Year End Roundtable Contributors

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As we see 2019 coming to a close, there are more opinions than ever regarding where the markets are headed. We thought this would be a great opportunity to connect with some of the best investment minds and get their views on everything from the Impeachment and Brexit, to the 2020 election and expectations for the stock and bond markets. I know you will enjoy the dialogue as much as I did moderating.

John Mauldin *needs no introduction for most of our readers as they have followed his career as closely as we have. John's audience is massive because of his gift to make complex matters understandable. John has an uncanny way to write about investments in a way that appears timeless, as I can attest having recently reread Bull's Eye Investing that came out 15 years ago. John has been a friend for 20 years and is also a valued partner of PCM.*

John DeTore *may be a newer name for many of you, unless you happened to be at MIT when John was getting his degree in Civil Engineering or teaching at the Sloan School. John was a Quant before most people had ever heard of the word. John now serves as CIO at Capitalogix, a leading edge quant shop in Dallas. We are extremely fortunate for John's willingness to serve on the Investment Committee at PCM.*

Sam Stovall *is a luminary in the investment management world but maybe best known for his unique ability to bring humor to what is often otherwise dry economic data. I could list all of Sam's accolades and accomplishments, they are many, but will simply say that 5 minutes with the man and you become infected with his zeal and passion for what he does. We are grateful to call Sam friend and partner of PCM.*

Clint Pekrul *serves as the Director of Research and Portfolio Manager at PCM and is a prolific writer as well. Clint has written groundbreaking research on incorporating Factors in portfolio allocations. He is a recognized expert on ETF implementation and developing rules-based hedging strategies and oversees the Dynamic Risk Hedged portfolios at PCM when not fly fishing or rooting for OU football.*

Year End Roundtable

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Let's kick things off in a very different way. It is April 2021 and we just completed the first 100 days of the Warren Administration. What are you most concerned or excited about?

JM: I think I'm most concerned about what her executive orders will look like. She's promised that she's going to do away with fracking and I'm not certain you can do that with an executive order. You could most certainly gum-up the works, and at a minimum she can stop fracking on government grounds. That's just one of a dozen things. But it is not anything that Trump didn't do. He came into office and changed a bunch of executive orders that the Obama administration did. We are moving far away from the whole concept of checks and balances, governments passing rules, and Presidents vetoing. That process pushes things back and forth, not giving certainty to businesses. Four years afterword, you get a Republican administration and things change again. That's not good for small businesses who are the main drivers of the economy when they cannot see into the future past a couple years.

Sam, what scares you about this scenario?

SS: I'm most concerned with how quickly stock prices plummeted after the Democrats recaptured the White House and retained control of the House of Representatives. While I can't say I'm excited, I am certainly glad we are not recommending overweighting to the energy or health care sectors. Finally, I can only say that I'm relieved that the Republicans retained a majority in the Senate so that many of the likely business-unfriendly proposals will not make it into law.

John, anything radical happen in that period in your opinion?

JD: Despite one's political leanings, and there are a lot of interesting ideas being kicked about, the market will hate a flirtation with socialism. The market is probably off 20% from November 2020 (or its previous high if it became obvious she was winning earlier than November). Many analysts in April 2021 are looking for a bottom. They are early. Remember the Obama recovery? While he shouldn't be blamed for the financial crisis he inherited, he immediately moved to work on healthcare while we were in the depths of the crisis. Taxes increased, and regulations expanded. We can see how that recovery was different than any others in recent history. I doubt that Warren will do any better with the economy and fear she will do worse.

Clint, I don't suppose you are going to be the optimist in the group?

CP: Well, coming off a -30% decline in the S&P 500 I guess I'm concerned about the calls we get from our clients. I say this in jest. I'm not sure the market would react so adversely. Besides, the market by now will have already priced in the potential downside of a Warren administration. Keep in mind, and I've said this before, markets don't like uncertainty, not the actual policies of any particular administration. Like her or hate her, the markets would have adjusted to her policies, perhaps in a negative way. But who knows, ultimately, there might be some positives about a Warren administration.

Aside from the expected 30% drop in the S&P, that was relatively positive.

Now let's deal with something less fictional.

Political polling has become very unreliable for a host of reasons but I believe economic forecasting error has also risen dramatically. Formerly reliable indicators and data points seem less reliable in today's market. How are you addressing this reality?

CP: Polls are absolutely unreliable, but they do move the markets. Think about the last election in 2016. If you looked at the polls, a Clinton presidency was an absolute certainty. That is until election night, when Trump seemed to "magically" win the presidency. In my point of view, there's really no way to quantify the benefit, or lack thereof, of political polls. From a portfolio management standpoint, polls offer us nothing but noise in my opinion. The forecasted results are not necessarily something you trade on.

Sam, as a frequent speaker at economic events where you make forecasts, how does this impact your work?

SS: One indicator came through in 2016 and should be watched closely in 2020: The Presidential predictor, which reminds us that if the S&P 500 declines from July 31 through October 31, the incumbent person or party has been defeated 90% of the time since WWII. This predictor foretold Donald Trump's election in 2016. As for other indicators, sometimes it depends on how you look at them. Yes, flat-to-inverted yield curves preceded all recessions since 1980, but not all flat-to-invested curves led to recession. They did, however, point to the beginning of a rate-reduction cycle, which happened in 2019 as well.

Your thoughts JD?

JD: Statistical analysis is relatively easy and can be learned in a few college classes. Forecasting is maddeningly hard and often largely based on the forecaster's training, assumptions, biases and experience.

What happened to the notoriously inaccurate polls of 2016?

Party affiliation, likelihood of voting, age, sex, state of residence all affect candidate choice — even the most careful survey will find that the sample pool is different than the total voting population. All pollsters adjust their sample demographics to what they assume the voting population is. But how many of each will show up on the big day?

Many pollsters in 2016 assumed they could use the turnout in 2012. The election had a large black, young, liberal turnout . . . are we surprised given the first black US president was elected? Did we think Hillary would get the same response? Most pollsters did, but does that make sense? Several pollsters, who saw Trump as having a decent chance, were publicly describing this specific statistical error.

Economic forecasting is an art best practiced by people who understand the economy. Which means most of us should stop doing it.

Mr. Mauldin, you regularly write on politics and markets, your thoughts on forecasting error?

JM: I think we have to be aware that even though polls will be taken, they are very unreliable. The methodologies that they are using are unreliable. Who they are talking to is not consistent and the "adjustments" are often influenced by desired outcomes. It is going to drive markets, and you're going to get swings in polls as events happen. Therefore, we are going to have strategies to address that volatility in our portfolios. If you're asking me what I think is going to happen in November of 2020, I have literally no idea.

Let's transition to some brief thoughts on several macroeconomic factors influencing the markets. Let's start with China and how the trade war is resolved?

SS: Now that there is an increasing possibility that President Trump may be impeached, and that the Democratic front runner has her sights trained on domestic industry busting, like energy (fracking in particular), health care (managed care), financials (Wall Street) and technology (internet), China will not likely feel that it needs to be too quick to cave in and will likely hold out for a better deal with the Democrats.

JD: It won't. Trump famously started his trade war tour with claims that it's easy to win a trade war with China because they have so much more to lose. He thought they would be first to resolve and USMCA, the UK post Brexit, Europe, and various Asian markets would follow . . . even India. He is correct they have more to lose . . . much more, since they hardly buy anything from us. But to me this was an obvious tactical mistake by the master negotiator. President Xi feels no pressure. His limo still has fuel, his meals are still exquisite, and there is no political pressure on him. It would benefit their economy to cave to Trump, but they have no incentive. They play the long game.

Trump is right to pressure them and even to play hardball. Maybe we get real intellectual property relief. It will be quite a slog . . . my prediction is there will be a string of broken promises, and once we have concessions they won't live up to their end of the bargain. If Trump is really hard on them, they will just drag their feet for 5 years and try again. It will shave a couple percent off their GDP. No one in China will complain.

JM: It doesn't get resolved. It gets 'phased' if you will. We are going to get a phase of this, a phase of that. The simple fact of the matter is that the world is split into two spheres of influence. The US is starting to realize, and in fact, I've written letters about it, China's motives, which we all thought they would embrace capitalism and come around to look like the United States. However, the Communist Chinese party has never lost its dream of being a top-down authoritarian society. Twitter doesn't even go into China but they decided that they had the power to tell somebody to fire a General Manager for the Houston Rockets. This is the level of arrogance that China has and how they expect the world to work. That's not going to work. They want us to give them all the tools and technology so they can steal or borrow to continue to build their military. They require businesses to provide anything that they feel would be beneficial for the military. Can we engage with them? Yes. There's 1.3 billion Chinese people, and there's 3 million in the Chinese communist party. But it all rolls up to Xi Jinping. That's going to become the central conflict of our time, and will be the defining cold war relationship.

Let's hope it remains a Cold War relationship. Clint, your thoughts on China?

CP: In my opinion, there will be no resolution. I understand Trump's agenda – the Chinese have taken advantage of the US under prior administrations, and the arrangements made have been to the detriment of the average American citizen. I don't necessarily agree with this assessment, but I get the politics behind it. But counter to Trump's point of view, the Chinese will never simply acquiesce and accept his terms. The tariffs are here to stay, and will simply become part of the political dialogue.

So no real hope for progress in the dispute with China — how about the long term impact of Brexit?

JM: It's a very good question, I think it's going to probably be positive "net-net." It is going to lead to a lot of short-term volatility for the markets. I think England will go out and try to do more trade deals. What I'm seeing right now is that there's not going to be much difference in terms of how the UK deals with the EU. So just getting it done, and knowing what the rules are, will be a great relief for everybody.

CP: Probably not much impact. I say this because everything known about Brexit has been priced in. In the short-term, we'll likely see heightened volatility, but nothing that's meaningful from a structural standpoint. In the long-term, I think the UK will ultimately see some favorable trade outcomes. But again, markets have thoroughly assessed these outcomes and have priced them in. However, there could be unexpected shocks that are unknowable and unquantifiable. Position your portfolios accordingly.

JD: I fear the real result is to box Brussels into a difficult position. The UK is leaving because politically the EU is too left-leaning and quick to impose their views on member countries. The UK will survive this better than the EU will. The only saving grace is that the UK was a reluctant participant in the first place . . . retaining the Pound as their currency.

This does open the possibility, though, that the relations with one of our strongest partners improves. US-UK relations are due to be renegotiated and this could be material. In fact, to me this looks like the UK is trading in Europe for the US as their best buddy. I think they will do fine, worry it hurts Europe.

SS: Investors will likely breathe a sigh of relief once Brexit is over. Yet I think the lesson learned from Superstorm Sandy, Brexit and the US/China trade war is the need to decentralize operations, manufacturing and financial centers. Technology will likely play a large role in making it possible to fulfill these obligations from anywhere in the world.

Interesting perspective on the role of technology. Returning to politics for a moment, is Impeachment an actual threat to the markets?

JD: I continue to believe this is political theater and not a serious impeachment case. It's unclear what the charge is or whether the house will even take a vote or get a vote. As for influence on the market, it is probably already there. For instance, if the impeachment effort dissolved, it would be enough for the stock market to eek up to new highs, maybe break through. But if the market begins to believe that the Senate could actually convict . . . the market would react badly.

John, how do your political insiders read the tea leaves?

JM: It certainly could be market moving, it just depends what Democrats want to do. If Pelosi wants to keep it in the intelligence committee, and never really bring it to a vote just so they can trash Trump for three months, and then decide that "we are close enough to the election, we will just let the voters do it," then it is sort-of business as usual. If they actually impeach him, and put it to the Senate, Trump will have full subpoena power. That means you're going to see enormous amounts of information come out about the whole underbelly of what they call the "swamp" or "deep state" that has been opposing Trump. You will see subpoenas for Clapper, and the CIA, the DNC, why Comey put such faith in a memo that came from a former British spy that was paid for by the DNC. Democrats have been trying to impeach Trump since November 2016, before he was even inaugurated. There's this "Trump-mania," and Trump's not my favorite guy. I opposed the way he wanted to do tariffs, but overall, I think that he has done things that are quite positive. Ironically, he's being trashed for what he's doing in the Middle East by pulling our troops out, exactly what Obama said he was going to do during his first and second terms. But as far as the media is concerned, Trump can do no right. Anything that he does is immediately wrong and has to be brought to light and called out.

Sam, what light does history shine on the topic of impeachment?

SS: Even though many just brush off the notion, I think it's hard to say if this impacts the markets. Nixon's near impeachment occurred in 1974, well after the S&P 500 slipped into an OPEC-induced bear market that sliced off 48% from Jan 1973-Oct. 1974. And during the Clinton impeachment, the global economy was already wrestling with the Russian and Latin American debt crises and the collapse of LTCM. This time, it may also make headlines, while not affecting bottom lines.

CP: I don't anticipate much impact. In my assessment, I think the timing of all this is quite politically convenient. The average American, in my opinion, doesn't really care about the alleged goings-on in Russia. To me, the impeachment is nothing more than a political ploy to distract the voter from the fact that the Democrats don't have a legitimate candidate to go head-to-head with Trump in the general election. Furthermore, I think the market realizes this. So no, I don't think impeachment is a threat to the overall stock market.

Let's change our focus to something we all agree with have tremendous impact on the markets, the next recession. Recessions are typically not declared until months after they actually begin. What is the probability the US economy is in a recession by next June that would impact the 2020 election?

Sam, you are the king of statistics, what does your crystal ball say?

SS: Our economics department puts a very low probability of the U.S falling into recession through the end of next year. Other than the sub-2% growth anticipated for Q3 2019, all other quarters through 2020 have 2.1%+ growth estimates. Of course, many are quick to remind us that rarely have economists successfully predicted the start of recession. So, watch out for a fairly reliable indicator — an earnings recession, which is defined by two successive quarters of S&P 500 EPS declines. Since WWII EPS recessions have correctly predicted economic recessions about 75% of the time.

Clint, do you see indicators suggesting a recession in the near future?

CP: Yes, this is the ultimate question! If I knew how to time the economic cycle, I'd be on the Forbes 400 list of the richest people in the world. History tells us that when the economy is doing well — gauged by inflation, unemployment, the overall stock market, etc., — it's tough to remove a standing president seeking another term. People like a good economy (obviously), and attribute its benefits to the guy in the Oval Office. As I mentioned in the previous question, a good economy is a political challenge for the Democrats (hence the impeachment rhetoric). I have no idea if a recession looms next year, but an economic pullback would definitely be an impediment for Trump's re-election.

JM: I think that there is a small probability of that. We can actually be in a recession in the third quarter that wouldn't even be announced until after the election or right on the day of it. So it would be unlikely to impact the election in any meaningful way.

JD: The economy is strong, unemployment low, confidence high. There are small snippets of bad news that come out all the time and are ignored by the stock market. The question implies, I think, that GDP would decline both in the 1st and 2nd quarters of 2020. The combination of full employment, strong profitability and very low rates rarely ever happens. When you are at the summit of a mountain, every path leads downhill. It's not that things aren't good, they are. It's just that that it's hard to see them improving much from here — every macroeconomic variable is maxing out.

Let's go ahead and look at the opposite side of the coin. Consensus seems to suggest the US economy is slowing and that trend will continue. What might cause an unexpected rise in GDP going into 2020?

JD: Well, a cascading set of trade deals now would set us up for that. It will be politically beneficial for Trump to wrap them up soon. So that means 1) he will try real hard, and 2) other countries (and his political adversaries) will use that to their advantage. No idea who will win that one. For instance, look for the house to ignore USMCA until after the election.

Other thoughts on what might drive the economy better than consensus growth?

JM: A real lessening of global tensions and global trade that comes from a real US-China accord, not some of the cosmetics that we are talking about right now. A deeper trade agreement with the UK after Brexit and the EU. Things that would expand the markets and global trade. I don't know if that is going to happen, but since you asked me what could make it go up, and that would make it go up for certain.

SS: I think the reason the S&P 500 recently set a new all-time high is that even though GDP growth projections and EPS estimates continued to be shaved, investors likely foresee favorable resolutions to global uncertainties, resulting in an anticipated reversal of the declining GDP and EPS trends.

CP: Surprise earnings to the upside could bolster GDP, and likely offset any drag imposed by the US-China tariffs and the impeachment proceedings. But from what I can tell, and what the consensus is telling me, there aren't too many green shoots out there to bolster GDP.

There at least seems to be consensus that growth going into 2020 will be muted. The Fed takes its cue from the economy, so it is unusual with virtually full employment and strong wage growth that they are cutting rates and almost everyone expects QE4. Any non-consensus views about the Fed's policy going forward?

John, you have been referred to as a Fed critic, take the first swing.

JM: Well we are already in QE4, they can call it what they want to. The balance sheet of the Fed is rising fairly dramatically and we are already back to where we were when we began about a year ago. I have always been critical of them reducing the balance sheet and cutting rates at the same time. It was a two-variable experiment with too many unknowns. Some of the tighter monetary policy clearly led to the REPO problems and other instability. But we do not know which variable — higher rates or balance sheet reductions — to blame. I'm skeptical if monetary policy is going to be able to, in and of itself, do very much in the next recession.

Clint, will it continue to be Fed to the rescue?

CP: I, along with many other professionals in the financial markets, have trouble understanding what the Fed's agenda is. To your question, if the economy, by all measures, is at full employment and inflation is at or close to target, then why lower rates and extend QE? The answer, in part, is that the Fed has no choice. To think that the Central Bank is immune to the political whims of the Presidency, or the fact that the US is the last developed economy with positive rates, is naive. For what it's worth, my take, and the consensus, is that rates are going to stay lower for longer, despite any reading on inflation and employment.

SS: I think the Fed is cutting rates for two reasons: 1) they believe that because of the US/China trade discord, combined with a Congress that is incapable of agreeing on anything economically stimulative (like a much-needed infrastructure bill), they are the only remaining force capable of encouraging economic expansion, and 2) they want to reduce the attractiveness of US fixed income, thereby easing in the value of the US dollar, which could enhance the affordability of our imports to non-tariff countries.

Your thoughts, Mr. DeTore?

JD: Well they are cutting rates not because the economy is weak, but because they figured out that they overdid it in 2018 with raising the rate. It started out too low, they raised it too much, and are now in the process of fixing it.

Earnings season started strong with better-than-expected results from banks. Are initial results going to be reflective of the broad market's earnings for the remainder of 2019?

Let's start with the statistician.

SS: I think so. The S&P 500's actual results ended up outpacing end-of-quarter estimates in each of the last 30 quarters, with the average beat rate being close to four percentage points. This quarter, consensus estimates called for a 3.8% decline, so should history repeat (and there's no guarantee it will) we may be able to poke our heads above water.

Mr. Mauldin?

JM: I don't have any idea. I do not deal with earnings.

Your expectations, John?

JD: Earnings are not going to be a problem for us. Last year, earnings benefitted from very substantial corporate tax relief and deregulation. This will continue for several years, but the benefit is front-loaded, and the tailwind will ease off.

We fall into the trap of looking at year-over-year EPS growth to judge the strength of our public companies. They are earning good money! Profits are not being driven down by any undue systematic force. Even if they don't grow fast, they are still quite profitable.

CP: We're flirting with record highs on the S&P 500 with broad support beyond the banks. According to FactSet, 78% of companies reporting earnings thus far (roughly 38%) have beaten expectations. So the backdrop is set so far for a rational move higher in equities.

Now let's get to a question that readers are hoping will get asked. Looking out 12 months, just prior to the 2020 election, do you believe the stock market will be higher, lower, or generally flat from today's level?

JD: The market assumes Trump will win and very much will want Trump to win, if only to avoid the painful experiment with far-left policies of the current Democratic candidates. You would think Trump would be unbeatable given the success of the economy and a democratic candidate pool that is oddly positioned to the left of the Democratic party in general.

But there really is Trump Derangement Syndrome (TDS) in the country today . . . don't remember there ever being a President with such venomous negatives since Nixon . . . right before his resignation. So, we can't assume. And Hillary might get in the race which will cause the market to take off if only for the entertainment value. The answer to the question is that I am biased to the market being higher. If it looks like Trump will probably lose, the market will have a hard time with this and could be off quite a bit.

What does your crystal ball suggest Clint?

CP: I really have no idea. We build our portfolios based on the assumption that long-term, you need exposure to equities. I think equity prices in general (based on an index like the S&P) will be higher twenty years from now, but to what degree is unknowable. My assumption is that a Trump administration is more favorable for markets than say, a Warren or Biden presidency in the short run. Of course, short-term performance can swing elections (think 2008), which in turn can drive the markets, so there's a feedback loop. But looking out a year from now and telling you where the markets will be isn't something I can prescribe with any degree of confidence.

Care to take a stab, John?

JM: I would expect it to be lower and we are going into a recession, we've had the inverted yield curve. You look out 12 to 18 months, and you start seeing the economy roll over, but the market anticipates that. Historically speaking, I would expect it to be lower. How much? I do not know.

Finally, Sam, what is your forecast?

SS: I think the S&P 500 will be higher, because we foresee an 8% increase in S&P 500 operating EPS, while inflation is projected to remain tame. Therefore, we see "fair value" for the 500 as being close to 3200. That said, should it look like the President's reelection possibility is getting increasingly vulnerable, the three-months ending October 31, 2020 should be lower.

Moving to Fixed Income, the search for yield has not gotten any easier in 2019. What concerns do you have for pension plans and retirees who require steady income?

SS: I'm concerned that they will disregard risk and shop exclusively for yield. That would put their principal at risk. In addition, income investors who own stocks need to remind themselves that they should think like landlords, not traders. Focus on a stock's ability to consistently pay the dividend, and possibly even grow it, on an annual basis. They should then look to price weakness as opportunities to add to holdings, not run from them.

CP: I have many concerns. How are retirees supposed to fund their lives when yields are essentially zero? There may be smaller pockets of investment opportunities, but these in large measure are not available to the average pension investor. So, with bonds not being the "go-to" asset, pension fund trustees naturally extend their risk budgets into dividend-paying stocks (e.g. REITs, utilities, etc.), which under historical norms would never qualify as a suitable investment due to the volatility. Bottom line, these pension pools might be essentially over-leveraging, and ultimately that doesn't end well.

JD: A lot of concern. Long-term rates in fact act like a negotiation between generations. Retirees, who need income, lend their life assets to young families, who borrow for home formation. As discussed earlier, long-term rates are too low. While "too-low" rates do in general stimulate the economy, they have lots of awkward or even negative side effects.

Not to sound all 50's about it, but the solution for income for retirees (that don't pursue active management) might be to seek out strong US public companies that have significant dividend yields. The S&P yield is now competitive with bonds. Remember also that we have gone through a multi-decade process of accepting that stock-buybacks are often preferred by investors to dividend yield. You don't just get the dividend payment, you get the buybacks in the form of capital appreciation.

Those who are interested in alpha should find approaches that will work in the new environment. The three major sources of return available to typical US investors are bond yields, stock market, and the return from active management.

There has been a mass exodus from active management into index funds and ETFs. So many people I talk to say they don't want to take the risk of active management. But an S&P index fund has more risk than most retirees should take with the core of their assets. Active management in general needs a careful new look by investors.

John, you are close to launching a fixed income strategy, what are your thoughts?

JM: Well, pension plans have the option of going after private income. But the problem is that they are so big, they can't deploy money into smaller, potentially higher-yielding funds. And retirees are too small to qualify into private funds, so they are forced into funds themselves. I think we are going to see a real resurgence in good yielding dividend stocks, closed-end funds that pay dividends. But I believe it is going to be a reach for yields, and I don't see how that changes.

Switzerland, Germany and Japan have negative yields going well out on the yield curve. Do you expect negative yields at any point in the US?

CP: This is the million-dollar question. Can the US, as the world's reserve currency, continue to be a yield oasis? How can we continue to offer positive real yields, when the rest of the global economy is under water? What I find interesting is how the narrative has changed — basically 180 degrees — from a few years ago, when rates were supposed to be coordinated higher. Former Fed chair Alan Greenspan essentially said that a zero bound on rates is illusionary. Why invest at negative rates? Well, if you think prices overall are going to fall going forward, lose less today than risk deflation down the road. The implications of negative rates are well beyond the scope of this report, but I don't think the US will ultimately be immune to the zero to negative yield trend overseas.

JD: No . . . but I didn't think they would go as low as they have so far either. I've heard educated arguments that falling yields are a counter-intuitive result of too much government debt. But this just seems wrong-headed to me. I brought it up earlier: the yield of bonds is set by supply and demand. Supply is certainly up given our deficit spending, but, counter-intuitively, rates are down. I am left with only one good answer: demand is up more than supply.

My suspicion is that the culprit is the post 2008 waves of regulation with its haircuts to allowed leverage, and complex capital ratios that SO favor first world sovereign bonds. I see no reason so many would be willing to hold a bond at negative rates unless they really had no legal choice. The sky is not falling, there are many great places to invest capital for positive rates. To answer the question, sooner or later we will better understand why negative rates happen. We should try and fix it. If we don't, it's probably a matter of time until it happens here.

JM: I don't expect them, and I would be really disappointed and shocked if that occurred with the world's reserve currency. I think that would have incredibly bad consequences.

SS: No. Mainly because our Federal Reserve has been able to see that these negative rates elsewhere have proved ineffective. If anything, negative rates may have backfired from an investor behavior perspective, as they likely fear that even worse times lie ahead and that they would be better off not putting their capital at risk through investing.

One final question that will make you think just a little bit. If I gave you a magic wand that allowed you to change just one thing about the financial markets or investing, what would it be?

SS: To stop myself from allowing emotions to influence my investment decisions. However, I may have come up with my own magic wand a few years back when I wrote a book on rules-based sector rotation strategies called The Seven Rules of Wall Street. As a result, I now have the opportunity to share some of these rules with my fellow emotional investors through rules-based portfolios now offered through PCM!

Wow! You not only will get to see a spike in your book sales, Sam but you get extra credit points for mentioning that your strategies can be accessed through PCM.

John, you must have some thoughts on how to use market omnipotence?

JM: I would completely revamp the tax code, stick in a value-added tax, lower the overall income tax, and balance the US budget. I think that would have an enormously positive outcome on the markets. Now, there's all sorts of nuances, and 100 questions that pop up when I say that I simply want to do those things. There's actually a Democratic candidate who's proposing essentially the same thing. I did an op ed with Steve Moore on the subject four years ago in 2016. Nobody's worried about deficits, and I think they are going to be the real problem in the 2020s. We are going to have a $45 trillion-dollar total debt, $15 to $20 trillion dollars on the Fed balance sheet, and it gets worse as you go around the world. I am not sure how we are going to deal with all this debt — we literally cannot pay it. And at some point, we are going to have to recognize that we cannot make those payments. Either that, or we take everything negative, which is not good, certainly not good for savers, not good for retirees. We are painting ourselves into a really tough corner here.

As ruler of Oz, what does John DeTore do?

JD: I seriously wish I had invented high-frequency trading back when it was fun and innovative. I promise I would put my $B's to good use. But seriously, I wish we would pass legislation (tax or regulation) that made it attractive to spinoff companies rather than merge them. Many evils in our economy stem from too few firms that are too large and influential (drugs, tech, banking). This is doable and would affect income disparity more than any of the proposals I hear from politicians. It would add many more senior and middle managers who are talented and can drive innovation better with some independence.

And finally, Clint, as ruler of the financial world, what would you implement?

CP: My response might be a bit off, but if I had that magic wand, I'd spread financial literacy across the public. There are so many instances where the average person does not understand basic finance, such as compound interest and growing wealth through investments. There are basic things anybody can do to help their financial situation, and the foremost is not living beyond your means (i.e. going into debt). Why save a portion of your paycheck to a retirement plan? It's only a few bucks. But over time, compounding works to your benefit, and can lead to a comfortable retirement. Simply avoiding credit card debt can increase your personal rate of return. I could go on and on, but my magic wand would help a lot of people.

And there we have it, we end with nobility.

Thank each of you for sharing your market insight and collective wisdom, this was a lot of fun.

Roundtable Contributor Bios

John Mauldin

John Mauldin is a renowned financial expert, a New York Times best-selling author, and a pioneering online commentator. Each week, over one million readers turn to Mauldin for his penetrating view on Wall Street, global markets, and economic history. Mauldin's weekly e-newsletter, Thoughts from the Frontline, was one of the first publications to provide investors with free, unbiased information and guidance. Today, it is the most widely distributed investment newsletter in the world. Mauldin is a frequent contributor to publications including The Financial Times and The Daily Reckoning, as well as a regular guest on CNBC, Yahoo Tech Ticker, and Bloomberg TV. His books have appeared on the New York Times Best Seller list four times. He also edits the free weekly e-letter Outside the Box. Mauldin is the President of Mauldin Solutions, an investment advisory firm registered with multiple states. He is also a registered representative of Mauldin Securities, a FINRA-registered broker-dealer. Mauldin is one of the founders of Adopting Children Together, the largest adoption support group in Texas. Mauldin earned his Bachelor of Arts degree from Rice University in 1972 and his Master of Divinity degree from Southwestern Baptist Theological Seminary in 1974.

Sam Stovall, CFP®

As Chief Investment Strategist, Sam Stovall serves as analyst, publisher and communicator of CFRA's outlooks for the economy, market, and sectors. He is the Chairman of the CFRA Investment Policy Committee, where he focuses on market history and valuations, as well as industry momentum strategies. Sam is the author of The Seven Rules of Wall Street, and writes weekly "Sector Watch" and "Investment Policy Committee meeting notes" on CFRA's MarketScope Advisor platform. His work is also found in CFRA's flagship weekly newsletter The Outlook.

Prior to joining CFRA, Sam was Managing Director and Chief Investment Strategist at S&P Global for more than 27 years, and served as Editor In Chief at Argus Research, an independent investment research firm in New York City. He received an M.B.A. in Finance from New York University and a B.A. in History/Education from Muhlenberg College, in Allentown, Pa. Sam is also a Certified Financial Planner.

Sam's volunteer efforts center on financial literacy. He is a board member of W!SE (Working in Support of Education), an educational not-for-profit that aims to improve the lives of young people through programs that develop financial literacy and readiness for college and careers. He is also a Trustee of Muhlenberg College.

John DeTore

Mr. DeTore serves as the Chief Investment Officer for Capitalogix Investment Management, LP. In addition, he heads the Company's Data Science, Research, and Trading Departments.

In 2001, Mr. DeTore founded and served as the Chief Investment Officer of United Alpha, a quantitative multi-strategy hedge fund. From 1994 to 2000, Mr. DeTore served as the founding Quantitative Research Director for Putnam Investments. He served in the same capacity at Wellington Management from 1986 to 1994.

In addition, Mr. DeTore designed and taught a course on the principles of active management at the Massachusetts Institute of Technology Sloan School of Business from 2008 to 2014.

Clint Pekrul, CFA

Clint Pekrul, CFA is Head of Research at Peak Capital Management (PCM), and is responsible for the development and implementation of the firm's quantitatively driven strategies. Clint has over 16 years of industry experience. Prior to joining PCM, Clint worked in the asset management group at Curian Capital, a registered investment advisor, where he managed $2BB in managed risk strategies. Clint is often heralded as a pioneer in creating and managing portfolios using ETF's. Clint holds a B.S. in business administration from the University of Oklahoma, and is a Chartered Financial Analyst. Clint resides in Denver where he enjoys fly fishing when he is not managing portfolios.

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