Billionaire WARNS: "A 70% Crash Has Already Started"

20 MIN · YOUTUBE · HTTPS://WWW.YOUTUBE.COM/WATCH?V=NCPBMGAYBYC&PP=YGUIYMLSBGLVBMFPCMUGD2FYBMLUZYBZZWXSIHROZS
https://www.youtube.com/watch?v=nCPBMgAYbYc&pp=ygUiYmlsbGlvbmFpcmUgd2FybmluZyBzZWxsIHRoZSBkaWFyeQ%3D%3D

SUMMARY

The discussion revolves around the concept of economic bubbles, forecasting a significant market collapse, and its implications for individuals and businesses. The speaker emphasizes the importance of diversification and caution in investment strategies, particularly in light of historical market trends and the current overvaluation of U.S. stocks.

- *Economic bubbles occur when excitement drives asset prices up, followed by inevitable collapses.*
- *A potential 70% decline in high-flying stocks, particularly in tech, is anticipated, reminiscent of past market crashes.*
- *Historical examples, such as the Japanese stock market bubble and the tech bubble of 2000, illustrate the long-term consequences of market corrections.*
- *Individuals should diversify investments across bonds, cash, and possibly precious metals to mitigate risks.*
- *Real estate prices are historically high, and even a 30% decline would still leave them expensive relative to income.*
- *Investors are advised to consider foreign stocks, which are currently cheaper and have outperformed U.S. equities.*
- *Founders of startups should secure funding now, as future capital raising may become challenging during a market downturn.*
- *The unpredictable nature of AI's impact on the economy adds another layer of uncertainty to investment strategies.*

So coming back to this point that we were talking about, a lot of people won't even know what a bubble is. I think you've done a good job of explaining. A bub is when everyone gets excited, they all see something obvious, they plow their money in, >> the stocks go up, and then if you look at the graph that's in front of you there, which shows his the history of asset bubbles, eventually there's a big >> collapse.

>> Yeah. >> And you're saying that we're the collapse is on the horizon. >> Yes. >> And what does that mean for the average person? What's going to happen? What's going to happen is the high-f flyers will probably come down a lot. >> The high-f flyers, >> the stocks that have gone up the most, AI and the more exciting stocks with the biggest moves historically would be expected to come down the most. From these unprecedented levels, a 70% decline would not be unexpected.

>> So, a 70% decline in the in the stock price. >> Yeah. And you have to remember the tech bubble, the NASDAQ, which is an index of the growth stocks, came down 82%. It is far from unprecedented to have these major declines. And the biggest bubble in history was in the Japanese stock market in 1989. Back then, Japan

seemed to rule the world. All the technology, all the Toyotas were kicking bottoms in General Motors and so on. And everyone bragged about their 12-in Sony TV in the kitchen and the quality, etc., etc. Little things you put on your belt to play music. They were all Japanese.

>> Mhm. >> And for a second, Japan sold for more than the US in '89. And it it got to 65 times earnings, which which means for every dollar of earnings, you have $65 of market value. And the US went to 35 in the tech bubble of 2000. You could argue depending on how you do it that it's 35 or 40 today, but it's not 65. So we have seen a much bigger bubble in Japan. And what happened? It went up and up and up and then it came down for 20 years.

>> 20 years. >> 20 years. They talk about the last decade, but when you look at it closely, it looks more like a lost 20 years. So for the average person, what do they feel and how does it impact them when there's a market crash like the one that you're forecasting? >> The high-f flyers will lay people off and and a lot of people will feel less rich. And as you acquire money in the stock market, a small fraction of that, two or 3% is spent and in reverse it goes back and people feel a little bit poorer. they spend a little less. So the economy tends to be under some stress. And if you look at the great bubbles breaking of the past, you find that it's followed by really tough times. 1929 is followed by the Great Depression that last for several years.

And of course there are many other factors that go into that, but it started with the crash in the market which was in the end down about 80% or more. And then the next one was called the nifty50 because it was the 50 great companies like IBM and Coca-Cola. And that was in 1972. It peaked. It declined by 65% if you adjust for inflation. The recession associated with that was just about the worst since the depression.

>> So for the for the average person, what kind of strategy should they be adopting? If you if you're not someone that has a huge amount of savings, say you're working for one of these big big companies, are there any strategies that you should be thinking about now before this before the markets come down and there could be a recession? >> I mean rule number one is always be diversified. >> Be what does the be diversified mean?

>> It means whole wholesome bonds, wholesome cash, perhaps a small amount of precious metals >> like gold and silver. >> Yeah. And what is a bond and how do I buy one? >> Yeah, a a bond is a loan that carries a a fixed interest rate. Let's say today 5%. You invest your money in it and it will pay you 5% as long as the creditworthiness of the other side is there. So if it's the US government, you'll assume it's pretty creditw worthy and you buy a bond from the US government. It's how the US government funds a part of its activities. You can buy a 30-year US government bond, a 10-year bond, a 2-year bond, a 90-day Treasury bill, they call them, when they get that short, everything goes fine.

You you receive this modest amount of money, your 5% or your 3% depending on the conditions. >> Okay. So, a bond is basically lending the government money. >> Yes. And if you want to lend the government money, you >> Oh, lending a corporation money. >> Okay. So, you can also lend like Apple money. >> Yes. >> And I I can go to the government website or it says I was just reading here. It says if you want to lend money directly to the US government, you can bypass Wall Street entirely. Go to treasurydirect.gov.

You open an account, link your bank, and purchase directly. You can buy treasury bills, notes, bonds, and series 1 savings bonds. You pay exactly face value with no commissions or fees and the investment is backed by the full faith of the US government. Or you can buy, you know, like Apple, you can lend Apple money. I didn't even know you could do this. And you go to any of your major brokers like Fidelity or Vanguard or probably a lot of the the apps. You navigate to fixed income section on your account and you can see what bonds are being offered and you can lend them money.

>> What you're doing actually they have distributed it to the market. and you're acquiring it from one of the existing owners. >> Oh, okay. >> You're not actually giving them incremental money. They they come to the market with $10 billion in a particular bond with a particular coupon. It says, "We will pay you 3.5%." That's the coupon. And when you want to buy some of that bond, you you go to your broker and he says, "It's no longer selling at the original 100. It's now selling at 92 or 107 and you you pay that and it transfers from one owner to you. There have been times in 1974 when you could you could get a bond that would pay 8 9 10%.

>> Per year? >> Yes. Per year. >> So if I buy a US government 10-year Treasury bond, essentially lending the US government money, I can do 4.46% four six% a year and Apple's current yield on a 10-year corporate bond is 4.7% a year. So almost 5% a year, which means if I put what $1,000 in, I'll make $475. >> Yeah. >> Over 10 years. Interesting. I I never really knew how bond bonds work. So you're saying markets collapsing.

Diversify. Get some money into bonds. Get some Keep some money in cash. And anything else in terms of diversified portfolio? Property. property is fine except it's pretty darn expensive by historical standards. They've engineered a situation where house prices tend to rise. Great for the people who have a house and terrible for the people who would like to buy a house. Back in 94 in England, a typical house sold for 3.4 times your family income. That was about as low as it had been for 50 years.

And then from 94 until today, it rose from 3.4 times to over 10 times depending on where you live. And at 10 times income, a reasonable young couple are in big trouble. They can't really afford to buy a house. And the same high prices are reflected in rents. So they're really squeezed on living costs. And the same is true even worse in China, in Canada, Australia, most of Europe. House prices have simply been allowed to go up for the last 30. They didn't, you know, traditionally they they traded flat or down 60, 70, 80 years until 1994 in the UK. But since then, house prices have ridden everywhere.

>> So So you are you expecting house prices to to come down sharply? I think I heard you say that they might come down 30%. >> Even if they come down 30%. They're really still very expensive, aren't they? That would be they'd come down to six or seven times family income. They'd still be twice what they used to be in the good old days. >> So, I've got diversify. I've got reduce your position. there is a probably going to be a bit of a job disruption as well.

>> And particularly if you have to own stocks, own them outside America. don't own US stocks. That's a nice simple strategy that you can act on. >> Why? >> They're much cheaper and u since the beginning of last year they have handsomely outperformed the US >> foreign stocks >> foreign stocks of emerging countries of

European countries, Japan, Canada, Australia and so on. you can find good broad indices kind of the world xus >> okay >> or emerging markets and >> invest outside of America >> yeah I'm sure they'll model through okay over the next 10 or 20 years and I am not confident that the US will do that >> you're not confident in which part that the US >> I'm not confident that US equities will be intact in 5 years 10 years >> so US a US equity is a US stock Yes.

>> Why aren't you confident that they'll be intact in 5 or 10 years? >> Because they're so badly overpriced today. Back in the tech bubble of 2000, we had a 10-year forecast for US equities of minus 2% a year for 10 years and they came out with minus3. The period from 2000 to 2010, you simply lost money in the US market. 10 years later, you had less money than you started with. And this is a higher price market, I believe, than 2000.

>> So, you think it's going to be even worse? >> In Japan, you went 20 years and you lost money. You went 30 years and you still hadn't gotten back. It took 35 years for the Japanese market to recover. >> So, what are you saying? >> What I'm saying is it's quite typical to get beaten around the head in the stock market when it becomes crazily overpriced as it is today. and that it's a very good idea to take some respon responsibility and and and watch your tail. Now, let me just say you will not receive the advice from investment advisors to get your tail out of the market ever.

It is not good business for them to do that and they will not ever say it to you. So from 1929 onwards, the Goldman Sachs of the world have never said to you, get out of the market. It's overpriced. Never. So they went through the crash of 29. They went through the crash of the Nifty50 and 72, the crash of 2000 in the tech bubble. They never ever say it because it's bad business. If you fight a bubble, you lose a lot of business. And because the uncertainty of the timing is so great, the client's patience is shorter than the uncertainty of the market. So sooner or later, you will be advising people to be careful. The market will keep going and going and going like it did in Japan. You're saying that the people that manage money on a global scale, they have no incentive to tell you that the market's about to collapse because if they did, their clients would would withdraw their money and they wouldn't get their fees for managing that money. So, what they do is they they keep telling you things are going to be fine and optimistic, but you have to kind of see through that yourself because they have an incentive structure which isn't aligned with yours necessarily. It may also be the case that those very people who are who understand these economic bubbles and cycles, they themselves are adopting a different strategy with their own money, but that at the same time, they're probably going to be telling you that everything's going to be great for a long time. If you'll allow me to tell a story on this very topic in the 989 the the tech bubble, so-called the runup to the top, I I got into a lot of debates with the bulls. I would say it's horribly overpriced and they would >> What's a bull?

>> Bull is someone who is extremely optimistic about the stock market. >> Okay. >> And a bear someone who is pessimistic or careful about the market. There were,200 people in the audience and it was the annual bash of the society of analysts and I asked before my turn at the debate, please put your hands up if you consider yourself a full-time stock market expert. 400 hands went up. I had people counting and I said, I've got two questions for you. One, if the market, which is currently 31 times earnings, was to go back to a more normal 17 times, would it guarantee a major bare market if it happened anytime in the next 10 years?

>> A major down market? >> Yes. If it went from what was then 31 times earnings, every dollar of earnings sold for 31 times in the market. And the and the more normal average was closer to 15, 16, 17. And I use 17. If it went down to 17, anytime in the next 10 years, would it guarantee a major bare market? All 400 of them said yes, it would. If it happened, it would guarantee a major bare market. And then the second question of course was, and do you think it will happen? And less than 1% thought it would not happen. 99% plus thought the market would go down.

Therefore, guaranteeing a major bare market and this was the engine room of all the Goldman Sachs and the Morgan Stanley's and the JP Morgans, all the great investment firms giving advice in America. The engine room who worked for them, the guys doing the analysis, doing the work, all believed in data that guaranteed a major bare market, which happened. But the people who employed them or represented them from a marketing point of view were on the podium with me saying, "Oh, Jeremy, Jeremy, don't get excited. We'll muddle through quite nicely." It was a huge betrayal of trust, if you wanted to put it that way.

>> And do you think that's happening now? >> Of course. Who are the people representing the great investment firms telling you to watch out? If you look at the data, you will see over time it's a series of great waves in the valuation >> like this. like this and we're not just in one, but in terms of the US stock market, we're in the biggest one arguably that has ever occurred. The noise to be careful and watch out and get out of the market is not deafening.

In fact, you will hear nothing. You never have. You never will. It is simply lousy business for a big firm. I sympathize with them. I sympathize with them because when we did it in '989, we were 2 and a4 years early and we lost half our book of business in two and a quarter years. >> Because you were honest with the people about what was coming. >> Well, through their eyes, we were wrong. We said, "Watch out. The market is overpriced. It will end badly." It went up. Therefore, we were wrong. Therefore, shoot us. People think you get shot for underperforming in a bare market and that is not really the case. In a bare market, everyone freezes, rigor mortise. They wait until the market is bottomed out, then they sit around and start to fire one or two people for having done worse than the others. But in a bull market, they're playing golf with their fellow pension fund officer and he is making a ton of money and they are not. They get very excited in a bull market and they fire you instantly.

>> There should be a button just down below here. And if it says subscribed, you're already subscribed. If it says subscriber, that means you're not yet. And if you're not subscribed, please could you do us a favor and hit that button? It helps the show more than you know. And according to the algorithm, you're someone that watches our show, but you haven't yet hit that button. Thank you so much. What about for founders? I actually had a founder call me the other day and he is running a relatively early stage tech startup.

This tech startup has raised a lot of money. It's an AI tech startup. It's raised, I'm going to say about $300 million. It's not profitable yet, but it's raised a lot of money. So, it's living off investor capital right now. He said to me, "Stephen, I think there's a collapse coming. So, I'm going to go raise as much money as I possibly can right now because I think when this collapse comes, businesses like mine are going to be unable to raise capital and therefore I will go out and I'll kind of like a a bit of a vulture. I'll go out and pick up and buy up all these people."

>> Good lad. Good advice. >> Good advice. I think >> so for founders listening now that are somewhat dependent on investment capital but even those that are just breaking even what advice would you give entrepreneurs in this moment if you can lock up money I would if you can build a bit of conservatism in in other ways do it just brace yourself for impending problems which is a pretty good principle anytime but is a better principle than normal more today.

>> So for founders, entrepreneurs who are the sun is shining right now, but it's time to start acting as if a storm is coming. >> Yes. >> And the time horizon on that is hard to forecast. It could be weeks, months, years. The stock market hinges on career risk. And Kanes was the great champ. He was a famous economist of the 1930s and 40s and he wrote a famous book called the general theory. Unlike the idea that the market's efficient, he knew it wasn't. He knew it was a behavioral jungle and that it would be given to bubbles.

>> And when you say efficient, you mean logical and only cost two. >> The efficient market idea is that every company, every stock, the underlying company represents a long stream of future earnings and dividends and that the ones in the distant future are given less value. process they call discounting it back to the present and the sum of all of that stream of earnings into the future is the stock price and that of course is complete nonsense.

>> What it is is the stock price is psychology. >> The stock price is what you think the other guy will pay. If the stock is going up it tends to suck in buyers and that's called momentum. is moving up. It attracts buyers and every now and then when the economy is favorable and money is obtainable you tend to get these bubbles and they play on themselves. the bigger and better they are the more people get sucked in.

>> What do you actually think about the technology at the heart of all of this which is artificial intelligence? Do you think it's overblown or do you think it is going to have >> it's going to change everything? The one of the spectacular things about it though is how there's no consensus. So I've seen many times where the the the super experts and the academics think one thing and the players on the ground think another. But this is a situation where the Nobel Prize winners at the top disagree violently. The experts at the corporate level disagree violently. The oper the people in the company disagree violently. There is absolutely no agreement on whether AI is going to make us all so rich we can sit on the beach and never do another day's work or it will wipe us out accidentally or on purpose because it's a much higher level intelligence one day. And when was there ever a case where a higher intelligence was benevolent in a sustainable way to a lower intelligence? If you love the Driver CEO brand and you watch this channel, please do me a huge favor.

Become part of the 15% of the viewers on this channel that have hit the subscribe button. It helps us tremendously and the bigger the channel gets, the bigger the guests.