalued assets out there.

Ross: I want to congratulate you.

Mitch Feierstein: For?

Ross: We have gone for at least 20 minutes now, and you haven't mentioned Tesla or Elon Musk.

Mitch Feierstein: Oh, no.

Ross: Ordinarily, I'd have a bell on this table because viewers have spotted that it's your hobby horse.

Mitch Feierstein: Yeah, it is.

Ross: But I'm bringing it up this time.

Mitch Feierstein: OK?

Ross: Because the poster boy for all this is a company called Tesla, headed by Elon Musk. Over to you. And when I say the poster boy for all this, I mean, to qualify it, the poster boy for all this financial lunacy.

Mitch Feierstein: Well, it is. I mean, because if you think about, you know, Harvard Business School probably do a case study in irrational exuberance, bubbles and PR hype. I mean, Elon Musk and Tesla probably have 20 positive articles that come out a day. I don't know what they're paying for it. Tesla's market cap is well over one trillion dollars. Now, that is bigger than the other nine major auto companies in the world. I think their market cap is around 852 billion dollars. And they actually make a profit. He doesn't really make a profit with Tesla. So this is really all hype, PR and speculation in, I think, call options that are in the market. So that will eventually have to come back to the ground because his valuation is just in the stratosphere, higher than a Space X rocket.

Ross: Welcome back, Renegade Inc. I'm joined by Alan Day, State of Flux. Cassandra, really, insofar as you sat there in March 2020 and perfectly predicted what was going to happen with our supply chain woes. Maybe you were a little bit early, but you were bang on the money.

Alan Day: Thank you. Yeah, fortunately for the punter, I was. But yeah, we've definitely seen shortages in supermarket shelves. We've seen petrol shortages, lorry driver shortages. So all those supply chain effects that we talked about March last year have definitely happened.

Ross: And costs, inflation rising, costs going up?

Alan Day: Costs going up and costs will continue to go up as we see shortages filter through the marketplace.

Ross: What can we do about it? What can the punter do about it because it seems to me that the punters are now looking at empty supermarket shelves and their hands are tied?

Alan Day: Yeah, I think and in terms, unfortunately, for the punter, there is not much choice in terms of prices are going to go up. I think the consumer behaviour piece needs to be looked at.

Ross: So, why will that change? Does it have to change?

Alan Day: I think it has to change. I think it absolutely has to change. You know, we have lived in a world where it's OK to just consume and throw away. And with prices going up, I just don't think that's a sustainable model.

Ross: The environment breathed a sigh of relief.

Alan Day: It does. Yeah, it does. But we've still got a long way to go on that front. And I think, you know, yes, it will be driven by the consumer, but ultimately we need to play and, you know, organisations in their supply chains, most specifically the procurement and how they're buying from their suppliers to drive those behaviours down through the supply chain.

Ross: Is it now super clear for CEOs and people in business and the consumer to say, actually, pre-pandemic we were so complacent? We just thought that we could boss these relationships with procurement people, supply chains and also because we are a big brand, we call the shots. Have the chickens come home to roost now where people and CEOs are realising, actually, we've got to treat our suppliers well and that we actually need relationships?

Alan Day: Yeah, absolutely. I think there's starting to be a recognition of that. We use the term of are you a customer of choice for your key suppliers? And interestingly, often that has not been in the business lexicon. It's just not something that they've thought about. If you flip it and you look at the luxury brands who know that they need to look at working closely with their suppliers, they talk about, you know, creating supplier loyalty and things like that. Big business....

Ross: Forget it.

Alan Day: Forget it. Yeah, you know, their focus is we're big, of course they want to work with us.

Ross: But that cavalier attitude hasn't worked has it?.

Alan Day: No, we're seeing it come home to roost in terms of, you know, they're bearing the brunt of the shortages. They're not getting the scarce resource, they're not getting the A-Team from the suppliers. Suppliers are saying, I now have a choice on who I sell to. It's not going to be the people that have treated me badly over this period.

Ross: I bet the first thing they'll say, we'll just give you more money. And so, you know, it's not about that. It's actually about creating a relationship here and an efficiency. You can't just throw money at this?

Alan Day: Correct? Yeah. And after a while, what money? Because, you know, that's going to come from the consumer, ultimately. So, you know, and one of the problems is the workforce has grown up without inflation, and now they're trying to create supplier relationships in an inflationary environment.

Ross: And they've never traded in those environments?

Alan Day: Not really.

Ross: Because it's like sort of city traders who always think that the Fed and other central banks will bail them out. They say if we get it wrong, ultimately, you know, someone will come to the rescue.

Alan Day: The consumer will be will be paying in this instance.

Ross: But actually, that's not good enough, is it?

Alan Day: It's not. And we need to look at efficiencies, processes, how that's being done to improve that. And so you're seeing the term supply just because now...

Ross: Consumers feeling it. You're having your moment in the sun.

Alan Day: Yeah, we're finally having our moment.

Ross: Finally, the rock stars of business, the supply chain guys, right?

Alan Day: Been waiting a long time.

Ross: But does it also mean that with that focus, the visionary or competency, can actually start putting focus where you're asking them to and create those efficiencies which ultimately the consumer benefits?

Alan Day: Yes. Yeah. So hopefully what we'll see is investment in process technology, training of people on how to put in relationships, how to make them structured, consistent, what I call industrial strength.

Ross: So not relying on what I call business 101. But it's been neglected?

Alan Day: Yeah, absolutely.

Ross: So you've been screaming about this for ages. People are at last saying, actually, this guy is onto something here?

Alan Day: Well, hopefully, yes. Certainly, we're starting to see a renewed focus in supply chain. We're seeing investment in it. We're seeing it on the CEO's radar. You know, it's not about the new shiny marketing activity. It's not about the new IT system. Actually, we now need to sort out the supply chain.

Ross: Famously, State of Flux, your business, puts out your report every year. Give us two or three stats out of this, which is growing and protecting value that have shocked you?

Alan Day: Yeah, the two that have absolutely shocked me. One is that two thirds of organisations - so the majority of organisations - are using the relationship to mitigate supply chain risk.

Ross: What does that mean in non-technical terms?

Alan Day: So they're relying on having a good relationship with their suppliers to get over supply chain disruptions and risk in their supply chain, which is pretty scary when they haven't invested in the relationship. The other one is that if you're good at supply management, you're five times as likely to have faster speed to market for your product or service.

Ross: Five times?

Alan Day: Five times. Not one or two, five times. So incredibly compelling to be good at this yet. And here's another stat: Only 12 percent of organisations are in what we call the leadership group in this.

Ross: Look at all the upsides. CEOs and business types now listening to this, well just focus there.

Alan Day: Yes. Yeah.

Ross: I mean, it's such an easy edge. I mean, you don't have to do the marketing, the IT system. We've just got to be better at this.

Alan Day: Well, and it's even more than that. We know - and this has been consistent for the 13 years we've done the research - that if you're good at this, you're going to get between three and six percent additional benefit over above what's contracted. So if you think of the inflation that's going on, if you could just rely on that....

Ross: You mitigate it.

Alan Day: Absolutely. We did an interesting project with a client, a very good client, of ours at one of the UK top banks, and we actually took the role of an end customer and walked through the service.

Ross: How did that go?

Alan Day: Well, it was really interesting. But what was key to it, was about 70 percent of the end service was not provided by the bank. It was provided by suppliers. You walk into a branch, the teller is probably a temp from a supplier. The credit card that you receive has been processed and that says supplier. The envelope that it came in is a supplier.

Ross: But we don't look after suppliers?

Alan Day: Yeah, we do. So not only do we not look after them, we forget that probably we've got another 40 to 50 percent of workforce not working directly for us, but for suppliers.

Ross: So every business school in the world should be sitting you in front of the thing and saying, listen to this guy because actually, if you focus on this, naturally all the other economic indicators, business indicators, are going to go in the right direction. Why are they not doing it? Where are the case studies? Why aren't we talking more about this?

Alan Day: I think the city has has something to answer for on that.

Ross: On share price?

Alan Day: Yeah. In terms of short termism....

Ross: Q1 and Q2?

Alan Day: Yeah. Because look, let's face it, relationships take a while to build. They rely on good people, but they also rely on process and structure and governance, which people haven't been doing. If I was a CEO, I'd be asking myself how many of my key suppliers am I seeing each year? And you know, really, there should be a top kind of 30 or 40 suppliers that the business can't function without that the CEO should make time for. And so if you're a CEO watching and you're not seeing the suppliers, get off your backside and see to it.

Ross: I was going to say, get off the golf course. So, Alan, we bring you back. You were right, March 2020. You were early, but correct. What now? Give us some predictions of what you see going forward from specifically the business world, but also associated with consumers.

Alan Day: Well, I think we are going to see some more shortages, I think unfortunately they're here to stay despite rhetoric from central banks, et cetera, I think it's not....

Ross: You're telling me central bankers lie?

Alan Day: It's not going to get better any time soon. I think it's going to get worse, which for the consumer means belt tightening. And of course, there is a knock on effect. When consumers tighten their belt, then, you know, things get worse again. So that spiral begins. Hopefully, we'll see some investment in supply chain and procurement. And I'm hoping for that for my business, but probably more importantly, we need to do it as a global community.

Ross: Because it's been so woefully neglected?

Alan Day: Correct, yeah. In a perfect world, we will get some efficiencies from that which should help mitigate some of the challenges because let's face it, it's been a very inefficient supply chain previously. So I'm hoping we're going to see that, but I expect those things will take two to five years to really iron out.

Ross: Leave us with some optimism.

Alan Day: Well, I think the good thing is that, you know, we've seen an upturn in training people and focusing on improving people's skills, which even in the lockdown environment is still able to happen. So I think investment in people is going to go up.

Ross: Which is the thing that business should be doing - relationships, investment in people, supply chain management.

Alan Day: I'm glad I'm offering some really unique insights.

Ross: No, but they are unique because they've been so neglected. People were just blasé, oh well, you know, we're making money, doesn't matter.

Alan Day: Well, what's really interesting is, again, in the research, we look at whether people have trained and we've looked at what people are getting trained in. And the only thing that - and this is for procurement people - the only thing that they're getting more training in than they need is negotiation. And the thing that they need the most is kind of relationship trust building collaboration, and they're woefully under trained in that area. So hopefully we'll see an increase of skill sets, which will then help the consumer, ultimately, as it flows through the supply chain.

Ross: Alan, always a pleasure. Thanks for coming.

Alan Day: Thank you.