Speaker 1:

Most of us have clothes we've loved for years, but it's harder than ever to find clothing that stands the test of time, so for your summer closet update, shop American Giant. From hoodies and t-shirts, to denim and more, you can build a wardrobe to be proud of for summers to come. Shop lifetime essentials at american-giant.com and get 20% off with code LT23 at checkout. That's 20% off at american-giant.com, promo code, LT23.

Chuck Jaffe:

Listen for this on today's show.

Kristof Gleich:

What we would expect is volatility is going to be higher. There's going to be more vicious bear markets, and then these quick sort of snapbacks. I think we're going through one of those periods at the moment, but some of the leading indicators would suggest that the slowdown is coming. Albeit, I am surprised that this time last year, I think consensus was we'd be in the midst of recession right now and, clearly, we're not.

Chuck Jaffe:

That's Kristof Gleich, founder and chief investment officer at Harbor Capital Advisors, talking about America's persistent inflation problem and how it's likely to impact the market and you in many ways for years to come. First up, it's Tom Lydon, vice chairman at VettaFi, who's looking at the hot market, and for interesting reasons, picking an equal weighted fund as his ETF of the week. Plus, Christian Mitchell unveils the first data release from the 2023 Planning & Progress Study from Northwestern Mutual, which shows that investors aren't expecting much from the market this year. I guess, they're already in for a surprise, but you're not because we've got great financial talk today.

Speaker 4:

Okay, Go to it.

Chuck Jaffe:

Welcome to the first show of June. How did we get to June already? I got no idea. Seems like just yesterday I was doing stuff about Black Friday, and holiday sales, and what have you, and here we are into June. I'm your host, Chuck Jaffe, and this is Money Life for the 1st of June, and we have a great show. How have we gone this far? The proof that we get great guests, but we don't get everybody is that Kristof Gleich has never been on the show before, Harbor Capital Advisors.

I had to fess up to him that I was a long-time investor in Harbor Bond Fund, but that I don't own it anymore. He asked, "Why did you sell?" I said, "Well, I didn't. It's just one of those things that my ex got in the divorce." It's the way we divvied things up. He said, "Well, I'm glad to know that ..." I said, "No, it wasn't about fighting. It was about divvying."

What could be done that would minimize capital gains and some of those things, split assets equitably and fairly, and give her the things that she needed for her portfolio, and maybe allow me ... I took a few things that were more aggressive and knew that I would rebalance and do other things with my portfolio that way. Yeah, it's not the first fund manager I've had to say that to, but under any circumstances, an extended, big interview with him that I think you're really going to like, that's not a surprise.

The surprise this week is the stock market itself. I mean, it looks like we're going to have the debt ceiling resolution that we expected, or as I record this, we're not 100% sure, but we certainly have expected that, oh, with resolution, the market would calm down, and it hasn't. The pressure we've seen on the market doesn't appear to be that the market is unhappy with this outcome, which interested me.

Everybody wants to make the comparisons to 2011 and what the market was doing then when we came close to a default, but the answer was, at that time, the market was putting pressure on the legislators to act. It was hinting, and suggesting, and looking like, "If you don't get this done, we're going to collapse," but right now, the market's on a big, strong, bullish run, which by the way, Kristof will say he's expecting more volatility and more short-runs in both directions and suggests this could be one of those.

Under any circumstances, you can hardly complain with where the market has been going this year. Now, how you get there and how broad or not broad that is, that's an interesting thing. Tom Lydon's going to talk about that. Yeah, we're covering a lot of ground in just three interviews today. My name is Chuck Jaffe. I'm a columnist at MarketWatch. I say that, and then I've been writing not that many columns. The interesting thing is that with me being out of syndication, I don't have to write every week.

Now, I do have to write for my supper, as it were, so I should be doing more, but maybe it's because it's been lacrosse season and I've been busy officiating. The playoffs now start on Wednesday. The pairings went out, and so I know I'm going to be officiating a playoff game early next week, maybe one or two more after that. Then the season will be done, the regular season. Then we do a little bit of summer work at tournaments. Don't be shocked to find me out there any more than you would be if you had came to the Morningstar Conference. We've got a great contest going. Again, you're trying to win Raw Dog, which is a really fun, interesting, very different book.

One point again on Jamie Loftus, because I don't think I really made this that strongly on Tuesday's show. I really like her other work. She is part comedian, part social commentorist, if you will, and her Year in Mensa podcast, which is just four episodes, really, really interesting. Alarming if Mensa is a group that you respect, or if you think that someone is in Mensa and they've impressed you, maybe you'll be less impressed. I'm just saying, you should always go, take a look. We're trying to bring you experts and trying to bring you folks that are fun. It's always worth taking a look at some of the websites that we have linked up at our moneylifeshow.com recent and upcoming guest page. Follow the links, read the commentaries, do the rest of that stuff.

Speaking of all that, I have a ... I'm answering a question today that, in some respects, after we taped it, I felt, "Have I answered this question before?" I may have, but when I saw the question, I couldn't find if I had answered it, and it was recent enough that ... I don't know. Time flies. It's something that was sent a few months ago, and it's about some of the tools and resources that I use. If I've answered it before, well, I wonder if my answer today will be the same. I don't think I have. If I haven't answered it before, I might have some fun with that one too, so let's get to it. We got a great lineup. You now what's coming. Let's go. Tom Lydon, Christian Mitchell, me answering a listener's question, and Kristof Gleich. The ETF of the Week gets us started next.

Rob Floyd:

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Chuck Jaffe:

One fund on point for today, and the expert to talk about it. Welcome to the ETF of the Week. Yes, it's the ETF of the Week, where we get the latest take from Tom Lydon, vice chairman at VettaFi, a site that

has everything you need to be a savvy, smart, and most importantly, well-informed investor. It's vettafi.com. On Twitter, @Vetta_Fi. Tom Lydon is the vice chairman there, and he's our guest every week. Tom, great to chat with you again.

Tom Lydon:

Great to be back. Thanks, Chuck.

Chuck Jaffe:

Your ETF of the Week is ...

Tom Lydon:

The Direxion Nasdaq-100 Equal Weight Index Shares ETF, ticker symbol QQQE.

Chuck Jaffe:

It's the QQQE, the Direxion Nasdaq-100 Equal Weighted Index Shares. Now, of course, equal weighting and Nasdaq, those are the two keywords here, Tom, would seem to be pretty timely. You don't have to even be a trend follower to guess that this one has been on the rise of late.

Tom Lydon:

Well, it has, Chuck, but the QQQ or the pure cap-weighted Nasdaq-100 has really been the area of the market that we've seen a huge run-up. The Nasdaq-100 itself, as we speak is up 33% year to date. Just to put that into perspective, the S&P 500 is up only 9% year to date, but if you took out the top 10 stocks in the Nasdaq-100, which tend to be the same stocks that are the top 10 cap-weighted stocks in the S&P 500, so both of them, S&P 500, Nasdaq-100, top 10 stocks, weightings of 25 to 30%, that's where most of the movement in the U.S. stock market has been this year.

Because again, you take them out, S&P 500 is basically flat, the Dow is flat, and also small-cap indexes and mid-cap indexes are flat year to date. It's back to the FANG story again, Chuck. It's Apple, Google, Amazon, Microsoft, and then today, this week, more big news about Nvidia. It's had another big spike, which is a big holding, as you can imagine, for both the S&P 500 and the Nasdaq-100.

Why am I bringing up an equal weight strategy? I think a lot of people out there are still a little bit concerned about where the economy is, where the market is. When they see these huge moves in just a few number of stocks, and you feel like, "Jeez, how could I buy-in now?" Well, here's an opportunity to get into a tech-savvy, progressive growth index, but without having too much emphasis on those stocks that had that big run.

Chuck Jaffe:

Equal weighting, of course, is exactly what it sounds like. I guess, the question would be, are you adding this so that somebody who has some QQQ exposure, the cap-weighted traditional index, do you add this, or is this a way of putting the brakes on and checking and balance? How do you use this in a portfolio, especially if you already have the traditional cap-weighted index?

Tom Lydon:

Well, if you have the cap-weighted Nasdaq-100 or the QQQs, or something equivalent, you're happy. You're really happy because you've been able to allocate into an area of the market that's moved, so

that's great. I'm not saying sell that, however, if you don't have that, or if you do have it and you're thinking about, "I like those stocks. I'd like to add more, but I don't want to be too aggressive," you look at the underlying companies in the Nasdaq-100, there are a lot of well-known companies that you would know, that you feel good about, but they have yet to have meaningful moves so far, year to date.

Look, if the economy is still on track, the Fed is applying medicine and it's working, most advisors, and as you know, we're surveying advisors all the time, believe, in the next couple of weeks, the next Fed meeting, that the Fed will hike rates one more time for 25 basis points, and that will be it. Most people feel that the Fed will be done hiking interest rates, and then a year from now, we'll see lower rates than we see today. That's good for the market.

Also, if you look back in history, at the period of time when the Fed hiked its last hike, and before they reduced interest rates the next time around, that period, that window, whether it be three months, or six months, or 10 months, used to be, traditionally, a real good time for the stock market. Even though there's some skepticism out there, there's a little concern about volatility, when you look at trends, there are a lot of favorable trends in place.

In fact, a handful of stocks have done really, really well. I'm not saying double down on those stocks or even dive into those stocks right now if you haven't had them in your portfolio, but here's a way to diversify and make sure that you're not too heavily weighted in a certain area.

Chuck Jaffe:

It is a fund that traditionally moves, not counter to the index because, of course, it is the index, but you have that expectation that if the index is in the conditions we have right now, it will lag and it is about half, thus far this year, of what the QQQs have done. The flip side of that is once you get to better, broader market conditions, it winds up evening out. For somebody who's looking at portfolio-building, how much of a portfolio do you let this be? As you point out, it's not a replacement for the QQQs, but if you're using them in concert, how do you balance them off?

Tom Lydon:

You have to feel that in the future, innovative technology is something that's important to your portfolio. Just naturally, if you're buying major market indexes like the S&P 500, information technology is about 26% of the S&P 500 these days. That's huge, being the biggest allocation, so you're already participating, but if you look at that allocation, it's only a handful of stocks.

If you like that area of the marketplace, if you like growth, if you feel innovation is going to continue to move forward at a faster pace, my point is you're already invested in that area in a handful of stocks. How about give some of those other stocks a chance by looking at all the other constituents that make up the Nasdaq-100 and have an equal weighting? That way, if we do see a pullback in those top 10 stocks, or those other companies that don't have as heavy a weighting start to catch up, it's actually meaningful to your portfolio.

Chuck Jaffe:

It's the QQQE, the Direxion Nasdaq-100 Equal Weighted Index Shares, the ETF of the Week from Tom Lydon at VettaFi. Tom, great stuff as always. See you next week.

Tom Lydon:

Thanks, Chuck.

Chuck Jaffe:

Tom Lydon is vice chairman of VettaFi. It's vettafi.com, and on Twitter @Vetta_Fi. He's on Twitter personally @TomLydon. Of course, the ETF of the Week starts us off every Thursday. What that really means is we're just getting started on today's show. Later, I'll have Kristof Gleich from Harbor Capital, and I'll also be taking an audience member's question. Next, we're going to be talking about the latest Planning & Progress Survey from Northwestern Mutual with Christian Mitchell. Stick around because, well, like insanity in Congress, we're never gone for long. We'll be right back in just a moment.

Rob Floyd:

Looking for alternative ETF strategies? Direxion provides separate and distinct audiences with flexible investment tools to manage risk and execute short-term strategies. For more information, go to direxionshares.com.

Chuck Jaffe:

Now, let's take a look at what the survey said. It's the Survey Said on Money Life. It's where we look at surveys, studies, polls, any kind of research or data that's going to help us understand what people are doing for, with, and about their money. Today, we are looking at the first round of data that is being released from Northwestern Mutual's 2023 Planning & Progress Study. Now, the Planning & Progress Study is something that Northwestern Mutual does each year. It's a very rich set of data that is looking at all kinds of things about finances, the market, the economy, and more, and not just at what's happening there and people's feelings about it, but across generations and much, much more.

If you want to learn more about it, well, northwesternmutual.com, or better yet, go find Christian Mitchell, chief customer officer at Northwestern Mutual, on the Money Life Show recent and upcoming guest page. Follow the long link there and that will get you directly to the Planning & Progress Study. Christian Mitchell, it's great to have you back on Money Life.

Christian Mitchell:

Aways good to chat, Chuck.

Chuck Jaffe:

We start, because you and I will talk about several different releases of information in the Planning & Progress Study this year, we start with the most basics, which is what are people expecting, and what are they doing? The answer is, recession, but they're not doing much about it, right?

Christian Mitchell:

Yeah. 67% of Americans expect the economy to enter a recession this year, and they expect inflation to persist, so a little bit of a pessimistic look on the path forward. In terms of what people are doing, we do see some general belt-tightening across generations

. One insight that I thought was particularly interesting though is for younger generation, Gen Z for example. Not only are they doing general belt-tightening, they're actually starting to delay some life events. 13% of Gen Z said they're delaying marriage due to their fears about where the economy's headed, and 30% are saying they're actually delaying job searches as well.

Chuck Jaffe:

I would point out that if two-thirds of U.S. adults believe we're going to see a recession later this year, and they think that inflation is going to stick around, I would say they've got it right. The good news is their expectations seem to be pretty much on target.

The fact is, however, that what they maybe are not expecting is the longer-term impacts of inflation. They are taking some measures against inflation, as you said, but with inflation being their top concern, do they really understand what happens and what the effects of inflation will be if we still have high inflation, not later this year, but a year and a half from now?

Christian Mitchell:

I really don't think they do. This is going to be the first period of time where folks have experienced inflation in quite some time. No one really that's currently in the working population has experienced this kind of inflation, and so I just don't think people have really wrapped their heads around what it means long term. One data point around that is savings. Personal savings were up year-over-year, which on one hand is good, and people are feeling good about those savings being up. They're up about 5% to $65,000.

The harsh reality though is that 5% increase didn't keep track with inflation, which was over 6%, and so it's a proof point of how people are really going to need to get smarter in terms of how they think about inflation.

Chuck Jaffe:

When you look out at the things that people are postponing, postponing means, "I'm going to get to it eventually."

Christian Mitchell:

Yes.

Chuck Jaffe:

Do they believe that they can get to it? In other words, what's going to change it? If you're looking at inflation right now and you're going, "I got to pull back, I can't buy that house," or, "I can't do this. I can't get married," or, "I'm putting off having kids," and some of the other things that are discussed in this study, if you can't do it now, what makes you think you're going to be able to do it down the line? Are they changing their savings habits, they're changing their investing habits, or they're just assuming that, "Hey, what we had is coming back"?

Christian Mitchell:

It's a really good question. I think it's going to be fascinating to track the younger generations, particularly Gen Z, in the years and decades to come. Because very, very early in their financial lives, in their professional lives, they've experienced all kinds of upheaval. COVID, now the first period of high inflation in recent memory, now moving into a recession, and so there's a strong case to be made. It's going to jumble the regular kind of life events that previous generations have gone through, and so I think it's really anybody's guess in terms of how this plays out in years to come.

Chuck Jaffe:

One of the things that consistently comes through in a study like this is the more that people plan, the better they feel, the more confident they are.

Christian Mitchell:

That's right.

Chuck Jaffe:

But in an environment where you're worried about inflation, and you're putting off things that are central to your life, you know what you also think you can do without? Financial planning. Like, "Hey, if I'm not paying for these other things, why am I paying for a financial advisor?" What was said about using advisors when it comes to navigating these times?

Christian Mitchell:

In general, and this is a finding that's been consistent through time, is those that work with a financial advisor report higher levels of happiness, of satisfaction, of confidence that they're going to be able to retire appropriately and live within their means. It's a tricky thing.

One of the questions we asked was around financial discipline. 50% of the respondents felt like they were financially disciplined and had a good handle on their finances. Now, there are two ways of looking at that number. On one hand, it's kind of positive. Hey, maybe there are 50% of people out there that are disciplined. My concern though is that folks don't really fundamentally understand what it means to be disciplined, and how they need to be planning for various future scenarios that might take place, and so I think there's some overoptimism, some overconfidence out there.

Again, as always, the best approach is to really work with a financial advisor that can bring to bear a wealth of different perspectives, look at different scenarios, look at all of your financial assets in concert. That is really the best path to not only peace of mind but comfortable retirement.

Chuck Jaffe:

Last question. We started this by talking about how folks expected a recession, but were they expecting a recession to come with or without a significant market downturn? You can have a recession and not have a market downturn or a crash. You can have a crash without a recession. What are they expecting in terms of the recession connected to the market?

Christian Mitchell:

Most Americans, they think about a recession and a market downturn almost synonymously. You could replace one for another, and so I do think that they are expecting there to be pressure on the capital markets. Again, I think that shows up in some of the actions that they're taking, belt-tightening, delaying these life events. The belt-tightening manifests itself not only in terms of like the daily Starbucks, but bigger purchases too. Cars, durable goods, et cetera, so I think people are really expecting there to be a downdraft in the equity markets.

Chuck Jaffe:

Well, we'll be watching it. We'll also be watching what you guys release as the Planning & Progress Study for 2023 comes out more fully. Christian Mitchell, thanks so much for joining me on the show to talk about it.

Christian Mitchell:

Always a pleasure, Chuck.

Chuck Jaffe:

That's Christian Mitchell, the chief customer officer at Northwestern Mutual. It's northwesternmutual.com, and they're on Twitter at @NM_Financial. Again, if you want to get directly to the information on the 2023 Planning & Progress Study, go find the long link, where you'll find Christian on the Money Life Show recent and upcoming guest page. We, like inflation and the potential for recession and everything else, will be right back in just a moment.

Rob Floyd:

All financial advisors, please take AICA's 2023 Advisor Survey on Closed-End Funds. Take the full survey and be entered into a weekly drawing to win a $100 Amazon gift card. With this survey, we will learn more about the current opinions, trends, and needs of financial advisors. We believe this perspective could help with future development of investment products at your firm. Go to aicaallilance.org/survey. This has been developed in partnership with XA Investments, Destra, and Nasdaq.

Chuck Jaffe:

Anybody have any questions?

Speaker 8:

Any questions?

Speaker 9:

I have a question.

Speaker 10:

Oh, you can ask questions.

Speaker 11:

Sometimes, we want to know the answers so badly that we believe just about anything.

Chuck Jaffe:

Well, hopefully you'll believe what I'm saying because I should have the answers for you, at least for the questions you're asking me here on Money Life. If I don't have answers, I will happily go and get them for you. If you've got a question that you're hoping that you could get an answer to, well, you need to send it to me. You send it to chuck@moneylifeshow.com.

Speaker 12:

I'm sorry, but all questions must be submitted in writing.

Chuck Jaffe:

You do have to submit it in writing, but it doesn't have to be fancy. We'd like to be able to get your question. Here's one that's been sitting around for a while that I found and realized I had not answered. At least I don't think I answered it, because I can't find any example of me answering it. It comes from Rich in Orchard Beach, Maryland.

He writes, "Chuck, what publications do you think people in the audience should be considering? Wall Street Journal, Barron's, Financial Times, like that? Or are there any newsletters that you take or you would take if you didn't have access to them professionally? Do you pay for anything like Yahoo Finance Plus or something similar to do stock and mutual fund research? Morningstar, Value Line, AAII's A+ Investor, or do you use research through your brokerage accounts? I'm really curious and I think others would be too."

Well, Rich, thanks for the question. I really like this question, and yet I suspect that my answer will disappoint you. For starters, that's not because I don't read things because I read plenty. Wall Street Journal, yes. MarketWatch, yes. Barron's, yes. Now, of course, I'm back with MarketWatch, so I'm not paying for MarketWatch. I'm not paying for Dow Jones.

I'm not paying for Barron's because we're all under the same umbrella, but was I paying for The Wall Street Journal when I was not with MarketWatch? Yes, but do you need that to be a good investor? No, you definitely do not. I don't necessarily know that The Journal helps me and helps inform me. Now, I do get a whole bunch of subscriptions for free, and I look at them. Many times, you are the beneficiaries because you'll hear me talk with some of these people on the show.

Among the ones that I read every single month, all the things from Horizon Investment Publishing, the Dow Theory Forecast, Upside, the DRIP Investors. Love them. Have loved them for a long time because it's the right mix, but also because the Quadrix system, which you've heard Chuck Carlson and Rich Moroney talk about. I like the way it produces research, and especially when I'm looking for stocks.

If I'm looking for a stock that I want to come up with a reason for, finding something that's on the DRIP Investor's best buy list, that's a nice, short list to start with. Then you can eliminate the things that you don't like, or that you don't have much affinity for, or maybe you don't want to own in that industry because you've got other things. You can say, "Okay. What were the conditions that I want?" Now I've got a good short list, and I can then take that to the rest of my research. Where will some of that research be? Well, you asked about Morningstar, and Value Line, and AAII. I have had all of them over the years.

I find Morningstar's tools are typically the ones I like the best and I like, because I tend to have a value bent, their fair value estimate, so that's a way that I can deal with it. A fair value estimate, for those of you out there, is something you do not get unless you're a paid Morningstar subscriber or you're a member of the media and they comp you, which does happen to some of us. I have used Value Line. I just find that Morningstar is more intuitive to me and I like the data there in keeping with my investment style.

Again, you got to be looking for something going, "Hey, wait. Let's get a jumping off point. Then, let's crosscheck." Now, by the way, I used to read Dan Wiener's Independent Adviser for Vanguard Investors, and Jim Lowell's Fidelity Investor. Those have been shut down. I have been looking at Jeff DeMaso's work. Jeff, of course, was with the Independent Adviser and now has sort of taken it over in its new form. He was on the show not that long ago. There are plenty of other sources that I read. I like things, like I do read Stephen McKee's No-Load Mutual Fund Selections & Timing newsletter, even though I'm not a timer, but I like to see what is trending and I like the technicals. I love the InvesTech newsletter, but that's not something that's going to necessarily make me invest.

By the way, Leuthold Group does what they call the Green Book. Steven, who passed away not that long ago, came up with the Green Book, and it's mandatory reading for a lot of people in the mutual fund and investment worlds. It's got great stuff, and they typically do make it available to the public at no charge. That is something that I'll use, but those are things that are helping to inform me. They're not necessarily coming down to the level of what influences your investment choices.

For me, the stuff that's going to influence my investment choices is a combination of what I hear and what I read about, and then those other sources of information, some of the basics on looking at balance sheets. I'm a dedicated balance sheet observer. By the way, I also love the research at New Constructs. Again, part of the reason why David's on the show is that what he does makes a lot of sense to me, so I want to take a look and go, "Okay. Where are they pinning something? Is something attractive or unattractive? How does it rate, and what should I expect from it?"

I think those things can help, but here's where I think the answer gets disappointing. I don't think, "Oh, here's the best one." I know that David will tell you about the success of, for example, his research is judged by Harvard Business Review. I'm not going to deny that or dispute that, but the same way that I'm not going to tell you, talk politics to you and say, "Pick this party" or what have you, I'm not going to pick for you. Everybody's got to look at what makes the most sense to them, the same way that we look at a lot of different opinions, but also you get out what you put in.

As long as the people behind the newsletter are honest, and true, and real, and righteous and not a problem, you get out what you put in. Now, if you buy a bad newsletter, if you are buying something from a fly-by-night, if you're looking at something that is promotional trash, or whatever, and there are those things out there, then you're not going to be happy no matter what happens. But if you are able to find something that you like ... You get a lot of it on Substack these days, or you can do something like Willie Delwiche is now at Hi Mount Research. He's with All Star Charts. Okay. If you're a chartist, it's Sim, or it's Chart Pattern, or it's TrendSpider, or it's Tastytrade, which JJ Kinahan is now running, et cetera. All of them have things that are useful.

You asked about the brokerage firms. I most assuredly read what I get from my brokerage firms. I will occasionally use their tools, but mostly, their tools are ratings tools that are just confirming what I've seen at the things that I like to use the most. They're not bad, it's just that I'm comfortable in my ways. I have Morningstar screens that are set up for me to just jump right in and pick up where I left off, or pile the next thing in there, so that's a good way to do it.

If I'm looking at closed-end funds, yes, I'm going to be using John Cole Scott's research that we talk about at cefdata.com. Why? Because it's fabulous, but if I'm looking for an income-producing stock, it might be something like Utility Investor from Roger Conrad, or Elliott Gue, or it might be the DRIP Investor, or something like that to get a name. Then crosscheck it with something else to make sure, okay, this has everything I'm looking for. It fits the bill of what should be in my portfolio. It's giving me what I want, what I'm trying to add to the portfolio. No newsletter, no source of information can tell me that. That has to come from me. Oh, maybe I can use something, some sort of a portfolio X-ray tool to go, "Oh, I want to add small-cap. I want to add large-cap," but at this point, I'm playing on the margins in my portfolio. Most things are set and in there, and that's the way they're going to stay. It's more the occasional trade in or out, the occasional move. Not something as big and building the portfolio.

That's how I use the media. I read a lot. It's like a big chunk of my day. I love doing it, and there's a lot of sources that are good. If you want my opinion on any specific ones, you can send them as a request and maybe I'll give them, but I think you get a lot from this show. You know that I'm not putting somebody on that I think they're offering garbage, but whether their stuff is good will depend a lot on how much you put into it, how you use it. Are you using it as they intended for the right things? If you're doing it for the right reasons and you've got the right handle on it, things should turn out. Money Life's going to turn out too. The big interview's next, a great one. You don't want to miss it, so don't.

Rob Floyd:

There's $10.6 trillion worth of assets benchmarked to Russell Indexes. It's the index family institutional investors rely on. Russell Indexes, your index matters. See how at ftserussell.com.

Chuck Jaffe:

Welcome to the big interview on today's edition of Money Life. Joining me now, Kristof Gleich. He's the founder and chief investment officer at Harbor Capital. If you want to learn more about Harbor Capital Advisors, it's harborcapital.com. If you go to the website, you can learn all about their funds, highly rated classic funds, and now ETFs and more. Kristof Gleich, I don't really know how I've done this show for this long and never gotten to welcome you before, but I'm glad you're here now.

Kristof Gleich:

Thanks, Chuck. Great to be here.

Chuck Jaffe:

We have you on at a very interesting time in the market, because it wasn't very long ago that all anybody could talk about was what kind of landing we were going to suffer and how bad things would be. Meanwhile, while we've been waiting for that landing, the market has been climbing the wall of worry. Are we going to keep climbing or are we going to be at a spot where worries come to roost now?

Kristof Gleich:

That's, look, it's a great question. You mentioned it's an interesting time in markets. I can't remember the last time it wasn't an interesting time in markets. Like you said, coming into this year, I think if you had said to anybody some large growth names were going to be up more than 100% in certain sectors, large growth as a sector was going to be up 25%, the S&P was going to be up 10%, I think everybody would have thought you'd been taking something or drinking something to have that kind of view, but that's what's happened.

Like you said, markets generally climb a wall of worry, and the wall of worry is high at the moment. Let's just go through what markets are having to contend with. Geopolitical tensions continue to remain very high. There's an ongoing war in Europe, and the tragedy unfolding there. There's a brewing energy crisis. Globalization has switched to deglobalization. We're experiencing the highest and quickest interest rate hiking cycle in a generation. There are structural labor shortages. We have an inflation problem. We're still dealing with the echo of the pandemic and what that means for work from home, and the future of office and real estate.

I haven't even got to the banking crisis. We had a full-on banking crisis that we just stopped talking about, which is still ongoing and still in the background. That will be coming back, by the way, so we can talk about that a little bit more. Look, I just think we had such an interest rate shock last year. We had such a negative, down year. I think sentiment got overly bearish, positioning got overly bearish. On some measures, positioning was back to 2008-type levels of crisis. We've had a bit of a relief rally, and so far there's been no landing. Ultimately, it depends what happens later this year.

Chuck Jaffe:

Well, we have had people who, at one point, were saying we would have no landing, that we would have a no-landing scenario, and that came and went about as quickly as the banking crisis seemed to come and go. Are you in the camp that we can avoid a landing at all or, nah, that's just the current events have kept us from having a landing?

Kristof Gleich:

I think, look, the markets are always about thinking probabilistically. You've got to think about different scenarios. Anyone that confidently states they know exactly what's going to happen, I'd be a little bit skeptical of. However, I would be skeptical that we managed to manufacture the immaculate disinflation, which is what you're talking about, the soft landing. If you look at where we are at the moment, we have a genuine inflation problem.

In November of 2021, Chairman Powell retired the word transitory. Think about that. How ridiculous that seems, that we were deemed transitory for so long. Now we have, I think, a persistent, and dare I say, structural inflation problem. Yes, headline inflation has come down. We were at the highs last year of 9, and 9.1 or 9.2, something like that it peaked out at. Yes, headline inflation has now come now and it's now about 4.9%, but I think getting from five-ish to the Fed's target of two is going to be much, much harder than getting from nine to five.

If you look at what the Fed looks at, you strip out the more volatile components and look at what we call core inflation or PCE, and you look at where that's running now month-on-month. It's running at about 0.4% month-on-month, which translates to an inflation rate of in the mid-fours, and that's where we are. So far, the Fed keeps slamming on the brakes, and the old adage goes that the Fed slams on the brakes until something goes through the windshield. We've seen, unfortunately, a few things go through the windshield called regional banks.

We have this problem now where the Fed had a credibility problem at the backend of 2021. It wrestled that credibility problem, I think, back throughout 2022. By the end of 2022, I think the market generally did not doubt the Fed's willingness or ability to fight inflation. However, now maybe their willingness isn't in question, but their ability is because, really, what the Fed cares about more than inflation, and more than full employment is financial stability. That is kind of like the unwritten rule that trumps all else.

We now have something being caused by their actions, which is calling into question financial stability, and so what does that all mean? It means the Fed may not be able to raise rates enough to stamp out this inflation period, so it's a very interesting time for markets. I think what we would expect is volatility is going to be higher. There's going to be more vicious bear markets, and then these quick sort of snapbacks. I think we're going through one of those periods at the moment, but some of the leading indicators would suggest that the slowdown is coming. Albeit, I am surprised that this time last year, I think consensus was we'd be in the midst of recession right now and, clearly, we're not.

Chuck Jaffe:

Is there a point where the Fed, in your mind, says, "You know what? We've got inflation down to three. Everything's still going well, so mission accomplished," and we call it at that point? Or do they have to keep going knowing that if they want to push to go to two, yes, something's going to go through the windshield?

Kristof Gleich:

Yes, we debate that a lot on the investment team at Harbor. We have a great multi-asset offering, and so we have folks at Harbor that debate what is happening, and how do you position in markets, and so on, and so forth. We have a couple of people that used to work at the Federal Reserve Bank in New York for seven or eight years, so they know their stuff and they provide a good sort of insight to what they're thinking inside the Fed.

I debate this with those team members, and I'm essentially in your camp where I think, look, it's all well and good having this 2% inflation target, but let's be honest. This 2% inflation target is relatively new,

targeting specifically 2%. It's not overly scientific. There's no magic to the 2% number and when it was set, the world looked very, very different. We lived in a world of globalization, disinflation, and inflation was incredibly low and not volatile at all. We had good GDP growth. Kind of, it was the Goldilocks period that we went through in the post-financial crisis decade of the 2010s. When you've got that scenario, it's well and good to say, "Yeah, 2% is good. What do we think?"

Look, I know having listened to various, and read various transcripts, when that 2% target was set, some people in the room said it should be two and a half. Some people said it should be 1.75, and they netted out at two because it was a nice, round number. Then, we in the market, we fixate on this number as if it carries more weight than it should.

I think what will happen is there'll be a gradual realization that the pain of getting all the way back to two will outweigh the benefit of being at two, and we'll have a drift higher to maybe something in the high twos, maybe something in the threes. Because I don't think that the Fed is, to get from three to two, if that means causing a massive recession and economic hardship across the country just to get back to a target that they've said they've hung their hat on, I ultimately think they'll blink first and we'll end up in a world with slightly higher inflation. By the way, I think that'll be okay. I don't think it will be a disaster.

Chuck Jaffe:

Let's talk about not how you have blinked, but how you have reacted. Because it's one thing to talk about inflation and say, "Okay. We watched the Fed go from transitory to not being transitory." We've seen it here, but as you are looking at inflation trying to figure it out, how has it impacted the way you invest? We went through such a long period.

We have generations of money managers who have never dealt with this kind of inflation, even this kind of inflation where we're at now, which is just a little higher than traditional. It's not the 8, 9% that we saw there for a short time. As an experienced money manager, what are you doing differently now from what you were doing when we were before this Fed rate hike cycle?

Kristof Gleich:

It's an interesting question. All right. There are certain timeless principles of investing. Diversification is a good one. However, you also need to adapt and evolve with the times. That doesn't mean that suddenly, diversification is a bad thing. There's in life, in investing, literally the only free lunch that you get is diversification.

It is free. If you manage to find two assets, or three assets, or four assets that zig and zag at different times and they have positive expected returns, you keep combining those things more, and more, and more, that's going to give you a better risk-adjusted return, compound your wealth better, et cetera, over the long run. That's the premise of diversification. However, I think we need to ask ourselves, how do you get that diversification in this environment?

In the 2000 and, say, post-financial crisis decade of the 2010s, diversification could be summed up in two numbers, 60 and 40. The 60/40 portfolio did brilliantly, and it returned about 10% a year with very low volatility. You had inflation running at 2% with very little volatility, around 2%. The 60/40 portfolio had a real return, and when you list and say real return, that just means after the cost of inflation of 8% a year. I think we've all gotten, dare I say, market ... When I say we, I mean market participants a little really complacent in that we now expect, "Look, this is what it does. This has been my experience. This is what it should do for me on a go-forward basis."

If you look in the 2020s, where we are so far, you've had ... We're almost a third of the way through this decade. You've had inflation that's averaged near 5% this decade, and you've had a 60/40 portfolio that's just given you about the same, so you've had not really much real return left over. That's kind of like, if you like, a proof that in a different market environment, diversification of a 60/40 portfolio is not going to deliver what you're used to. Okay, so what do you do about that? You have to find different sources of diversification for the environment that we're in. The environment that we're in is going to be higher inflation, more volatility, and probably shorter business cycles.

Some of the areas that I think will do better this year and help diversify .... Sorry. This decade, and help diversify portfolios, a couple. Number one, commodities. Commodities are, I would say, a hated asset class because they didn't do anything for so long in the 2010s. They did really well in the 2000s, and then they crashed in the financial crisis, and I think people got sucked into them probably in '06 and '07, and caught the fumes at the end of that cycle, took the pain, held them, and then they did nothing.

You've got this emotional reaction now to commodities of like, "Thou shall never buy commodities again," where we think, and the way that we're positioned, actually, commodities play a really critical role. They tend to do better in periods of structurally high inflation that we expect that we're going to be in the 2020s. They have been chronically underinvested in, driven by whether it's ESG concerns. Just, capital has not gone into businesses that are in carbon fuel, carbon generation.

If you look at CapEx across commodities over the last five to seven years, and you look at the reinvestment rates, there is chronic underinvestment. Whatever landing we get, soft, hard, no, think about what happens after the landing. You're going to have a setup where you're going to have extremely tight commodities markets, extremely tight supply, extremely tight inventory. New supply takes a long, long time to come on, and so there could be a real squeeze.

In an environment like that, having some of your portfolio to commodities, I think, we think makes a lot of sense. At the moment, 75 cents out of every $100 in the U.S., this is according to Morningstar, is invested in commodities. It should be higher than that, and so that, we think, would provide a good source of diversification.

Then, of course, I haven't even talked about the biggest thing of all, and that is the energy transition. The world is committed to net zero by 2050. Whether or not they exactly get there is beside the point, but there is going to be a colossal amount of infrastructure, and CapEx, and green energy CapEx that is going to be supportive for a lot of green transitional commodities such as natural gas, copper, carbon credits, and so on, and so forth. That's where we spend and where we've allocated some of our capital. There's some other areas that I'm happy to go into as well, should you want me to.

Chuck Jaffe:

Well, we're getting a little bit tight on time. I would be remiss if I didn't accept your invitation to talk about a banking crisis that you say is coming back. I need to turn our attention to that because as you pointed out, we had a banking crisis and then we almost, as quickly as it came, turned away from it and said, "Well, it doesn't seem to be that bad," but there's still a lot there to sort out. Is it going to get that bad? Is there yet another shoe to drop in terms of the real danger, or is it more how we recover from what we've had that's the story?

Kristof Gleich:

No, I think there'll be more shoes to drop Look, I don't want to panic your listeners. Is this 2008? No, I don't think so, but I'll just remind everybody, in early 2008, nobody was saying, "This is going to be a once in a century financial crisis," but then it happened, and now everybody looks back. Today, nothing

like '08, but if everybody knew that '08 was going to happen, so I just think, again, I try and stay humble with what I know, but crucially, the bigger piece, what I don't know.

We don't think this financial crisis will be like 2008. Banks are generally much, much better capitalized and the policy response by the Fed was much quicker this time around, but we have had two of the three biggest banking failures in history happen in the last four or five months. Tell me someone that was forecasting that four or five months ago. I certainly don't know anybody.

Then we had the failure of Credit Suisse at around the same that got swept up in this loss of capital, where they have a lot of idiosyncratic problems of their own. What the measures of the Fed have taken is to essentially provide a funding lifeline to these banks. The way that they've done that is, for the first time in their history, is given uncollateralized lending. We're used to the Fed taking assets at value and swapping it for cash to provide liquidity into the system. But here, they're actually taking securities that essentially are mark to market basis of less than they are at par, but they're lending at par value. That's called uncollateralized lending, and they're charging as they should do for it.

What you have is you have basically a banking system now where the most vulnerable, that their funding spread between where they're funding themselves and the deposit basis, and where they're lending out, or where they're investing in securities, instead of earning a nice, positive return, that spread has gone negative. That is just going to play out over the next year or two years, and I think what you'll see is things like First Republic going to JPMorgan happening on a smaller scale and a bit more of a controlled scale. I think we'll see, when we look back at the arc of history, this will be a moment which led to an acceleration of the consolidation of the U.S. banking industry.

Now, I'm not from these parts, but one of the things that I found, many things I found surprising about moving to the U.S. is just the number of banks. In the pre-1930s, there was 20,000-plus banks in the U.S. As we got to the 2008 financial crisis, we were down to about 10,000. If you get through to where we are today, we're at about 4,000. 4,000 is still a big number. I'm from the UK. We have about four banks, that's it.

What I think we'll continue to see is an acceleration in the consolidation of the banking sector, but it will be done with a wide safety net provided by the Fed, that banks will be allowed to essentially fail and consolidate in a more controlled manner, aka kind of more First Republicy rather than Signature or Silicon Bank, and that's going to be playing out. What is also going to complicate this is the biggest kind of provider of loans to office real estate in the U.S. are the regional banks, and the market value of whether it's the loans against those office real estate, they're going to have to be marked out.

If you look at office data today, you're looking at an occupancy of about 50% compared to 2019, 50%, and that is going translate into lower market values. That is going to translate into balance sheet losses. That is going to translate into eating into capital cushions. Then when you take that dynamic with a pretty bleak earnings outlook for the sector, it's going to lead to more consolidation, et cetera. That's ultimately how I think it will play out.

Chuck Jaffe:

Well, Kristof, I have a lot more questions. I just don't have any more time. This has been fabulous. I hope you'll come back, and we can do this again, and pick this up down the line as we see how the banking crisis and the rest all plays out.

Kristof Gleich:

Yep. Thanks, Chuck. Look, to your listeners. I know we went through a lot. There's always an optimistic side as well. We are at full employment. The world continues to grow. We continue to have new

innovation. We didn't even talk about AI. That's going to be a whole nother topic altogether. I am spending a lot of time thinking about some of the efficiency gains that AI may bring that might offset a lot of this. Generally, stay invested, have a plan, be diversified. I hope everybody has a good day.

Chuck Jaffe:

Kristof, thanks so much for joining me.

Kristof Gleich:

Thank you.

Chuck Jaffe:

That's Kristof Gleich. He's the founder and chief investment officer at Harbor Capital Advisors. He's on Twitter @Gleich, G-L-E-I-C-H, Kristof, K-R-I-S-T-O-F, and of course, Harbor is available for you at harborcapital.com. We'll be back to wrap up our first show in June right after this message.

Rob Floyd:

Hey, Money Lifers. It's Rob Floyd, executive producer for Money Life, with another contest for you. On Tuesday, Chuck interviewed comedian, Jamie Loftus, author of Raw Dog: The Naked Truth About Hot Dogs, which covers hot dog history, plus her journey around the country to try many of the classics. One classic that she didn't particularly like, but that Chuck loves is the Chicago dog. You have to tell us the classic ingredients for a Chicago dog.

Speaker 13:

Hot dogs. Hot dogs here.

Rob Floyd:

The seven toppings and the type of bun. Give us the full list and you'll have fully cooked your entry to win Raw Dog. Send your answer and your mailing address to chuck@moneylifeshow.com by noon Eastern Time on Sunday, June 4th. Please put contest in the subject line of your entry. Chuck will announce the winner on Monday's show. Good luck, everybody.

Speaker 13:

You want a hot dog?

Chuck Jaffe:

We are back to wrap things up on the June 1st edition of Money Life. I hope you liked that interview. I had tons more questions. We're using a few different ways to record our interviews these days. You may notice some of it in the sound quality, unfortunately. There are times when it's unavoidable, and some of it's about how we're connecting. Some of it's about how people are connecting with us, but it also has some impact, at times, on how we time things out because when we're using our online recording platform, it's kind of like being at Morningstar a little bit. It's a little tougher to say, "Oh, we'll just be right in this finite time period."

Kristof had an idea of what we were looking for in time, and I had another interview planned that we're just going to have to hold for another day because it was longer, so we had to shorten things down

because he was answering long. I didn't mind, because I had multiple other questions that I wanted to ask that we didn't get to. Now, one of the things that demands follow up, since we had the banking crisis, we've actually had horrible luck getting real banking industry specialists on the show. It's just been a thing.

David Ellison from Hennessy was supposed to be here. He's somebody I turn to every time we've got a banking thing, and we just couldn't get it worked out, but we're still trying. I think that Kristof's point about we're not done, well, we need to be addressing that because that's going to come back into focus PDQ here, I think.

Tomorrow, well, hey, we're going to have more great stuff on this show, including Brendan Ahern. He is with KraneShares. He's one of the pioneers of the ETF business. He was with BlackRock earlier in his career. Has not been on the show in almost a decade, but you saw how much fun that was with Michael Sansoterra, so hey, we'll revisit the, let's go back to somebody who hasn't been on for a long time, which means a lot of you have never heard of him. He is basically one of the leading voices on China, so that's where the bulk of our interview will be focused with him.

We also have The Navigator, Rob Shaker from Shaker Financial will be here talking discounts. I know you're going to like that. Gene Peroni will be here talking technicals and more, so plan to join us again tomorrow. Meanwhile, if you are looking for something to do today, it is Dinosaur Day. It is National Nail Polish Day. If you want your nails polished because it's National Heimlich Maneuver Day, so in case you have to do the Heimlich maneuver, you want your nails to look good. It is Say Something Nice Day.

Speaker 14:

What did your father tell you this morning?

Speaker 15:

If you can't say something nice, don't say nothing at all.

Chuck Jaffe:

Especially today. Now, if you're going to say something nice, might want to do it to your pen pal because it's National Pen Pal Day. It is National Go Barefoot Day. I dare you to do it because it is Dare Day, and if you can't decide if you want to do it, then flip a coin to decide because it is Flip a Coin Day. It is also New Year's Resolution Recommitment Day. That is an idea I love. It doesn't have to be today to me, but it's always a thing where you want to look at your resolutions as you get towards the middle of the year to go, "Hey, let me get to where, if this was important to me, I revisit the idea that I really wanted to get this done." Then on the food side, it is World Milk Day, and it is National Hazelnut Cake Day.

My guests today were Tom Lydon, the vice chairman at VettaFi, which is online at vettafi.com, and on Twitter @Vetta_Fi. Tom's on Twitter @TomLydon. Christian Mitchell from Northwestern Mutual, which is online at northwestermutual.com, on Twitter at NM_Financial, and a long link to the survey, that you'll find on our guest page. And Kristof Gleich, chief investment officer at Harbor Capital Advisors, harborcapital.com. Thanks to them and thanks, of course, to Rob Floyd, my producer, but mostly, thanks to you for being here. You make this special and worthwhile for me each and every day.

The Money Life quote of the day today comes from Dolly Parton, who said, "My fat never made me less money."

Speaker 16:

Hey, fat boy. Yeah. I'm talking to you.

Chuck Jaffe:

Well, actually, we're talking to everybody. Not because you're fat, although like me, you might me, but because stay focused on what's important because it's being smart and doing the right things that's going to make you money. You need to remember, until we do this again the next time, the best thing to do for your money is not worry too much about it. Have a great day, everybody. Stay safe, stay calm. I'll see you tomorrow.

Rob Floyd:

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Speaker 17:

Go in, boy. You bother me.

Speaker 18:

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