Interviewee:  **Axel Merk**

Title:               **President**

Company: **Merk Investments**

Interviewee:  **Michael Aronstein**

Title:               **CEO**

Company: **Marketfield Asset Management**

Interviewee:  **Jason Trennert**

Title:               **Chief Investment Strategist**

Company: **Strategas Research Partners**

Channel:          **Bloomberg US**

Date:              **March 16, 2011**

Time: **12:10 PM ET**

Duration:        **11 minutes 22 seconds**

Interviewer: **Tom Keene**

**Tom Keene**

I have Jason Trennert with Strategas Research Partners and let’s walk in Michael Aronstein of Marketfield Asset Management, as well. I want to get to this rewind right away. Earlier this morning, Michael—sit yourself down—earlier this morning on Bloomberg Surveillance, I talked to Axel Merk of Merk Investments, and I asked him about inflation. What does he think the likelihood of inflation here?

***Axel Merk***

*We believe it is… It’s very unethical. It’s very cruel. It is the easy fix—quote, unquote—that the Fed wants to have. The big challenge is, of course, we’re causing instability in the rest of the world, and it’s coming home to roost with higher energy prices. It’s not something the Fed seems too concerned about, and that’s precisely the reason why the Fed is going to continue its policy, while at the time same, on the Euro side of things, we are going to continue to see strength down the road.*

**Tom Keene**

Axel Merk, again, reaffirming [the Canadian] loonie today is one of his currencies that he likes. Michael Aronstein, inflation, disinflation. I was with John Makin at the Common Fund meetings, big debate with Pippa Malmgren about inflation, disinflation, deflation. Is inflation your friend right now?

**Michael Aronstein**

Well, it is if you own the things that are inflating. That’s always the trick in our business. I think people would be much better off abandoning the general terms, the sort of overarching terms—inflation, deflation, disinflation—and concentrate on the probabilities for price movements in specific areas, which are very different from the inflation, deflation debate; you can have the two forces co-existing. And the question is, really, I think people are asking whether monetary policy’s appropriate or not and in some places it is and in some places, it isn’t and that’s another, that’s a very specific debate.

**Tom Keene**

I’m glad you guys got the pinstripe memo today. I sent it out to Jason at about 6:00 AM. Everybody’s in pinstripes today. It’s very formal. I’m going to button up here like Michael is and get formal. Jason, when you look at our monetary policy, Japan acting spur of the moment, how is the Fed doing?

**Jason Trennert**

You know, this is… you know, Don Rissmiller, our Chief Economist, said earlier in the week, you know, “it’s our monetary policy, and it’s your problem.” And I think my particular view—and maybe I’m somewhat at odds with Mr. Merk earlier today—instead of kind of having a general value judgment on the Fed’s-- how the Fed’s doing, my view is that the Fed has a very specific domestic mandate, which is price stability and full employment, and from their perspective, discussions that I’ve had with people at the Fed, their view is the core inflation is 1.1% and the unemployment is 8.9 [percent]. So from their perspective, they’re broadly achieving some sort of price stability and yet they still have work to do on the unemployment rate. Whether you think that’s a good idea or a bad idea is another story, but it’s clear which way they’re moving.

**Tom Keene**

Michael, jump in here with that.

**Michael Aronstein**

Well, you know, the Fed has a different index to measure inflation than a central bank in India or a central bank in China or a central bank in Europe or Brazil, so all of this is quite arbitrary. I think you really have to boil it down to: what are the local effects of monetary policy on various asset classes? I think we happen to be in an age where the Fed’s actions are pretty much going to be confined to influencing asset prices. The real economy is very little dependent on credit creation anymore. The volume of consumption does not have a lot to do with the financability ex-housing, which is why when the Fed and other central banks really vary their policy dramatically, what you see is dislocations in asset prices, not a big change in the core consumption patterns. People don’t rely on Fed credit for food, for food purchases.

**Tom Keene**

No, that’s a very important statement. I want you to look at this chart. Bring up Elegant Chart One. I could have said here: Trennert and Aronstein. I couldn’t get it fitted into the headline, considers an inexpensive Japan. I mean, you mention value, Michael, and this idea of what you own. There’s a normalized Nikkei and S&P 500. Japan is cheap. Is it an opportunity in Japan, forgetting about the crisis, just is foreign markets cheap now relative to the boom we’ve seen in the US?

**Michael Aronstein**

Well, to some extent on a company-by-company basis, there is value in Japan, but I think the great overarching value in the world is the United States. This has become the pretty much the cheapest major economy on earth. If you looked at the cost of somebody who was spending Yen or Swiss Francs or Euros to buy property in the United States or to own an office building or rent office space or create a factory, we’re priced now almost like an emerging market economy was eight years ago.

**Tom Keene**

Oh, that’s a headline, Sarah. I mean, no question about that. Michael Aronstein, that’s a break-sclusive, we’re a Banana Republic, Michael Aronstein. Jason Trennert, would you buy Japan here looking at that relative cheapness?

**Jason Trennert**

It’s interesting to me, certainly, but I’ve, I tend to agree with Mr. Aronstein. I think the United States is very cheap and I think that’s where more compelling valuations lie, but as a trade, I think Japan is very interesting. I do think people probably overreact, in my own particular feeling, to what’s going on, but for a longer-term investor, I think when I’m looking at a company like Apple that’s trading at 14-1/2 times forward earnings, if I’m looking at the S&P that’s trading at 13-1/2 times earnings, that’s pretty compelling for world-beating brands name companies. So especially when you have US treasuries trading at close to 30 times earnings. So that’s where I would place my bets.

**Tom Keene**

Right, I want to get up this quote. Caroline Bowman, the great op ed today, bring up this Caroline Bowman quote. It is just fantastic. I can’t say enough about this essay and the misinformation out there. Michael, “earthquakes don’t add to the wealth of nations,” and she’s brutal. 150 years later, Keynesians are still flying blind and then she quotes Frederic Bastiat from another century about the idea of an earthquake: “it’s going to be a stimulus.” We’re going to add to it. Help us here with the economics.

**Michael Aronstein**

Well, Caroline knows what she’s talking about. She’s very good on this, but there are a lot of these myths. Keynes said at one point that in order to stimulate employment, you should have the government dig holes, fill them up with gold and then pay people to dig them up, which is nonsense, but people don’t understand the basis of the nonsense. It really is… there is no virtue in terms of accumulating wealth to doing things that are not demanded by society. In other words: make work. You’re better off just giving people the money, rather than doing things that are useless.

**Tom Keene**

I like that. Jason Trennert, last word. He’s going to be on the show next week, Frederic Bastiat. Destruction is not a gain.

**Jason Trennert**

I mean just echoing this, Milton Friedman, we’re all in agreement. Milton Friedman once said and was looking at some sort of project in Asia, an emerging market, and he noticed that they weren’t using tractors. They were using shovels and he said, ‘gee, why aren’t you using more technologically advanced products to do this,’ and he said, well, the gentleman that was explaining it to him said, ‘well, you know, we need to employ people,’ and he said, ‘well, instead of using shovels then why don’t you use spoons. You’d employ a lot more people to do the same thing.’ And I think it speaks to Mr. Aronstein’s point, Carolyn Bowman’s point, is this is the broken-windows theory is just not additive to overall GDP growth.

**Tom Keene**

I’m glad we got that in, your perspective. Jason Trennert, thank you so much. We’re going to continue with Michael Aronstein, folks.

*[Ad break]*

**Tom Keene**

Michael Aronstein with us, folks, with Marketfield Asset. I spoke to him in October on *Bloomberg Surveillance*. You can see it 7 to 10 AM in the morning. I asked him to explain his concept, not Nassim Taleb’s concept, his concept of the *green swan*.

***Michael Aronstein***

*It’s an actually rare thing as opposed to a black swan, which people believed to be rare, but was much more common. And we’ve talked since August, really, about the possibility that the capital markets could just take off given the fact that our central bank seems to have panicked again in the midst of what is really, I think, a reasonably good economic environment.*

**Tom Keene**

That’s a home run. In Boston, we would say a homerun over the left field wall over the turnpike. You nailed this. You absolutely nailed this. Can we sustain your green swan?

**Michael Aronstein**

Well, it’s taken a pause here. We did have a market that you point out----

**Tom Keene**

Well, there’s a little bit going on. There’s a little bit of news--

**Michael Aronstein**

That it went up pretty much straight up for four months, and that was an unusual event. I think the degree of the rise in the US equity market caught people by surprise between September and early this year and now we have sort of what I think is a normal setback to raise the anxiety levels again. I don’t think there’s been any fundamental change in general conditions and I think the economy is still, from a business standpoint, much stronger than the Fed is reckoning. But they’re looking backwards at the problems that remain from the last cycle.

**Tom Keene**

A big debate in Orlando at the Common Fund meeting was this idea of emerging markets are not, here’s a note here, folks, Michael Aronstein, Marketfield Asset Management: “short positions remains concentrated in emerging markets with an emphasis on banks.” Maybe if we get into specific names; which foreign banks are the ones to be unloved?

**Michael Aronstein**

Well, I don’t want to talk about specific names, but I think---

**Tom Keene**

It’s a break-sclusive, Michael Aronstein’s not going to give us names! Okay, continue.

**Michael Aronstein**

No, that’s not really my metier, but we felt like the emerging markets were more advanced in their cycles and so they prompted tightening because there, it was clear to the central banks that not only was inflation possible, it was becoming a headline problem. And that really, you know, inflation tends to trigger unrest among populations that don’t have a lot of opportunity. It’s the easiest way to destroy living standards, because prices move much more rapidly than wages can. And so you get a real destruction of living standards and that’s sort of what happened in the Middle East. It’s what happened in 1979-80 in Iran. You get these big inflationary impulses and all of a sudden, people can’t live nearly as well, and if you do it under the umbrella of an authoritarian government, it really, it creates a lot of turmoil.

**Tom Keene**

Thank you so much for coming. Michael Aronstein. Great call on the green swan. I love the optimism, that phrase, *the* *green swan*. Look at this chart. Victor’s on it over there. The green swan flies to developed nations. Michael Aronstein’s saying the MSCI to S&P 500, we’re going to see that come down and we’re going to see that ratio come back up, the US doing better. We’re going to come back at Surveillance Midday.

**Important Disclaimer**

**Although strenuous efforts are made to ensure the accuracy of interview transcripts, Executive Interviews and its associated companies accept no liability for what is said, for any discrepancy between the spoken and written word, or for any errors and omissions. Where doubt arises, please refer to the original broadcast video interview.**