



Transcript: Market Risk & The 'All-Terrain' Portfolio

Featuring: Vitaliy Katsenelson

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Synopsis: For more than a decade, The Fed has “groomed the slopes” of financial markets — but what will happen to markets when conditions on the ground melt away? Tony Greer sits down with Vitaliy Katsenelson, CEO & CIO of Investment Management Associates, to unpack the risks and opportunities. The pair get specific about how they are constructing multi-asset portfolios today and discuss the broader strategies that investors can apply during times of rising uncertainty. Filmed on October 16, 2019 in New York.

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VITALIY KATSENELSON: Macro picture overall is that way, to make things even more interesting, now you have a rise of nationalism. That's a very type of macro picture. Then you look at the valuation of the US market and you basically travels to the valuation of 1999 or 1929. Stocks are expensive. This is the terrain in front of us. How does one construct a portfolio for that? You basically want to own companies as if things hit the fan basically.

TONY GREER: I'm Tony Greer, editor of The Morning Navigator newsletter. I'm excited for my conversation today with my friend Vitaliy Katsenelson. He's a diehard value investor. He's a published author and CEO of Denver based investment firm, IMA. Vitaliy, how are you today?

VITALIY KATSENELSON: It's my pleasure. Great, thank you.

TONY GREER: Good. Man, thanks for joining us today. I appreciate it. I was first drawn to your work of your market analysis by the metaphors that you use to music and art. I started reading your newsletter and I love that you open up every day usually with something mind expanding and not drilling right down into the markets. How do you come up with the metaphors? How does the art relate to the market so easily for you?

VITALIY KATSENELSON: Well, I'd spent a lot of time in the morning sit in a dark room staring at a computer and it's almost like meditation in itself. When you write, you try to find a way to explain something that is complex in an easier way and metaphors are usually a way to do this. Then I love art. I love classical music. I'm just-- life is too short. If I just write about, just write about investing itself.

TONY GREER: Yeah, that's so true. I couldn't agree more. I couldn't agree more. Sometimes when you see something in the markets, it becomes naturally in your head. You're like, oh, that's just like a song or it reminds me of a painting.

VITALIY KATSENELSON: You would have, it's actually interesting. If you write and I write every day for an hour and a half a day. If you write, you start thinking like a writer and what I mean by this, you start looking for metaphors. Actually, this is perfect analogy. I live in Denver and hundred miles away from a lot of ski resorts, and I skied for a long time, and I thought I was a good skier. I thought I was a good skier because it was hidden in Keystone, with the mountains, [indiscernible] of this small resort and the mountain's perfectly groomed. I was always the first one down the mountain, and I felt like I'm a very good skier.

Then one day, I went to Vail and it snowed a lot. The snow was very deep, and it was horrible. I would fall like every five minutes and I turned my shoulder actually. How does it relate to the market? Here is the analogy. If you were invested in the market the last 10 years, then basically, if Federal Reserve basically groomed the slopes, like skiing in Keystone, so you think you have a great perfect form, etc. Except this is not the real market. At some point, you're going to have a real market and it's going to snow a lot and you're going to find out that you're probably not as good of an investor as you thought you are. Just because the slopes were not be perfectly grown. That is the analogy.

TONY GREER: Perfect analogy. You've opened somebody's eyes with just such a simple, simple story. It relates right directly to the markets. Now, let me ask you another question, Vitaliy. How were you so inspired by the financial markets? When did they finally become something in your life that you decided, okay, this is something that I want to do and pursue?

VITALIY KATSENELSON: I grew up in Russia, in Soviet Russia, not just Russia, Soviet Russia, so I knew very little about financial markets. When I thought about investing, my images would be very close to traded places wherein they were trading out and all orange futures and whatever. I always thought investing is basically a lot of people yelling at the Stock Exchange. That's what I thought investing was.

When I came to the United States, I was very good with computers. I knew nothing about investing. I was going through majors in college like, Tim Hardin was going through girlfriends, how's that?

TONY GREER: The analogy is coming, I get this.

VITALIY KATSENELSON: Anyway, and then I got a job with an investment firm. They hired me because I was good with computers, and the Bloomberg terminal and I started talking to other portfolio managers. I realized, okay, this is what I want to do. At that point, my life became much simpler because I realized, I changed my major for the last time to finance. That was it.

TONY GREER: That's amazing. I find it amazing that you pivoted toward finance and decided that your life became much simpler.

VITALIY KATSENELSON: Well, because at this point, I knew once you have a focus, then it's--

TONY GREER: You can become more single-minded about your career. Totally, totally, very cool. Along the lines of the awesome metaphors that you construct, I was listening to a podcast that you did, and I really enjoyed where you went over your all-terrain portfolio. Tell me a little bit about that because I think that our audience would appreciate it.

VITALIY KATSENELSON: To talk about all-terrain portfolio, we're going to talk about the macro picture. If you look at the economy, not just the US economy, but global economy, you'll realize that, if you look at the US, our market, our debt has doubled over the last 10 years and interest rates are lower probably now than they were 10 years ago, or close to that. If you look at Europe, the picture is very similar, except you have a union of-- you have a dysfunctional marriage of a lot of countries. It's a very big, dysfunctional marriage.

Then you look at China, and you see that this is an enormous bubble, which as you can-- it's been going on for so long, it's like you don't want to talk about it anymore but it's an enormous bubble. You have a huge overcapacity, the debt probably quadrupled the last 10 years. Then you look at Japan and Japan is basically the most indebted nation in the world in a first world country, at least. The population is shrinking, and if you look at their debt per capita actually has growing faster rate than debt to GDP.

Macro picture overall is not great. To make things even more interesting, now, you have a rise of nationalism, which we were seeing today. That's a very tepid macro picture. Then you look at the valuation of US market, and you basically, travels to the valuation of 1999 or 1929. Stocks are expensive.



This is the terrain in coming and find us. How does one construct a portfolio for that? You basically want to own companies as if things hit the fan basically. Let's go back to the analogies, if you owned like a Range

Rover or a jeep of, over the last 10 years, probably does not benefit you because you were beat by very fast cars like Ferraris, etc. Ferraris are great when you have this perfectly paved road. The problem is that's not the road most likely going to be ahead of us so therefore you want to own stocks that can get through this. One of those stocks, companies that have significant competitive advantage that basically, high quality companies, significant competitive advantage, high recurrence of revenue, very little debt, whose business is very-- it's not cyclical and not tied to health of the economy overall.

TONY GREER: We're going bottom up looking for the companies from bottom up, rather than top down trying to decide what sectors we should play.

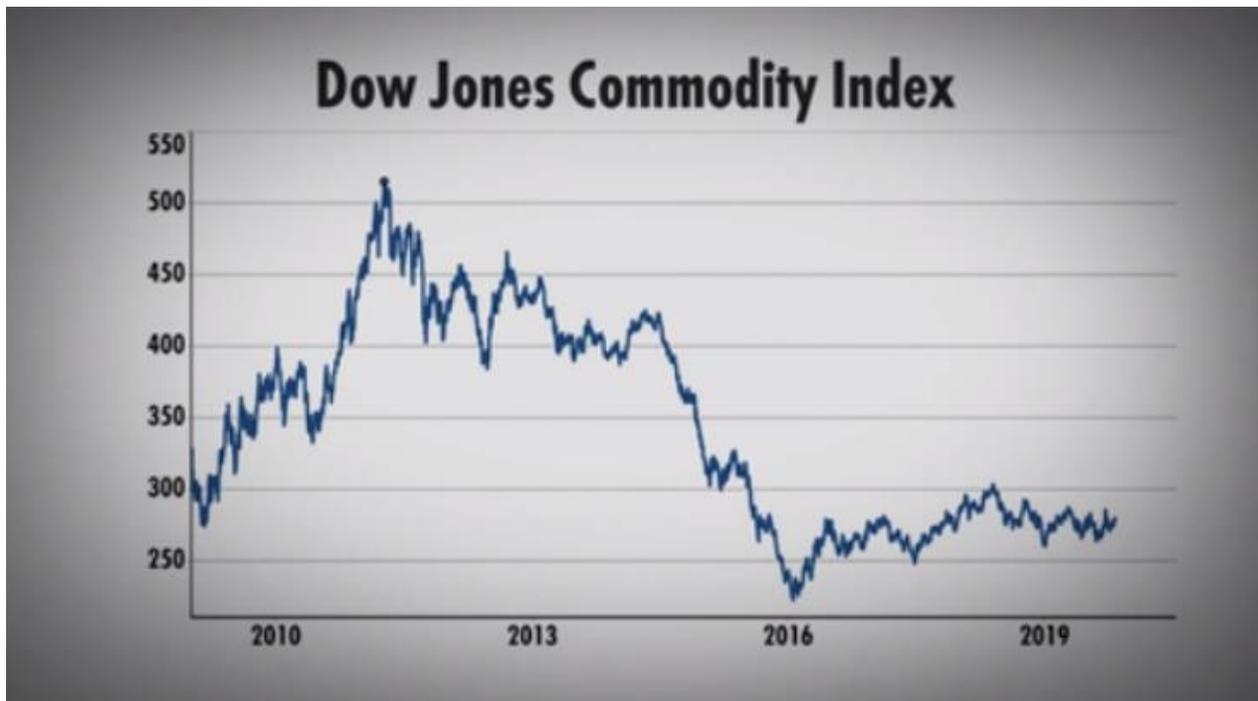
VITALIY KATSENELSON: This is interesting. You're absolutely right, but investing is not-- when somebody asked me are you a top down investor or a bottom up investor, I would call it I think, somebody who said, I'm going liquid and they said they worry about top down and they missed bottom up. All the things that describe about the global economy, you have to be aware of them if you're a bottom up investor because when you value company, the value of any asset is a present value of its future cash flow. You can't really do analysis into the future cash flows and not be aware of factors that might influence them.

As a bottom up investor, you can't just be ignorant about what's going on around you anymore. It's interesting. In the past, before 2008, value investors were very proud that-- we said we don't worry about economy, we don't worry about--

TONY GREER: Agnostic. Yeah.

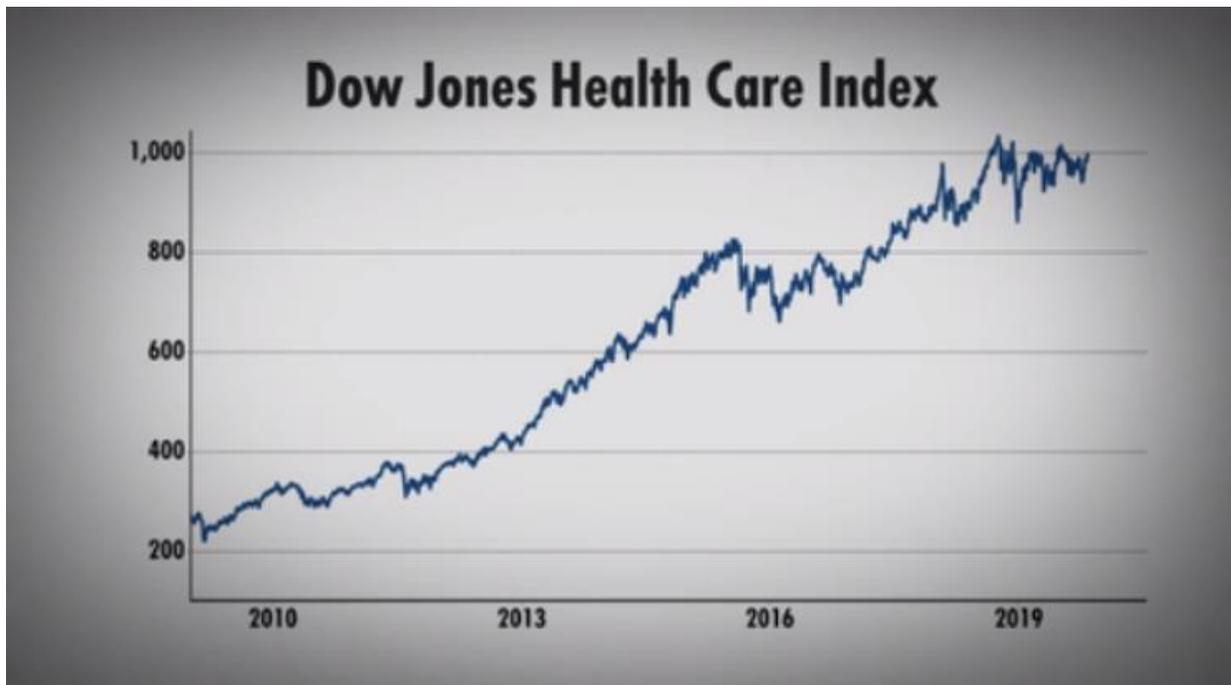
VITALIY KATSENELSON: Yeah. I think a lot of them got that idea from Warren Buffett. Warren Buffett said, I don't care what the Federal Reserve will do next month, except that they misunderstood Buffett. What Buffett said he doesn't care about short term, but it doesn't mean he doesn't care about long term. The way I look at the macro forecasting for value investor, you basically don't want to worry about weather because if you try to predict the weather, which is my mind would be trying to predict what the Federal Reserve will do the next three months or six months, you will spend a huge amount of energy into something that has a very short term shelf life because you have to keep doing it every three months.

However, as a value investor you want to be looking out for climate change events, like you want to be a climatologist looking for big shifts that may impact you in the long run. I'll give you just one example. If you look at China, for instance, and if you ignored what's going on in China, you basically would have probably overexposed to commodities because China was the largest incremental consumer of commodities, so then, you would have been annihilated in commodities. As an investor, we looked at what's going on in China and I've spent a lot of time talking about it, and then we avoided the carnage that came from commodities. That's an example.



TONY GREER: No, it's very smart. It's very smart. While you're going over this, I'm trying to go over my portfolio to decide if I have enough rough terrain stocks in it. Can we talk about some of the stocks that you think will make it through? Like, in my mind, I'm going through names that are like-- I'm trying to pick out refineries or tech companies that I think that are going to be not as affected by an economic slowdown or things like that, or maybe an industrial company that sells razor blades is going to be saved through a pullback and an economic recession. What companies do you want to buy?

VITALIY KATSENELSON: We have a lot of exposure to health care. If you look at healthcare sec-- so the famous bank robber who said, why do you rob banks-- when asked, why do you rob banks, he said that's where the money is. As a value investor, we gravitated towards the healthcare companies because that's the sector that checks off a lot of boxes.



TONY GREER: Yeah. Constant cash flow.

VITALIY KATSENELSON: Yeah, it's a rising demand. You have very predictable cash flows, have a pricing power and you have the most very good balance sheets, which is very important. One factor we haven't discussed yet, they have very compelling valuations because it is a sector overall. It's probably one of the cheapest sectors today, outside of maybe world stocks, but that's probably one of the most attractive sectors overall, and that we have a lot of exposure to that.

TONY GREER: Really interesting. I like it. Is there a place for commodities in your portfolio?

VITALIY KATSENELSON: When you talk about commodities, let's break them up into--

TONY GREER: Let's do that. I can break them up into individuals if you want.

VITALIY KATSENELSON: No. But to me, it's like you have industrial commodities and you have precious metals, so two different commodities.

TONY GREER: Let's start with precious metals.

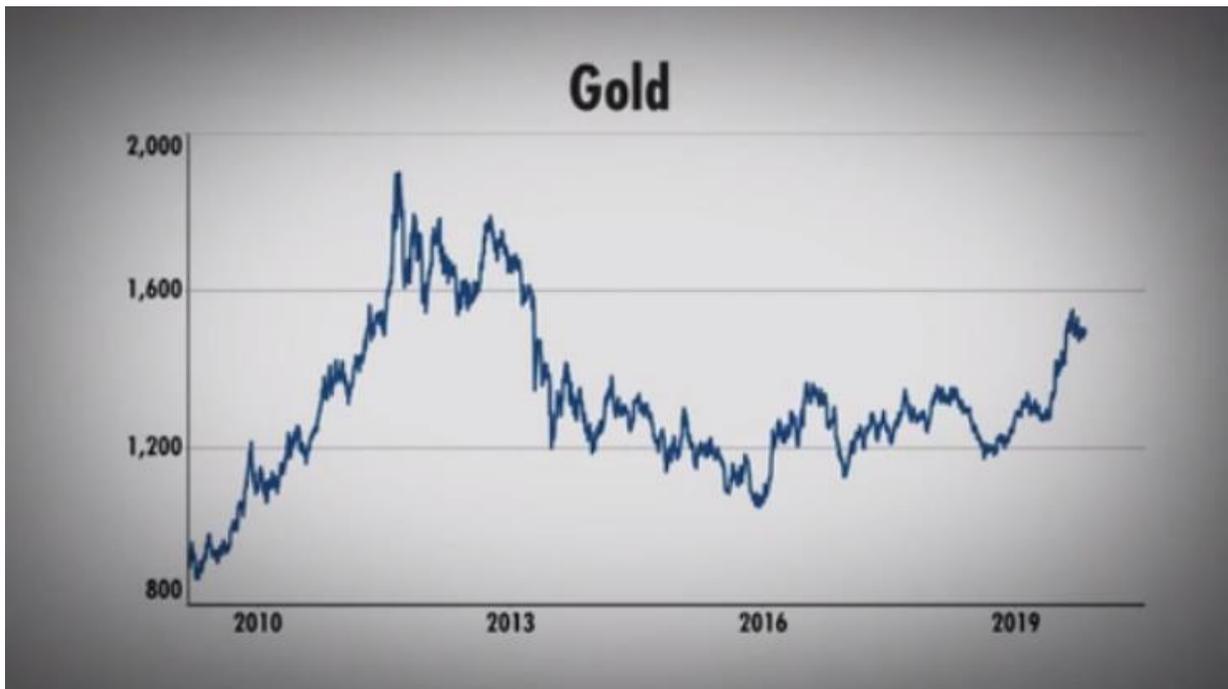
VITALIY KATSENELSON: That would be gold.

TONY GREER: Gold and silver.

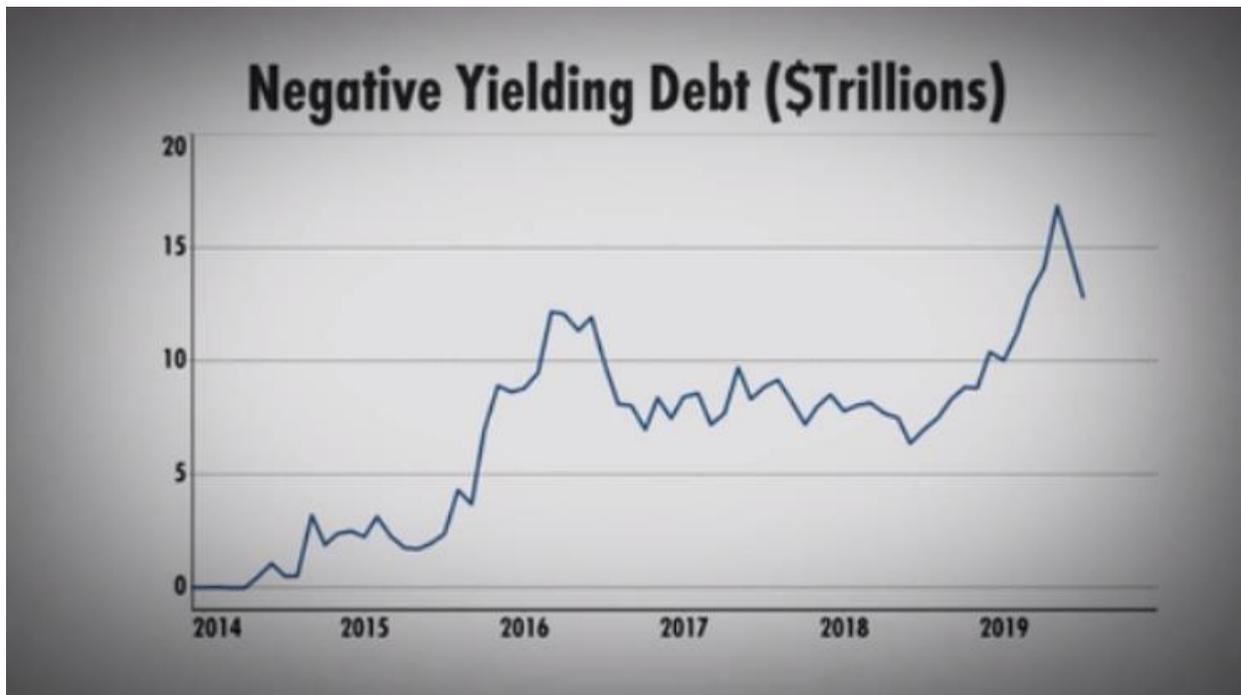
VITALIY KATSENELSON: Yeah, gold and silver. I probably would put silver somewhere in between because it's tough, precious-- half of it is used for--

TONY GREER: Partially industrial. Partially precious.

VITALIY KATSENELSON: Well, gold is a lot more-- if you and I talked 10 years ago, here's what I would have told you. I said gold to me is uninvestable. Here's why. As a value investor, it's very important for me to be rational. The way I can be rational, [indiscernible] a company and actually I get a fairly good idea how much it's worth. You and I can have a debate how much Microsoft worth, et cetera. We're going to have a range.



Because gold, it's very difficult to have this debate because it has no cash flows. It has a cost of carry, if you actually own physical gold, and you put it in the bank actually. Yeah, there's storage cost. I would have told you that gold is not something that volume does not have it all. Today, we still don't own gold, but I'm gradually warm enough to it. Here's why. We live in the world today where \$17 trillion of debt has negative interest rate, like the world's negative interest rates. I don't even understand what it means. Like it's like something like--



TONY GREER: Like an oxymoron.

VITALIY KATSENELSON: Yeah, it's an oxymoron. Because if I give you \$100 and you pay me back \$90, you would call the default.

TONY GREER: No, it's true. Such a great point. The market's trying to figure out exactly what it is in my opinion and I don't think anybody has the answer.

VITALIY KATSENELSON: That's right. What's interesting about this that in the past, how policy was-- US policy was we want to have a stronger dollar. Today, we are literally trying to compete with other countries that have either zero interest rates or negative interest rates to try our interest rates down. You basically operate, we are going towards the command control economy of Soviet Russia where the most important commodity in the world, which is price of money, is set by central bankers.

Therefore when you do this, the markets are losing the signal mechanism, because there is the reason why market forces set price for commodities or whatever, goods, because if there's too much demand for it and the price goes up, it's produce more.

TONY GREER: The signals, yeah.

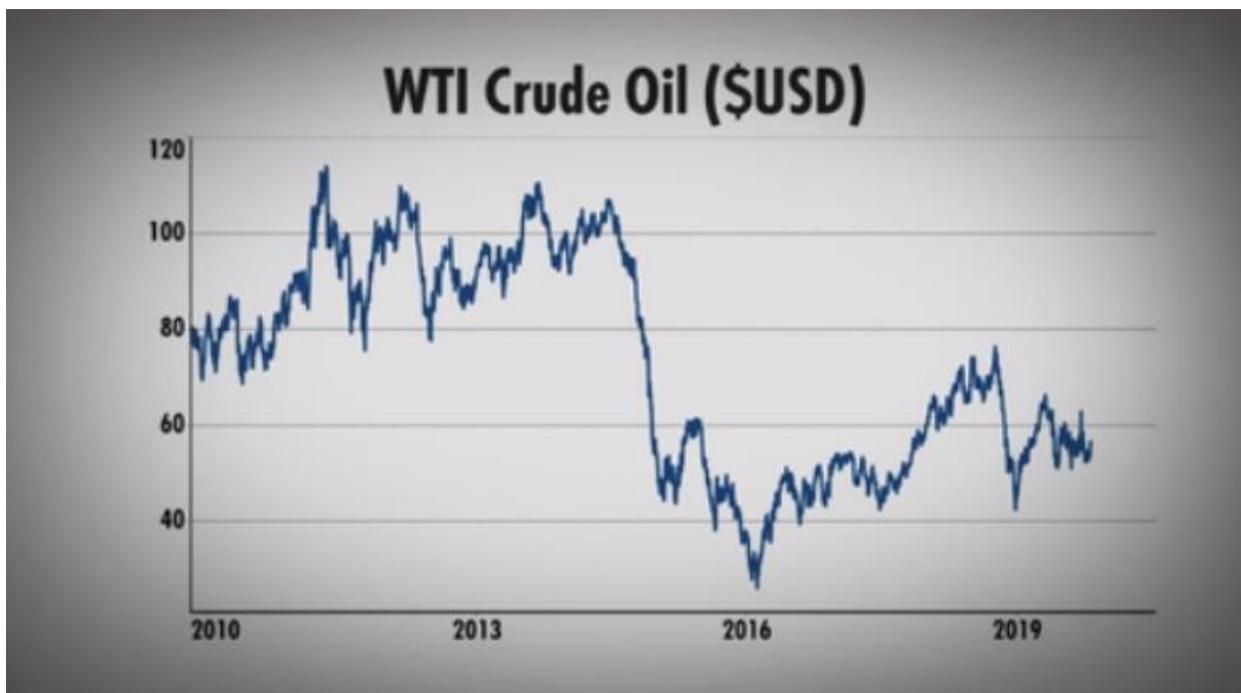
VITALIY KATSENELSON: Yeah, that's right. The signaling mechanism has been damaged by central bankers today. We are in the world where you have negative interest rates so suddenly, gold does not sound as crazy anymore. To be fair, we don't own gold yet and we're still trying to figure out what's the

best way to invest in gold. We don't want to actually buy an ETF, there are other alternatives. Let's talk about this one precious metal.

When you talk about industrial commodities, it becomes more difficult to me because for the most part, their prices is set with the supply and demand. If you're concerned about the health of the global economy, then you understand where the problems with future demand maybe, and especially, problems with China. Usually these companies, and I'm generalizing right now, are not very good businesses. Usually, lot of debt, very cyclical, low return on capital.

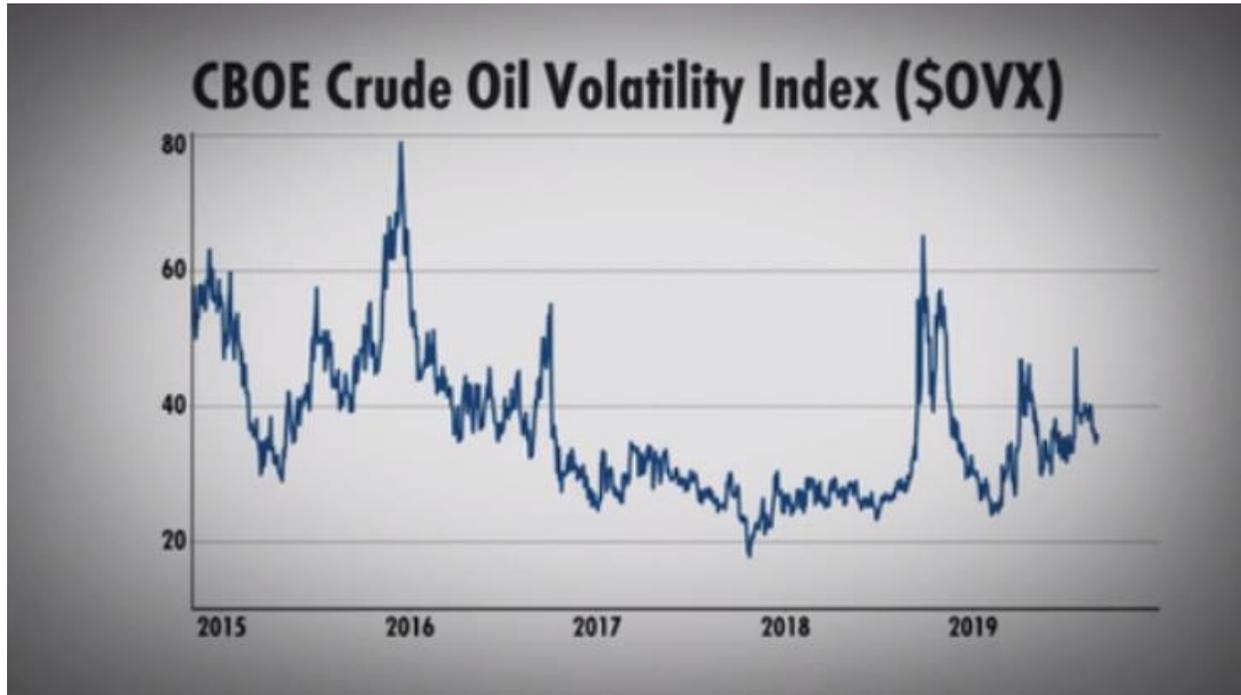
TONY GREER: Dangerous mining operations. There's all kind of hurdles for base metals, not to mention that sometimes, they go off in different directions like now, we've got the price of nickel rallying because of what's going on in Indonesia, and generally, copper and aluminum are just getting hit now with fears of demand destruction. They're a little bit difficult to keep track on. What about oil? Before we leave the commodity space, I want to know if you have a strong view there.

VITALIY KATSENELSON: Oil, and we have low exposure to today but in the short run, I would say probably I would be bullish. Then in the long run, I'm bearish. The only reason bullish I mean in the short term just because price the world was very low for a while, and that probably destroyed a lot of supply. This is a generalist in the cycles before and this is might open up a big can of worms, but in the long run, I think electric vehicles are the future. Therefore, that's a big headwind for the oil industry.



TONY GREER: In the long run, I would tend to agree that that is going to be a headwind but I'm also like you. I'm very bullish in the short run because of the geopolitical situation is changing so dramatically right now that I just think the risk premium on oil is too low. That's something that we can argue about forever,

because I've just been trying to express it by being long oil volatility because it's been gyrating so aggressively back and forth. We don't have to pick a direction on that now. This does probably relate to another research project that you've worked very diligently on when you say electric cars are the future. Tell me what you think about, we should get a drumroll or something here, but I would love to hear what you think about Tesla.



VITALIY KATSENELSON: Okay. There's a preface to the story. I made a reservation for Model 3 in 2015 I think when they just announced it, for \$35,000. Two and a half years later, I get an email that you can go buy your car, so like I got to the showroom, they don't have a Model 3 from its test drive and the car that I thought was going to cost me \$35,000 now, cost me a lot more etc. Long story short, I got my thousand dollars back and that was it.



Three months ago, I actually bought Model 3. At this point, few things changed. The pricing gets much better. They came out with a four-wheel drive car and I was able to test drive it. Now, when a person buys a car, likes it and just enjoys driving it so I enjoyed driving the two but then I sit down and roll 37-page article net. We'll call it an article, probably up to 37 pages. You can't really call it an article anymore, but it was--

TONY GREER: A short story.

VITALIY KATSENELSON: Yeah. It's like a mini-book. One thing I realized, electric car is the car of the future. I didn't say Tesla. Which is that's a different conclusion, but electric cars are car of the future for couple reasons. Number one, it's a much better vehicle. It's much faster, it's a much simpler vehicle. The normal car has about-- the engine has 5000 parts, moving parts. It has to be cooled down. There is a lot of oil flowing. There's a lot of gears going down.

An electric car, the engine does not boil for the most part. It's very simple mechanism. It has very few moving parts. It doesn't have a radiator, does not have the complex transmission, all these different things. It is a much-- requires a lot less resources. Yeah, less resources. In addition to this, aside of all these things, if you're a government, when you have a gasoline car, you basically tie yourself to oil. Electricity could be produced using different resources. Today, roughly about 70% of electricity is still produced using basic oil and natural gas, et cetera. Coal, et cetera.

Now, you have choices. You can use nuclear, you could use solar, you can use wind, you can also use hydro, so you have a lot more options. As a technology, electric cars are just superior than gasoline cars, there's no question about it, aside from environmental benefits, et cetera, it's a much better technology. We

can accept that. Now, as I was analyzing Tesla, I was thinking well, is this the company that's going to succeed? As I was researching, speaking of analogies, I realized an analogy that may be happening, that may be transpiring right now, may be in 2008 or 2009, and iPhone was introduced in 2007. We may be having this iPhone moment where the General Motors and Fords, et cetera, they are the Nokias of the world. They owned the industry, they owned the-- like Nokia was the king of--

TONY GREER: Of traditional platform.

VITALIY KATSENELSON: Yes. Nokia was the king of dumb phones, General Motors is the-- and the others are the kings of dumb cars, let's call this. They're the dumb cars, where electric car is a very different-- although it looks the same, it's a very different side. The battery, in a gasoline car, the engine is the most important part where these companies have huge spend hundreds, probably billions hours of R&D. All the knowledge becomes irrelevant when you go to electric car because the most important part electric car is actually the battery.

Just like Nokia, even though when iPhone came out, Nokia should have looked at Apple and said, thank you so much Apple. Now, we know what the future phone will look like. That didn't happen and here's why. Because you shifted from one domain to another. It's a shift in domains. It's not just like we introduced just a little bit better or smart dumb phone, even though dumb phones, smartphones do make phone calls, that was probably the least important part of the device.

TONY GREER: Right. It birthed a new product line entirely, like we're in an entire vertical of new products.

VITALIY KATSENELSON: Yes. You go from one ecosystem to another. When you go from one domain to another, your assets become your liabilities. I'll give an example. Just think about this for a second. Nokia had thousands of engineers that were very good at hardware, but it had very few engineers that were specialized in software, user interface. Think about General Motors, they have thousands of engineers that are so good at designing these very complex engines, which are completely relevant in this new domain where suddenly, this big concoction is replaced by this little thing that's commodity.



Then when we looked at what happened that the-- there was a there's General Motors strike. That's why you have a strike because basically, employees are saying, well, electric cars, you don't need this engines. If you're going to [indiscernible] electric engines, you're going to make less money and you need fewer people and you cannot automate it more. Those employees are now went from being assets to becoming a liability. This company's all unionized. Therefore, it's becoming even more difficult to make very drastic changes you need to make.

One of the takeaways from doing all this research, I realized that even though we today make a forecast, they assume that every gasoline manufacturer, car manufacturer will be able to transition to electric cars successfully. I think I would like to challenge that thesis. I'm not sure that's actually-- I'm not saying that's not necessarily going to happen but I'm saying that's not 100% probability. If you look at that going back to dumb phones analogy, so you had a Nokia and Motorola and Blackberry have failed to make this transition, but then Samsung has done a great job, has benefited from that.

You're going to have winners and losers. Tesla's final outcome to some degree will depend on how successful these car companies transitioning from gasoline to electric and I think that's where the-- when you analyze Tesla, Real Vision did a great special, Tesla versus TeslaQ, when you analyze Tesla, I can see both sides. The naysayers in Tesla, they have a lot of very good points. In fact, I would argue Tesla is a path dependent company. It's a company that's losing tremendous amount of money, so for them to-- its existence basically depends on financial markets, on the kinds of financial markets.

If financial markets have the WeWork moment and say, you know what, no more credit, then suddenly, the stock price collapses, and if you're a Tesla shareholder, you get diluted, because they'll be issuing shares at \$50 or \$30, et cetera. I still don't think Tesla will go bankrupt as that entity, just because it's going to be

too valuable for somebody else. It doesn't mean as an equity shareholder, you're not going to get right out. You won't be down 75%, but Tesla as an investment to me, this is how it looks, I can see the 75% decline if financial markets basically stop lending the money before it gets to escape velocity. If it gets to escape velocity, and it actually becomes profitable, or starts losing money, I can see that-- we're making 80 million cars a year today, globally, there is absolutely no reason at that point-- and again, this depends on how General Motors and Ford and everybody else responds, they can't take market share and start making a couple million cars a year.

If that's the case, you start suddenly-- they can make 10s of billions of dollars of earnings and therefore, the stock price can go up a lot. I've done all this work and that's somewhat frustrating. I walked away saying, well, I don't know. I think this, as an investor, you don't want to look at the sunk cost and then make a decision like I need to buy or short or whatever, sometimes just you say, well, I learned a lot and I walked away. That's obviously, saying, I probably don't want to buy any gasoline making car today, car company, and say, I am going to do nothing.

TONY GREER: Yeah. No, I like it. That's the cross that a trader bears in deciding where you want to put your risk and sometimes, you have to kick all the tires and do all the research and you come at the end of it and you don't have passion to do anything. In the end, you want to decide if it's your money that's worth risking and if you'd rather have your money in your pocket or in 10 other trades, that's the way it comes down. Well, I enjoyed that analysis because it opened up my eyes to the chance that they could survive, even with competition coming into the picture because that was my big bearish argument, but you explained really nicely how they very well could.

VITALIY KATSENELSON: Yeah. Just one more point about Nokia. What Nokia did, their mistake was they tried to take instead of starting a brand new company, and say and giving them unlimited capital saying, go disrupt us there, where you have a new CEO who can hire anybody he wants, has a blank piece of paper and say create a new smartphone. Nokia, what they try to do, they try to take the dumb phone and stretch their Symbian operating system into it, which was a dumb phone operating system.

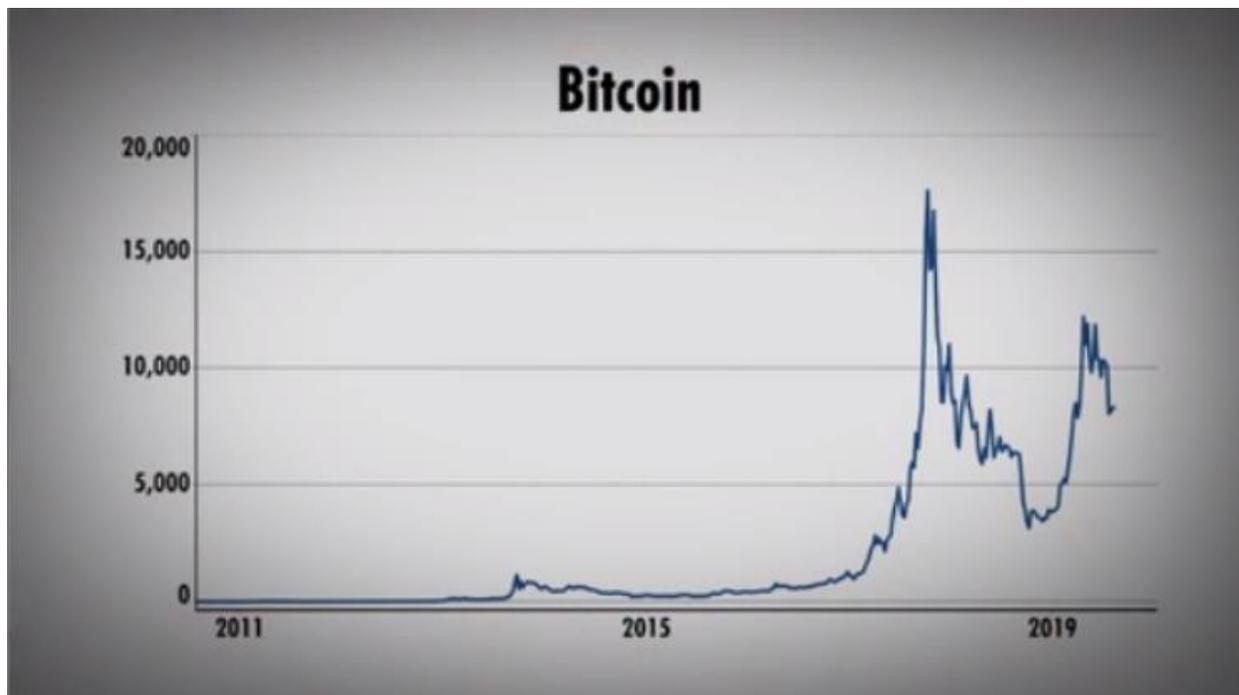
If you look at the initial efforts of General Motors that's, what they did, with balls and bolts, that's what they're trying to do. People who drove-- I haven't driven new electric cars that were made by Jaguar or General Motors, but the feedback I read about was that it drives pretty well, because the core is electric engine, but the software still feels like it's the software that's--

TONY GREER: Still lags. Really? Interesting.

VITALIY KATSENELSON: With Tesla's software-- as a Tesla owner, I've been lucky. They had a lot of production issues, but I've been lucky that I had a phenomenal car. I haven't had any problems in a good cut. Unlike others, I had great customer service when the car broke, et cetera. I had little issues come up. I can see how it's a car that was designed based on first principles where you basically, like, Warren Buffett would call it like, what will the Martians do? You know when you don't have baggage from a different industry or just literally have a blank piece of paper and say, yeah.

If you just look at Tesla for a second, the way the car was designed-- so if you have a gasoline car and you want to make a four wheel drive, you basically have to take the power from the engine and extend it to the axle. By doing this, you actually lose power. In an electric car-- and if you were designing, if you were General Motors and you were designing a car today, you'll probably do the same thing with electric engine. Well, Tesla did not have the baggage. They said, well, actually, we don't need to do this. The engine itself is not very expensive. It doesn't weigh as much. We literally just going to put an engine on each axle. That's how they turn a car into a four wheel drive. Just think about it, that's a very different thinking.

TONY GREER: Yeah, it's an unbelievable advantage. Yeah, that is tremendous. Well, I appreciate you proving that point all the way through, Vitaliy, that's a really interesting story. I want to pivot to hear what you think about a few other things before we finish up. Do you think cryptocurrency is going to have a place in the macro world's future and/or as an investable idea?



VITALIY KATSENELSON: Think about this. It's really a question of what is money? Money is a story. The dollar bill, the [indiscernible], does not exist in nature. It's a story that when you're five years old and you went with your father to buy milk, and he gave \$5 to, that's a story that you basically learned by observing others and it works and we all believe that money is just that piece of paper is money. Therefore-- exactly, yes. It's universally accepted. Gold, you can argue that gold, I would argue, have been around forever. A large portion of people buy into that story.

Cryptocurrencies, they try to compete with gold. In fact, I would argue that the new generation, the millennials embrace it because they're not into fancy shiny things and it's so much more convenient. Now, if I gave you a million dollars in gold, it would weigh I think 45, 50 pounds, you'd have to make sure to work out. Of course, it can be a billion dollars on a stick. Make sense on the surface. The problem is from

a money perspective, where it gets difficult is that even though people say Bitcoin is finite but number of bitcoins is not. If you want to create Bitcoin number two and number 500, you can still do this. Is Bitcoin going to be the one to survive this?

When you make a bet on cryptocurrencies, the first bet you have to make, which one? Let's say you solve that and let's say that's Bitcoin, another question is, will the government's allow that to happen? This is where it gets very tricky. Our democracy basically depends on our politicians making promises that they won't keep. That means we have inflation and that means that, I guess you can argue that inflation is at the core of social stability.

If you take that away from a government, then that's a very important character the governments don't want to lose. I think we saw it in Israel and South Korea, the governments outlawed Bitcoin. There might have been other reasons for that as well, but the point is Bitcoin, the cryptocurrencies take away government's ability to print money or to make promises they won't keep. I think that's an enormous headwind that lies against cryptocurrencies.

TONY GREER: Right. The incorruptible factor is what the central banks want to campaign against, because they want to maintain control on the money supply.

VITALIY KATSENELSON: Then also, since [indiscernible] so much, how do you-- like I think, there was the Brexit thing and you see pound going up and down, but goes up by 30 basis points. Yeah, exactly. If cryptocurrency goes up--

TONY GREER: 30%?

VITALIY KATSENELSON: Yeah, exactly. In a money perspective, how much you and I agreed of price as of what?

TONY GREER: How much can it tolerate?

VITALIY KATSENELSON: Exactly. There are a lot of factors. In the core, we have to believe in the story. For that to become a currency, everybody has to buy into the story. If you live in-- it's a banana republic in Africa, I completely get it, it's a better alternative than whatever currency they have, in the developed countries, the way I would look at it is that I would put as much money into it as you would spend in Las Vegas when you go gambling.

TONY GREER: That's my exact analogy that I've used before. I call it, I have blackjack money invested in the cryptocurrency market.

VITALIY KATSENELSON: Yeah. That's exactly what I mean.

TONY GREER: Yeah, it makes sense.

VITALIY KATSENELSON: Where gold, I could see that to be a position and this is a very important point to me. The gold bugs, people who really believe in gold, some of them put 40%, 50% of their portfolio into gold. I would not do this. I would look at it as a position. Like, from 1% to 3% maybe, I don't know. As a position in the portfolio, but it should not be the portfolio.

TONY GREER: Not an overweight.

VITALIY KATSENELSON: Yeah. Well, 50% is not an overweight. I don't even know how to describe that. Crypto should be in basis points and this is like--

TONY GREER: Use small allocations.

VITALIY KATSENELSON: Yeah, it's a gambling money. As a professional investor, so I would not touch it. If you are watching this, and you're like, well, yeah, it's solid. If you're looking for excitement, and you don't have money and you don't want to go to Vegas.

TONY GREER: That's true. It used to be silver. Now, it's cryptocurrency. That's exactly right. That's great. On a global perspective, we have had the President and his protectionist policies or obviously dramatically redoing the trade calculus around the globe. We're heading into an election year. Do you have any thoughts on it, in the election 2020 here in the US?

VITALIY KATSENELSON: You save these equations for the analysts.

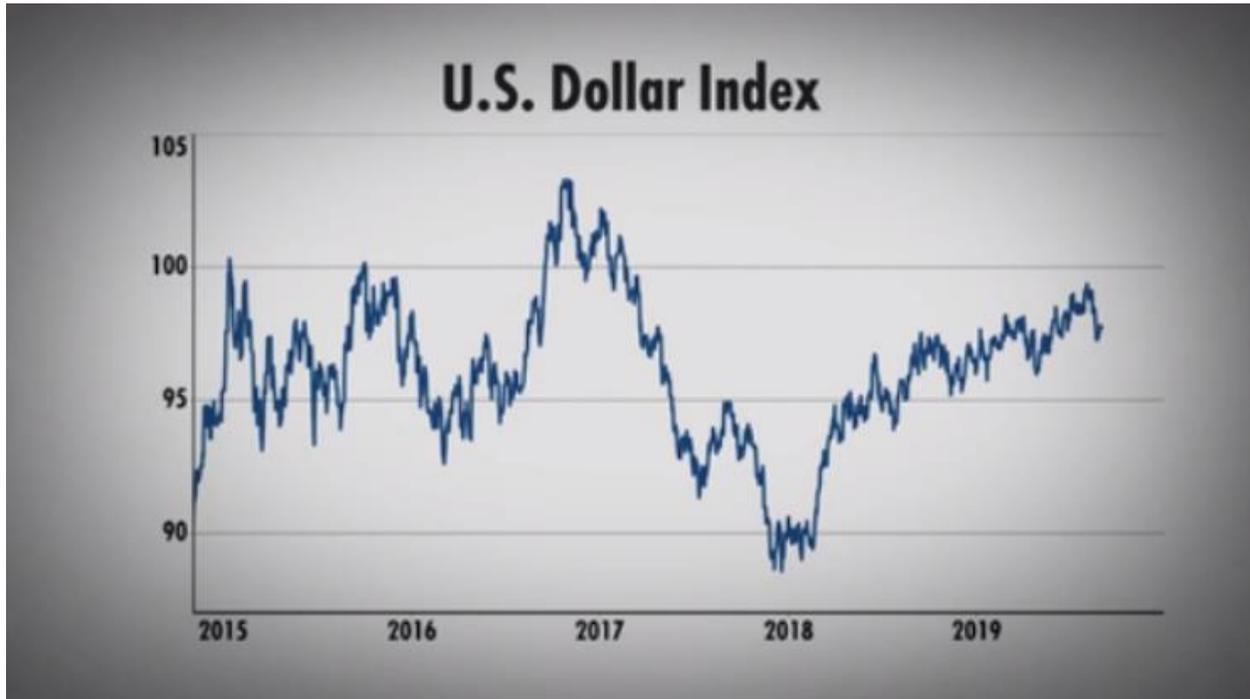
TONY GREER: Yeah, exactly.

VITALIY KATSENELSON: This is where I say, I'm trying to look past that. Maybe I'm-- the problem of this question is that basically-- first of all, it's forced me to predict who's going to win, which I have no idea. The way I look at it, maybe it's very naive. I'm basically, no matter who is going to be in power and if the elected president or not, United States has a very good track record to survive no matter who runs the country, and maybe this is again, maybe this is idealistic maybe because I've seen so much worse and I grew up in Soviet Russia and so there was optimism in me, but I feel like they can survive no matter who's in power. At the end, I still would bet if I had to make a bet on a country, it was still to bet in this, in general.

I try to think how would it-- if you have a very-- somebody on the very right or very left come in power, how will it impact the portfolio and try to make little tweaks. But overall, my long term bath was still, no matter who's in power, you still going to have this healthy conflict that you're going to have some gridlock. Even like, if you think about it from an Obamacare perspective to healthcare stocks, it still was not the [indiscernible] people feared. Actually at the end, if you look at what happened to a health insurance stocks Quadruple sense, those are some basic building long term that we as a country will, no matter who's in power will plow through that.

TONY GREER: I love it and that is a-- I agree with that 100% that we are still going to be the best and most attractive investment center for your dollar and the safest place to put your dollar and it also dovetails

with my theory that, well, I'd like to hear yours first. What do you think about the dollar? Do you participate in this intense boxing match over whether the dollar is going to retain its reserve currency, or do you do like I do and just abstain and just say, look at the charts and say the dollar looks pretty stable to me and I can't get bearish because of the reasons that you just described that we should be still the best investment center on the planet. Tie that up in a bow for us.



VITALIY KATSENELSON: All right. Think about reserve currency. Let's say, we can argue today the Swiss-- Switzerland has a better economy, they are more stable, et cetera, but it's a very small country. It can't be a reserve currency because a reserve currency basically have several things, it has to be very large economy, it has to be stable. You have to have a stable political system. Once you impose this criteria, you'll realize you have very few countries left. Russia's not going to be one. Maybe-- I don't know.

TONY GREER: The ECB is not going to be one.

VITALIY KATSENELSON: We are the best house in a bad neighborhood. It's not necessarily a good house, it's just better than others.

TONY GREER: Yeah, I agree.

VITALIY KATSENELSON: That's what a reserve currency is like and that's why the dollar is still most likely going to be the reserve currency. Because at the end of the day, we are still the most stable democracy out there and we are the largest economy, et cetera. From that perspective, my bet would be on a long term, I don't know where the dollar's going to be next year, et cetera. In the long run, I still think [indiscernible] it and if you think about China, could China or China could possibly be the reserve currency?

The problem is would cripple the economy. There is a great benefits becoming a reserve currency, but those are the downsides too because it drives your currency up and if you're trying to become an exporter, then actually that becomes a headwind to the economy. China and also, can you really have a reserve currency in a country where you don't have a free flow of capital? Probably can't, and where the price of currency is fixed.



TONY GREER: There is that argument as well for sure. I'm sticking with the dollar strength argument. I don't think that-- China might be able to price some commodities in one renminbi but I don't think that it's going to derail the dollar at any point, especially like you said China debt is exploding and China defaults are also exploding alongside it, so it doesn't look like a really tempting currency to dive into at the moment.

To wrap it up, Vitaliy, that was an outstanding full scrub of all of the topics I wanted to cover. I really enjoyed all of your accountable arguments because they rhyme very much with mine and even though we hadn't met before, we came across a lot of common ground and I really look forward to doing some more work with you in the future. That was a great interview.

VITALIY KATSENELSON: Thank you. It's my pleasure.

TONY GREER: Thank you very much, Vitaliy.

VITALIY KATSENELSON: Thank you, Tony.

TONY GREER: Outstanding. Well, I hope you enjoyed that conversation with Vitaliy as much as I did. You can hear from him on a more regular basis if you go to his website, www.contrarianedge.com, you can subscribe to his newsletter and learn more about him and hear more about his products. I highly recommend it. For Real Vision and for TG Macro, this is Tony Greer. Thank you very much.