

Interviewee: Michael Aronstein
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Carol Massar

Let's get to our guest for the hour, Michael Aronstein, Marketfield Asset Management.

Carol Massar

Macro stories. I know you guys are really bottoms-up, right? When you look at company...not bottoms-up? I mean, we really...

Michael Aronstein

Well, we start from the top down. The first swing at trying to solve investment problems is kind of a general environment, what is going on in the very abstract big picture...

Carol Massar

So you do carry macro?

Michael Aronstein

Oh, yes, that's our...that's...90% of my time is spent on all these big theoretical problems that involve data points from all over the world in every asset class and kind of a collision between economic theory and markets and pricing and all these really kind of peculiar preoccupations that I spend time with.

Carol Massar

I guess why I was coming at a different...because I know you and I have talked a lot before, and I think that sometimes you say, you know, we can kind of put Europe on the side. I mean, it doesn't mean you can't still kind of pull the trigger on things.

Michael Aronstein

Right. It's...putting it on the side to us means that we've kind of come to the conclusion that the disturbances within their government structure are not fatal, that they can just be taken as a normal aspect of this particular cycle we're in, where, you know, the last sector of the global economy that's going to be forced to restructure in the way that corporations have and households have...

Carol Massar

Right.

Michael Aronstein

...is the government sector, and we're seeing it play out all over the world.

Carol Massar

Does look like a playbook, isn't it?

Michael Aronstein

Yes...

Carol Massar

In terms of households, corporations-- or corporations, households, and now governments.

Michael Aronstein

Yes, and it's the last sector globally that's dependent on continued access to credit. You know, corporations have gotten their balance sheets into such good shape that they're almost immune to fluctuations in the availability of credit. Governments need it in the same way that homeowners and the

real estate markets needed it 7 years ago. There was no doing without almost unlimited access to credit in the housing market and when that began to wane, that was it. That was the end of the story and you saw the results. Governments are in the same position now. They cannot wean themselves from their longstanding dependence on access to unlimited credit, so you see the drama playing out everywhere. It's...and it's not pretty. It's in Washington, it's in Rome, it's in the capitals of pretty much all the...

Carol Massar

Everywhere.

Michael Aronstein

...European sovereigns. It's starting in parts of the emerging market. It's really...it's going to define the rest of this decade.

Carol Massar

What does that mean in terms of investment implications?

Michael Aronstein

Well, it depends how governments respond to their...to the increased pressure on them to kind of retreat from their overuse of borrowing. To the extent that they try to extract more money from the private sector, it's very harmful to the economy involved. To the extent that they rein in their activities and kind of reduce their expenditures, it's not harmful, and I think that's a...

Carol Massar

How do you get that, though, if you're reducing expenditures to some extent? Isn't that going to have implications on the private sector?

Michael Aronstein

Somewhat, but it's not...you know, that's the great debate of our age, is whether or not governments extracting wealth from the part of the economy that creates it, which is the private sector, and then utilizing it at the discretion of the government leaders, whether that's a stimulative aspect of the overall economy, and I don't believe it is, and you know, we've seen examples of that over and over and over again, and it's very hard for someone to explain to me, and ...this is a self-interested little example, but why giving...you know, I have a checking account. I have one in my name and a joint account with my wife...why giving one or another political leader discretion over more of my checking account is helpful to the economy.

Carol Massar

It doesn't make sense.

Michael Aronstein

Well, it doesn't make sense to me, and obviously I have a dog in this fight, but that, you know, that's the nature of this fundamental question and I'm afraid professional economists have gotten themselves so twisted around, kind of, econometric models and modern economic theory, most of which is invalid, that they can't simplify it back down to the processes that are at work in the creation of wealth in an economy, and that's...

Carol Massar

It is kind of basic, if you go...right? You break it down.

Michael Aronstein

Yes, absolutely. You know, we generated a lot of wealth in the United States before we had economic statistics, right? And before we had a professional class of economists, before there were any PhDs in economics running around. The United States was the greatest wealth-generating story...

Carol Massar

Uh-oh, all my buddies...all my economist buddies are going to be calling in.

Michael Aronstein

Well, no, I'm very familiar with it. You know, I have a younger son who's finishing up an undergraduate degree in math and economics...

Carol Massar

Hang on...hang on for a second. We'll continue with Mike Aronstein.

Carol Massar

This is Bloomberg on the Economy+ I'm Carol Massar here at our New York studio, and our guest for the hour is Mike Aronstein over at Marketfield Asset Management, and I apologize because I kind of talked you off. So we were talking about economic data, economists, and your son actually is studying...

Michael Aronstein

Yes, he's just finishing up at Vanderbilt in math and economics, and...

Carol Massar

Must be some good family debates.

Michael Aronstein

Well, he's quite good at it and he showed me the course offerings that one would have to select from if he wanted to go on and get a doctorate in economics, and I looked through them and I just shook my head and I said, 'Don't go near it. Don't do it.' Because if you want to be a professional investor over time you're going to have to unlearn all of this. I mean, it...

Carol Massar

It tells us the wrong things? Is that what you're saying?

Michael Aronstein

Well, it doesn't...you know, investing is really a matter of forecasting, and economics, as taught now, academically, has almost nothing in that has any forecast value. It's very good analytically, but they really...there's no way you can quantify it and modern economics has become too reliant on quantification and econometric modeling. None of them work in terms of their ability to forecast. That doesn't stop people from constructing them, because they have the computing power and it...now it looks cool if you can express your thoughts in a series of differential equations, but...

Carol Massar

Works nicely on a whiteboard.

Michael Aronstein

It does. It does, and it seems it's sufficiently arcane, so it gives a certain veneer to the profession. It's its own language, but it doesn't work.

Carol Massar

So, when we focus and highlight on various economic statistics, you think, what?

Michael Aronstein

We actually...at the firm we have somebody who looks very closely at the mechanisms behind the formulation of these statistics, from the government particularly, and they really...it's a lot of Kentucky windage in this day and age. You'd be shocked if you looked at the way...the actual procedures they use to formulate the numbers that come out.

Carol Massar

Not good models? Not good formulas?

Michael Aronstein

Well, I like to say they're estimates of guesses.

Carol Massar

That's not too good.

Michael Aronstein

Or vice-versa. They are, and it's why over 2 or 3 years they keep being revised, and by the time they're

finished being revised they have sometimes no resemblance in terms of direction or magnitude to the original numbering. Yet, people...because it's out there, you know the tendency. Anything people see on TV or comes across the screen they ascribe a certain amount of importance to...

Carol Massar

Right. If you...

Michael Aronstein

...whether or not it really is important.

Carol Massar

So then, in terms of getting a good read on what's going on, whether it be the global economy or some of those trends that many look to economic statistics to kind of tell us, paint the picture of what's going on, you, instead, focus on what, Mike?

Michael Aronstein

Process. What are the processes, what are the mechanisms, the system dynamics that cause these numbers to occur? Now, what is it? Does it start with liquidity? Does it start with solvency in the corporate sector? Does it start with production? Does it start with an imbalance in, say, the over-consumption of a certain item, like shelter? The over-leverage of a certain part of the economy, like automobile companies taking on too much leverage and spending too much on capital projects? It's understanding in a big sense, kind of, what are the processes? And you can simplify these down to points where you can explain them to a class of 7th-graders, and if you can't, then you don't understand it...

Carol Massar

Right.

Michael Aronstein

...and I think that's absolutely the case. It's not that hard to create some line of causation, theoretically, that is as simple as explaining to somebody, how does McDonald's make their money?

Carol Massar

Right.

Michael Aronstein

Well, they start with these ingredients. You can go back to the wheat being harvested that's going to wind up in the buns...

Carol Massar

Right.

Michael Aronstein

...or somebody, you know, sticking potatoes into the ground that's going to wind up creating french fries, and then from there each step adds a certain amount of value and you wind up with a profitable enterprise which has managed to grow a lot over the years...

Carol Massar

And in an investment conclusion.

Michael Aronstein

Yes. And that's the system dynamic, and then you can look at that whole system and say, is it appreciated or not? Do people understand or are people missing something, and the way we come at that is, is there an exogenous factor in the economy that people are mistaken about that's going to create either excess or deficient demand for cars or houses or Chinese exports or Indian outsource tech centers, and so we're always looking at a combination of the dynamic within an industry or a theme, and then the contribution made by these exogenous factors that are really much more general. So, it's almost like analyzing, thinking about an ocean voyage and you want to make sure the ship is properly constructed and that's kind of the bottom of fundamentals, but you also want to pay a lot of attention to what kind of seas the ship is going to be sailing in, and that's more the macro, and we spend a lot of time on that trying to say, okay, no matter how good the ship is, you do not want to get on the ocean this week.

Carol Massar

Do you feel like we get a better idea of the macro picture when we hear from companies and what they say in their financial statement?

Michael Aronstein

Absolutely right. Companies are...I mean, they are ions ahead of the government in terms of the accuracy of...

Carol Massar

They have to be, right? Especially if they need to be profitable and make money for their investors.

Michael Aronstein

Yes, and now it's, you know, there is criminal liability for putting out statistics that aren't exactly accurate, so when Ford tells you they sold 1732 light trucks this week, that's exactly how many they sold.

Carol Massar

Right.

Michael Aronstein

They're not estimating. They're not seasonally adjusting...

Carol Massar

They're not playing with those numbers. They can't.

Michael Aronstein

No, no. And throughout the corporate sector, the information you can get on a real-time basis, and there are companies that can tell you every ten minutes how much they sold...

Carol Massar

Like, I think about a caterpillar whose got a huge economic or statistical, you know, department. I mean, they are constantly trying to figure out what's going on in the world.

Michael Aronstein

Yes, and it's...you know, for most of the big companies, and I don't want to be a pain in the behind, but when I talk to people running them, I say, you know what? You don't really need an economics department. Just assume that you're not going to out-think the marketplace on things like that. Just do things from the bottom up analytically and see what the fundamentals are in the regions that you might expand in, but don't...now, I really get impatient with companies that talk about forecasts a year out and you ask them, well, what's that based on? They say, well, our economists think that. And now I sort of keep my mouth shut, but I think, well, who told them?

Carol Massar

I was just going to say, is it because their information is based going back to economists' statistics, rather it's from various governments, so on and so forth. Is that why?

Michael Aronstein

Yes, and it's also...I mean, it's based on models; econometric models that clearly don't work, but that's the nature of the profession these days. If you...it's very instructive if you go buy a copy of *Economist* magazine and look through the...in the middle they usually have employment ads and they're mostly for, kind of, NGOs and multinational institutions where they have roles for economists. Underneath they put the qualifications, and it's...every one is advanced degree in econometrics, advanced...prefer PhD with post-doctoral, and that's it. If you want to get a job you have to do that.

Carol Massar

Back in a moment.

Carol Massar

We're talking with Mike Aronstein over at Marketfield Asset Management. So, where do we go from here? When you look kind of at the environment, you shake your head. Do you see more of the same in terms

of...let's talk about the equity market...because you do say things are kind of different this year with...

Michael Aronstein

People are beginning to recognize the fact that we have been in a bull market for 4 years and that it's not just a fluke and that actually...

Carol Massar

It's real?

Michael Aronstein

Yes, it really is, and now we're not in the stage where people are embracing it, but people, at least most people who are not just temperamentally adverse to anything positive, really have to admit this is something pretty unusual given what the expectations were 3 or 4 years ago.

Carol Massar

Fundamentally justified?

Michael Aronstein

Absolutely. Yes. The corporate sector in the United States and in most of the west, the western world, is in very, very good shape. The balance sheets are virtually impregnable. They've all been able to...whether they needed it or not...they've all been able to go out and refinance everything they've owed...

Carol Massar

Right.

Michael Aronstein

...and they have...

Carol Massar

Their costs are really low in terms of money.

Michael Aronstein

Yes, if you attain your debt, now, in your books at 3-1/2% or 3%, or in some instances at 260...

Carol Massar

Nothing.

Michael Aronstein

Yes. You don't really...you don't have a lot of financial risk in the structure of the company, and that's kind of the state of corporate America at this point.

Carol Massar

But, you know, you could also have demand, right? For what you're producing, whether it's a service or a good, and you feel like that will hold up.

Michael Aronstein

Yes, the wealth of the population here is just, in aggregate, up quite a lot. It's probably approaching its all-time high. Now, the interest strains on households from servicing their biggest obligation, which is mortgages, have virtually gone away, so..., the private sector in the United States and in a lot of Europe is in really, really good shape. The government sector and people who rely on government for their income, that's a different story. And again, that's going to be the real crunch point in the global economy, particularly in places where the government really is instrumental in the orchestration of all economic activity, like China.

Carol Massar

Well, talk to me about China, then. What happens? They seem to be committed to now doing kind of whatever they need to do to keep the economy growing, and yet...

Michael Aronstein

Their economy, I think, is based on a whole host of false premises and one by one people are going to realize that...

Carol Massar

We talk about pyramid schemes or shell games. I mean, is that...do you really feel like...

Michael Aronstein

Well, an economy that's directed by a small group of entrenched political and military leaders is not ultimately going to succeed.

Carol Massar

It's not capitalism.

Michael Aronstein

No. No.

Carol Massar

So what happens? How do you see it maybe potentially playing out, Mike? In China?

Michael Aronstein

Either you'll get a voluntary retreat from the halls of power and the control by the people who now enjoy the benefits of it, or they're going to have a mess on their hands. You'll have a disaster there. And, you know, it's very, very hard to see them voluntarily withdrawing from the position of privilege.

Carol Massar

Right.

Michael Aronstein

I look at...China's a natural resource economy in the way that Saudi Arabia is. Saudi Arabia had very inexpensive oil to sell to the world. China had very inexpensive labor to sell to the world for the last 20 years and they've run out.

Carol Massar

It's getting more expensive now.

Michael Aronstein

Yes, they've run out of their natural resource. It's very, very hard now to find people in China who will work for 50 cents a day or a dollar a day. So the big attraction that drew all the world's capital, both financial and permanent, into that economy is gone. And now they're faced with the task of generating internal growth through indigenous means, which, in a top-down economy that's run by a small autocracy, it doesn't work. Look at Saudi Arabia. They started the wealth accumulation process 40 years ago...

Carol Massar

Right.

Michael Aronstein

...in the first real shot up in oil. Aside from the 5- or 10,000 extraordinarily rich people who get 95% of the revenue from that natural resource...

Carol Massar

There's a lot of poor people out there.

Michael Aronstein

...they have no economy.

Carol Massar

Yes.

Michael Aronstein

There's no economy outside of things connected with the extraction of the oil or servicing and, you know, polishing the jets and Rolls Royces of the people who control the society.

Carol Massar

Right.

Michael Aronstein

China's much bigger, so they, instead of 5- or 10,000, they have a couple of million very wealthy people.

Carol Massar

Right.

Michael Aronstein

And they have had the benefit of the entire, kind of manufacturing infrastructure, a great deal of it in the western world migrating into their territory, which creates a tremendous amount of wealth, and that started 20 years ago and has continued. And they allowed that to happen so that we could take advantage of their extraordinarily cheap labor and we've done it either through direct investment or through buying products that were produced in China.

Carol Massar

Right.

Michael Aronstein

Once that advantage is gone, I don't see the attraction of any permanent capital being located there other than to perhaps service local demand, but right now the Chinese economy is 65% investment, 35% consumption.

Carol Massar

Which is why they've been trying so hard to kind of get their own domestic economy going.

Michael Aronstein

Right, but to...

Carol Massar

And yet...

Michael Aronstein

Well, but to diminish that 65% investment...

Carol Massar

Right. With the real...

Michael Aronstein

...is going to slow that economy dramatically and really going to shock people. It may be that right now, in a manner of speaking, you know, the pigs are coming home to roost.

Carol Massar

You know, you get my mind going. I think, potentially, in the next few years, whether it's 5 years, 10 years, especially with the amount of energy that we're developing here in this country, and the, you know, potential for us to be a net exporter on energy and what that does and how people are bringing manufacturing back to the U.S. because it's cheaper...you know, it plays into that whole process...and then if it plays out China, that it could be in trouble, we could really see a change in global economic might in the next 5, 10 years.

Michael Aronstein

Absolutely. China reminds me of the Japanese myth in 1989; writ large. I mean, Japan actually had probably a 3 or 4% chance of succeeding in the way that people expected back then.

Carol Massar

Right, when we thought they were buying up everything, from art to real estate here...Rock Center. I mean, it was just kind of crazy.

Michael Aronstein

Yes, they owned Rockefeller Center, Pebble Beach and all the real estate in Hawaii and they were buying downtown Los Angeles and they were, according to most forecasts, going to be the dominant economy in the world for the next 40 or 50 years...

Carol Massar

And yet...

Michael Aronstein

...and I thought it was ridiculous, but there was some chance that that could happen. They had very good...kind of operating companies...

Carol Massar

And they still have...

Michael Aronstein

And they do.

Carol Massar

...some really great corporate brands.

Michael Aronstein

They do, and if Japan was a 100-to-1 shot, China's a million-to-1 shot.

Carol Massar

Wow. Wait, hold it on that thought. We're talking with Mike Aronstein of Marketfield Asset Management. Our conversation will continue. You're listening to 'On The Economy' and this is Bloomberg radio.

Carol Massar

This is %Bloomberg on the Economy+. I'm Carol Massar here in our New York studio, talking with Mike Aronstein of Marketfield Asset Management, and before we move on from China, so...China eventually comes undone?

Michael Aronstein

It may be happening now. You know, there's not a lot of discussion about it, but the real problem for China comes when local prices start getting out of control. You know, they already have, obviously, big inflation in their condo construction and residential real estates. Rents are starting to go up pretty rapidly.

Carol Massar

Right. The government's trying to rein things in, but...

Michael Aronstein

Gently.

Carol Massar

Right.

Michael Aronstein

Because they understand that it's a very, very delicate structure, so on the one hand every day you'll hear a different comment.

Carol Massar

Because they wanted individuals to buy these properties.

Michael Aronstein

They want somebody to buy them because they're all funded by borrowing to the local governments and, you know, there are a lot of individual savers who unknowingly have funded these through these very unregulated wealth management products which are really blind pools that the banks are sponsoring, and then they turn around and use those to lend to developers who are in cahoots with the local governments and, you know, that's because they have no savings instruments that are reliable. You know, the interest rates at local banks in real terms are worse than ours and, you know, the capital markets are very...it's still a wild west kind of environment, so people don't really know what to do with their savings and a lot of people have been convinced that owning an empty apartment at least has...it's something that's palpable.

Carol Massar

Right.

Michael Aronstein

There's a tangible aspect to it. You can drive by it, and even though it's just a, you know, it's like a concrete tulip bowl but at least you can look at it.

Carol Massar

Um, do we ultimately, then, see a depression in China? Does it get to *that* point?

Michael Aronstein

Probably. Yes. And another question is, do they have the leadership that's willing to do what George Washington did here a couple of centuries ago, which is turn over the reins of power and say...

Carol Massar

To the people?

Michael Aronstein

You know, George Washington could have been anointed king and there were a lot of people who kind of promoted that, and the reason the United States is the United States now, and it's so different, is because he walked away and went back to his home to make whiskey. He said, you know, it wouldn't be good for the country if I was the king.

Carol Massar

Another reason why whiskey's good, I guess.

Michael Aronstein

Yes. He was pretty smart.

Carol Massar

He was pretty smart. Um, what does this all mean, and I don't want to be so 'U.S.-centric'. This is where we are. We're in the United States. Everything's, you know, wonderful. It certainly seems a lot better compared to a lot of what's going on around the globe. But what does this mean potentially for the U.S. as its role in the global economy and as a place to park investments? You like the U.S.

Michael Aronstein

Yes, I think people who...

Carol Massar

And have for some time.

Michael Aronstein

...people who believe the center of gravity in the world economy is going to shift away from the United States, I think, are badly mistaken. There's really nowhere like this.

Carol Massar

Is it because we truly, truly embrace capitalism?

Michael Aronstein

Freedom.

Carol Massar

And freedom.

Michael Aronstein

We have an institutional and cultural regard for individual liberty, even though it's sometimes compromised to some extent, but it's really minor compared to the rest of the world. People here are pretty much at liberty to try to do with their lives what they believe will bring them contentment, and that's the starting point for everything. And if you don't have a political, cultural, legal, and economic infrastructure that recognizes and acknowledges that, it's very hard to compete with a place like this.

Carol Massar

So, in terms of the role of our government, there are some who say they're way too involved already as it is. I mean, can our government, as they try to work out their fiscal spending habits going forward in longer term, can they screw things up significantly?

Michael Aronstein

To the extent that their problems are thrown on the back of the private sector in the form of increased taxation and extraction of real wealth from the private sector, it will harm the economy. You know, that's going to be, and it already is, that's the great battle that we're seeing and it's becoming pretty acrimonious and some people understand that and some people choose not to understand that because they have political rather than economic motives, and...

Carol Massar

Right.

Michael Aronstein

...you know, I'm pretty much on the free market side of things...

Carol Massar

Really?

Michael Aronstein

Yes, so you know, I'm very skeptical of the actual motivation of people who are in power. Power is a tremendously seductive aspect of life for most people, and you have to really, really be careful about how you let people exercise it. The more power in the hands of people who are political leaders, the more opportunity for mischief there is and corruption in the places where the political leadership is the most powerful and have the most corruption because they're in a position to offer you the most, obviously, and that's...there are very few people who are going to relinquish positions of enormous privilege for the betterment of the entire society. It's, you know, that sort of altruism is pretty rare and now I'm sure somebody in the State Department or in the Administration from time to time has suggested to the Saudi ruling family that, you know, it would be a little better if you guys backed off some and kind of let some other people share power and not be in control of this and that, and I don't believe it's gotten very far. And that's the case everywhere, and you see over time people get used to power, are forced to use it to restrain the...

Carol Massar

To keep that power.

Michael Aronstein

...orbits of their fellow citizens and you become, the society becomes more and more and more autocratic until you get to the point of North Korea or parts of Venezuela. They're all on the same course. Argentina, unfortunately, is headed in that direction at this point.

Carol Massar

So again, that's kind of what sets us apart.

Michael Aronstein

Yes.

Carol Massar

I saw one name on your top ten pleasing to the housing area; Eagle Materials.

Michael Aronstein

Yes. We have been, since really October of 2011, we've had a pretty big position in construction-related. It's helped us a lot.

Carol Massar

Do you want to keep it, or do you feel like you've...do you pare back right now, or what?

Michael Aronstein

It probably is going to go through a resting phase. There are a lot of good companies there that don't have a tremendous amount of competition at this point and I'm willing to sit with stocks for a year that don't do anything for us, in the interest of owning them, and I still think...you know, my basic premise is that we're in a bull market, a secular bull market that started in 2008 and you really...every time I get cute and try to sell something and say, you know, in 6 months or 8 months I'll look at it again after it's finished correcting, all of a sudden, the thing...you know, I did that with LinkedIn at about 110. The stock's at 180 now. I keep doing it over and over and over, and you know, once you make that mistake you never buy the stock back. You just sit there and look at it and I'm too old to kick myself very hard.

Carol Massar

Remember the way it was.

Michael Aronstein

Yes, I can't get my leg up there, but...yes, it's...so...

Carol Massar

You gotta move on.

Michael Aronstein

Yes, I'm willing to stay with things that are at a point where they seem extended with the exuberance, maybe, transitory. I don't see people running out to, you know, auction off their jewelry so they can leverage up positions in building materials companies. It's not the sort of terminal excess that really would get me worried...

Carol Massar

And even though the private equity guys are involved in buying up residential homes, you know, for the purpose of kind of renting it...

Michael Aronstein

Yes.

Carol Massar

...you're comfortable with that? That doesn't...to you, because that's bidding up prices?

Michael Aronstein

Yes, it makes perfect sense, though, because there are very few opportunities for return...

Carol Massar

They're looking for yield, I think.

Michael Aronstein

Yes. Cash flow return in semi-passive assets anywhere on earth, and it's...that same dynamic is going to start happening in Europe also. You're going to see it happen in Spain and in Ireland where, you know, there are lots and lots of abandoned or semi-abandoned cheap properties that people would really like to

get out from under. If you have the capital you can buy those and rent them out at prevailing rents or even below prevailing rents and make a really, really nice rate of return, and your purchase cost going in is so low that the chances of losing money on them over time is really slim to none, and that's what the regulators don't get. They're in here preventing people from making excess mortgage...

Carol Massar

Right.

Michael Aronstein

...loans. The idea that anybody's going to lose money on a residential mortgage in the next 5 years at the prices that have prevailed is...

Carol Massar

Not likely.

Michael Aronstein

It's silly. There's no chance, almost.

Carol Massar

Where else do you see opportunity at this point, Mike? And do you like the developed markets?

Michael Aronstein

Yes, we've been putting money in Europe for the last, really, since November of '11 when the ECB embarked on QE1, which was 3 years too late. At least they did it finally...

Carol Massar

Finally got to that point.

Michael Aronstein

We felt that that more or less preempted the collapse of the banking system over there.

Carol Massar

It was a great backstop.

Michael Aronstein

Disorderly run. Yes, they got scared and I've actually said this before. Jon Corzine saved the Euro because when his firm collapsed, they had all these speculative positions in European bonds and they sold them in one week, and all those bonds collapsed, whether it was Spain or Italy or Ireland, and that scared the east. The next week the ECB came out with its announcement saying don't worry, we're going to provide all the money that's necessary to keep us together.

Carol Massar

You really think about that.

Michael Aronstein

Yes!

Carol Massar

So thank you, Jon Corzine.

Michael Aronstein

Yes. That's the only good thing the fellow has done.

Carol Massar

I'm just trying to think. We just have about a minute left. You do have short positions?

Michael Aronstein

Yes, they're mostly in safe assets, things related to fixed income and things related to emerging markets, both stocks and bonds.

Carol Massar

You're worried about fixed income, right?

Michael Aronstein

Yes. Fixed income is one of those things, we have a lot of people over on one side of the boat, and you know that in order to get returns there's been a lot of leverage used in that sector. Can't specify exactly where, but you know, you know people have been playing in traffic there.

Carol Massar

How...you said be careful with fixed income. I've just got about 30 seconds left here. When that comes undone, when rates start to go higher, how ugly might that be in your view?

Michael Aronstein

In the less liquid portions like emerging markets, fixed income, dollar bonds, you could have more volatility than people have imagined. And people own a lot of these because the assumption is that these are not volatile assets. They don't put you through the same emotional turbulence that stocks do going up and down so much, whereas, you know, it might be like the start of a horror movie where you hear noises upstairs and everybody runs and locks themselves in the basement.

Carol Massar

Watch out. Mike, thank you so much. I always feel like I learn a lot when you come on.

Michael Aronstein

Thank you, Carol.

Carol Massar

Mike Aronstein, Marketfield Asset Management.

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