

The Interview · Featuring Kiril Sokoloff and Raoul Pal

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JACK FARLEY: In this interview, Raoul speaks to his longtime friend and mentor, Kiril Sokoloff, chairman and founder of 13D Global Strategy&Research. For years now, Raoul and Kiril have been spotting holes in the financial system. And now that these holes are finally leaking, they took a detailed look at whether the dam will break. They discussed the COVID-19 pandemic and its potential consequences on monetary policy, investing, and geopolitics. It's a fascinating conversation, and we hope you enjoy.

00:37

RAOUL PAL: Kiril, fantastic to see you. You're in the Bahamas quarantining yourself, and I'm here in Little Cayman. Truly extraordinary times.

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One thing I've got to give you credit for is, you and I have spoken over the years, and even in the last time that we spoke, you had been warning people about some of the incredible imbalances, whether it's liquidity, whether it's the problem with corporate debt. And I know even in the past, you've warned about pandemics and the seriousness of this. So you've been an extraordinary resource for your clients and for many people who rely on you as the source of truth and thought, so well done so far for calling so much right.

01:22

KIRIL SOKOLOFF: Well, thank you. Thank you for that. It's a tragedy. It's incredibly painful to watch, probably the most painful thing I've ever had to watch. It's going to get so much worse. People who've spent their lives building a business or building a small savings, and now, watching it disappear, people who were indexed to a bear market.

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I just have so much compassion, and I'm so sad for what's happening, and it was unavoidable. You just can't get people to move to the sidelines. It's just a tragedy, so I'm deeply compassionate and feeling very humble that I've managed to come through this okay.

02:11

RAOUL PAL: Yeah. It really is hard. It's affecting all of us, our friends, our family, everybody. And it was that awful situation where the world was weak anyway economically. We had some big structural issues as well, and then the virus came, and that combination was like a nuclear bomb.

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KIRIL SOKOLOFF: A nuclear bomb. Well, I started writing last summer. I wrote a piece saying, are we entering a time that could be called the Crash of '19 or the Crash of '20?

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And it was clear that we were heading for some big crisis. We had identified global tourism as a very weak link. It's 10% of global GDP. It employs 3 to 20 million people, and it's very discretionary, advertising as well. And ...

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... Years ending in nine, for some reason, seem to be when levels peak. In 1929, stocks. 1969, stocks. 1979, commodities. 1989, Japan. 1999, IT. 2008, okay, give you one year. So I was looking for this, and all it needed was a catalyst, but it surely didn't need something this awful and this horrible.

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And back in 1997, I read a book called *The Coming Plague* by Laurie Garrett. And if you read that book, you will really take pandemics seriously. They have a chapter on Marburg virus, and it was the most contagious disease ever found, and it would kill people instantly. They found it in Marburg, Germany. I believe it came out of Africa. I read this book 25 years ago.

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So we started in 2001 planning, and we followed epidemics, pandemics. We had a portfolio to invest in as an edge for something like this, not that you ever want to make money off it, but you're advising your clients to have some sort of insurance. And the lesson of course, that we've all learned, is that you have to just shut off totally and completely as quickly as you can.

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And the devastation that this is going to cause economically is something that the imagination just balks at. And if you add to that this burden of debt, which is \$250 trillion, which has been another huge bugaboo of mine, we tried to solve the problem of debt with more debt. The last time we did that was the '20s.

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And of course, the junk bond market has-- the distressed debt market has doubled in the last week or so. And the problem isn't so much the stock market, although that's a major factor. It's down, what, 30% of GDP in the last couple of months. But it's the credit markets, and how are you going to get money to companies that need it to survive? And how do you get money to people who are laid off?

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And we haven't even begun to see all this. We haven't even begun to see how it's going to play out. And unfortunately, and I'm not partisan at all when I say this, Trump is a bull market president. He's not a bear market president. He doesn't have the tools, and he had around him a bunch of people who were cheerleaders.

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So as always happens in a bear market, it's too little too late. You don't understand the severity, because you came from a place of immense complacency and excitement. And the greatest economy ever will become the worst economy ever.

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And that brings me to a theme of mine I've been thinking about for a long time, having invested in markets for so long. You go from one extreme to the other. So we had the highest interest rates in the history of capitalism in the early '80s, which I was one of the few people to capitalize on. I wrote a book about it.

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Then you had the greatest economy ever. Now, worst economy ever. What I've been focusing on is too much liquidity. Free money, what's the opposite of that? Shortage of liquidity. I think we even talked about it last July when we had our wonderful meeting in the Adirondacks. And it's the irony of what is viewed as an excess one way becomes an excess the other way. So there are a lot of things that are unraveling.

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Buybacks, I mean that is over, over, over. And I think we have to start thinking about a new administration and what they will do. And the market is just beginning to think about what that means.

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And one thing I think that Biden will do is to try to unify the Democratic Party and try to unify the country. And he may install what was called, when Lincoln did it, the Team of Rivals, meaning he may install people who ran against him in his cabinet. I have no inside information. I don't know any of this. I'm just guessing what would be pragmatic.

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So Mike Bloomberg as Secretary of State or Secretary of the Treasury, that wouldn't be so bad, right? And you put Bernie Sanders somewhere in the environment. So everybody would feel a little bit a bit better.

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But what happened over the last 40 years is-- and we talked about this last July, is that capital was taking a greater and greater share of the economy, and labor was suffering. So there'll be significant changes in that direction and very significant regulation.

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Markets may be free again. The ETFs may be-- no more triple-leveraged ETFs. These distortions that go on are insane. You must change it, and that's what happens when you have these excesses.

The backlash swings very hard in the other way. So whoever will be regulating Wall Street will come down really hard and kick a lot of these things out, which will give us normal markets again.

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And maybe we'll get back to a time when we can actually invest in a story on fundamental analysis. Wouldn't that be incredible? Wouldn't that be wonderful? Instead of trading the S&P. There are some bright signs here on the other side of this, but that's a long ways away, I'm afraid. It's going to be--

09:05

RAOUL PAL: Hang on. [indiscernible]. What's your perspective on how long this kind of rolling shutdown has to take? Because what concerns me is, the US is very far behind. The UK and Australia are far behind. Brazil looks like it's now starting to go up the exponential curve. Africa's now got it.

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I worry that this is a much longer event than the optimists hoped for. They're hoping for a eight weeks, and it's all over event. What's your perspective on all of this?

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KIRIL SOKOLOFF: Well, the head of health of Singapore just said, the global health system is only as strong as its weakest link. So I read this article in The New York Times by a medical historian, and it really grabbed me. And the word quarantine comes from 600 years ago when in Venice, if you came on a ship or you came from another city-state, you would be put in quarantine for 40 days, and you could not get into that city-state unless you could prove you were healthy. And if you couldn't, then you be put in quarantine.

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So what I fear is just like we have airline security, what is it? 19 years later? The threat of that is infinitesimal, and yet billions of people have to go through the security mess. Well, what is it going to be now? Are they going to make us take our temperature?

Are we going to go through heat measures? Do we have to have a letter from our doctor?

But what is this going to do to international travel and global tourism in the best of circumstances?

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And people study this. They know that these pandemics come in waves. And they all know that in 1918, the pandemic came back in the fall, and most of the deaths occurred in the fall.

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So people are going to be extremely cautious, but who will be the first country to say, all clear? No one will. It's too much risk. So even if it is all clear, no one will have the courage. No country will have the courage to do it.

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So that means we're going to be in permanent shutdown, and I just don't know what that means with all this debt, the demographics being what they are, and people in a frightened, panicked mood. So they're very-- easy for them to take the next step, which is just to panic and sell financial assets.

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So we need very strong leadership now. And Napoleon said, "A leader must define reality but inspire hope." so there is hope, but we must be very clear on defining reality.

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RAOUL PAL: And what is a very interesting is the premier of the Cayman Islands was speaking yesterday, and he gave a really great speech, because he did exactly that. He said-- and I'm not usually a big proponent of that premier of the islands here, but he came on and said, listen. The situation is worse than we know. There is going to be community spread here our island, even though we've got only a few cases. He said our industries, our tourism, financial services are going to be decimated. And he said, and all of you are going to be struggling with work.

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But we're obviously a hurricane economy. We know how to deal with some crisis. But the point that he raised was really a chilling point. He said, but as a government, we know that we probably cannot let in Americans, Canadians, Brits, or others for a long period of time, because we don't know if we're safe. We can control the virus here, but we can't let in foreigners.

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He said, so that leaves a economic situation where it's not eight weeks. It could be eight months. It could be longer. And he said, the problem is the government, all the businesses, and all of the people run out of money in about three months.

And he said, they don't have the ability to print money.

He's like, I don't know what happens.

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And I thought that was a very honest thing to say, because that's a true fact, is when you shut down supply, demand, and consumption all at the same time, the government can't just print enough money to cover the entire GDP, because you destroy-- and this has been one of your core points for a long time-- is you destroy the monetary system that you built it on.

13:42

KIRIL SOKOLOFF: Yeah, that's exactly right. I have a theory about it all. And I've felt for years that the rate of change was unbearable. There are few people, Ray Kurzweil, Singularity, it's people who can deal with this change and allow this degree of change. But for 99.9999% of the world, it was just unbearable. And what happened is that essentially, the human species just had a nervous breakdown, that's what happened. I'm looking at it from a different standpoint.

14:17

And there's a wonderful quote by Pascal that, "The hardest thing in the world and the cause of all the problems is that man can't sit quietly in a room by himself." Well, hello. Here we are, and we're going to be thinking and pondering, why did this happen? Why weren't we prepared? Why were we rushing in this direction? Why were we so mindless?

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And I think it will start to hit a lot of people. And I think there's a spiritual component to it as well, which is, it's going to be very hopeful and good. But out of the worst tragedies come some of the best changes, but the pain is going to be agonizing.

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RAOUL PAL: So here's something I want to pick your brains on, because you're always attuned to this thing, is Trump has been referring to it now as the China virus, which I think is very aggressive in this time when people need to come together, because this is a serious global issue. And I draw parallels, as you have done as well, for this is very similar to the end of the 1920s and into the 1930s, and we knew that led to war at the end.

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And you and I both talked about this before together. I don't like this new rhetoric. It concerns me.

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KIRIL SOKOLOFF: He plays the blame game. That's his strategy, and we don't need someone to play the blame game.

We need someone to look at this honestly, tell the truth about it, and deal with the harsh reality.

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The harsh reality is really that, for example, real interest rates have risen in the last two weeks, which has been-- the Fed actually tightened. It's not loosened, and the credit markets are in total and absolute disarray. This is not the time to be involved in the blame game, but he's not that kind of president. He's a bull market president.

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Now, China initially was vilified for how it cracked down, and I was thinking about that. I was thinking, maybe there are two things about this will happen. The first is that now, China is being praised for cracking down so hard and being the first to really deal with it correctly in terms of 50 million or 100 million people. It's extraordinary what they did, and to be willing to sacrifice their economy, as they did.

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But secondly, China has gotten a lot of flack over the years for its various human rights issues, authoritarian crackdown, SOEs, et cetera. I won't get into that. But everybody forgot that China contributes 37% of GDP growth in the world. They conveniently forgot that. The Hong Kong

protesters conveniently forgot that. Now, everybody is getting a very strong reminder how important China is to the global economy, so it may be just a re-evaluation of China will take place here in due course, as the dust settles here.

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RAOUL PAL: Although I do imagine that the global supply chain issue, something we also talked about back in July, that's going to change permanently in some ways, because people realize that globalization with all its benefits had some tremendous downsides. And the fact that you don't have control of your own goods and services is one of them.

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KIRIL SOKOLOFF: What I don't understand is how America could have entered a trade war with China when China produces 98% of the antibiotics that America uses. So you ask a question, was that not known by those who are negotiating and started it? Or did they not care? But I just can't even deal with how incompetent that is.

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But clearly, supply chains are going to shift. Anything that's critical on health is going to be shifted, but these things could take a long time to do to take place. It's just reaffirming the end of globalization, reaffirming buy local, buy national, reaffirming the world just shuttering down into countries and nationalism.

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There's nothing you can do about it. If you want to invest, you just, as we've been doing, recommending for our clients is areas of China where they are starting to spend a lot of money and the same in the United States. But it's not a good development, because when the world starts to splinter like that, it becomes everyone thinking about itself when we should all come together.

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And there's still a hope. I think there's a global search for the solution in terms of a vaccine. And I know that scientists are working together, and they will be sharing on it, although Trump reportedly wanted to move his company from Germany to the United States. That's not the right attitude. We really need to try to keep the lines of communication open, and I'm hoping with the new administration, that that would be restored to a certain extent.

19:46

RAOUL PAL: Yeah. The other thing that worries me within this is the financial system that we know. Again, it's something you and I talked about for a long time, based on debt and the leverage that's within a system and how it works, it feels like that's going to be sacrificed in this, too. Which is, in the end, probably a good thing. But we to take a tremendous amount of pain to [indiscernible] the world.

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KIRIL SOKOLOFF: There is a huge amount of leverage in the system, because everyone was trying to squeeze out a profit or getting some return. The pressure to generate profits was massive,

and you had to use leverage to do it. And when it's all said and done on the other side of this, speculation and leverage are going to be really dirty words. A lot of things are going to be dirty words. If you just took the last 40 years or more, important last 10 years, and you just turned it upside down, that's the way the world is going to be.

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And I remember very well. There's a new biography about him in the last five years, on Jesse Livermore. And let me just spent a minute on him. He was a great speculator, a great short seller. There was the earthquake of 1906, and he shorted the US stock market, knowing that the insurance companies would have to withdraw money from the stock market.

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But for some reason, the stock market kept going up. He just does [indiscernible]. And he basically had to cover his shorts, and he ran out of capital.

And EF Hutton, who he worked for, said, okay, I'll give you some more money. And this, it worked this time. But by the time '29 came, he was really prepared, and he had a game plan. He had a huge number of people out in the hinterlands who were saying that the US economy was slowing down.

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He played it beautifully. He shorted right, he covered right, and he shorted again. And at the end of the crash, he was in the top 10 wealthiest people in the world, and he closed all his shorts beautiful. But by the mid 1930s, he was bankrupt and shot himself.

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That's a very important story. And why did that happen? It happened because the game changed. It wasn't the same game that he knew, and the game is going to change on the other side.

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So the players who were successful in the last decade, the last 30 years, it may just be a totally different game, and I'm not sure what it is. I think it's reasonable to think that equities are going to be returning to the mean, and there'll be maybe fake rallies and people will buy it, and then short it, and it will be whipsawed around.

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The old thing about '29, '32 was, it wasn't a crash where people lost money. He was trying to buy the many false bottoms. I don't know whether it's going to be that way. I just have an intuition that the world is going to change, and we have to change our game plan.

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So I'm less and less inclined to speculate, less and less inclined to bet on a rally year. Yes, there will be a rally if real rates come down, which the Fed must do. Or you bet on the rally in the oil price. I'm just not inclined to do that. I'm sticking with my original core strategy, which I've been working on for three years longer. It is actually, in some cases, in gold and gold mining shares, and not playing around with other things and get distracted from the main arena.

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RAOUL PAL: Yeah, and that makes a lot of sense to me. Myself personally, for this earlier phase, I've been long gold like you have. I closed recently, but I'm still a big bull of gold over the long run. I have obviously been in the US dollar, which was one thing that I think is the final cause of the breakdown of the system, is the dollar is too strong, not too weak to bring the system down.

24:00

And the other one that you and I chatted about over dinner was Bitcoin and new cryptocurrency world where there's a potential for a new world to be built. Because when I look at it, it's like the world's biggest hive mind of people building an alternative financial system, payment system, commercial system that at some point, you can move away from one into this new world. And I find that tremendously exciting, and I think gold does extremely well in that transition from the breakdown of the old world into the building up of the new world. So I am very optimistic at the end of this but it's just the amount of pain we have to take before we get there.

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KIRIL SOKOLOFF: Yeah, I think that's absolutely correct. Absolutely correct. And that was a fantastic call you made last July on the dollar, which is a real contrarian position. And really, kudos to you on that call.

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RAOUL PAL: Thank you.

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KIRIL SOKOLOFF: And you're right. If it keeps going up and it gets and it gets to the breakthrough of 104 in the dollar index, and it's real, and not a fake breakout, it goes to 120, and then all hell breaks loose. That would be a disaster. Can the Fed prevent that?

25:11

Yeah, I like Bitcoin. I have a friend, a very close friend, who's advised me very well on Bitcoin. Of course, I didn't buy it when it was \$200 when he told me. And then it went up, and he sold just before it started to trade on the futures at \$20,000. Then it came back to \$4,000 or \$5,000. He said, "I'd buy it." And of course, I didn't buy it.

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Anyways, so I finally said, I'm just going to take a position this year just to get my feet wet. And of course, I got killed. It's a tiny physician, but you have to laugh. But at least I've got a physician on that I can add onto, but I love Bitcoin.

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And I read this book called The Bitcoin Standard which is a great book.

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RAOUL PAL: Yeah. Amazing. Amazing.

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KIRIL SOKOLOFF: It's a really, really good book. And it helps you understand why it's so special, it's so real. And this new rising generation loves Bitcoin, and they're going to be the ones who will be running the world in not too long from now.

26:09

RAOUL PAL: Because they don't trust the world that they've come into, because the Millennial generation saw the 2008 collapse. They finished university or were at university age. They were born around the-- well, were just young when they saw the 2000 collapse. They don't trust anything anymore, and this is something they can trust.

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And as you know, our game is all built on trust. Without trust, there's nothing. And that's why gold has a value. Gold has always had a value, because we trust it. But other things, we lose trust in.

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KIRIL SOKOLOFF: Yeah, and I think when this is all said and done, after these central banks do whatever they're going to do to us, people will want a hard currency. And whatever country does it first will be the most successful, whoever that may be.

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One thing that's important to talk about here, and that is MMT. And QE is not central bank printing. QE is just buying assets, creating an asset bubble. But MMT is literally financing the government, and that is inflationary. It could be hyperinflationary.

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So we have to be very, very careful that we be on the right side of this, because you could go from deflation to inflation overnight. And what was doing extremely well outside of gold in deflation would do horribly in inflation. And my study of how inflation rises is it's just overnight. It's not-- you don't have any warnings. It's just whoosh. It just comes.

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Now, this would require an act of Congress. So presumably, we would have time to study this. I don't think it will happen this election year. I think it's doubtful, and it may never happen, but it's something for us to watch, because it changes the landscape dramatically.

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RAOUL PAL: So the one I'm interested in here is Japan. So Japan is obviously further ahead in the quantitative easing. They own already most of their own bond market and a lot of their own stock market. And I just think, okay, we're about to go into the worst economic crisis of all of our lifetimes and

possibly of the last 100-odd years, the probability of Japan doing something extreme is high, and maybe monetizing its entire debt by a debt jubilee.

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And I just think, what world is that? Well, what is that? Is that going to be the loss of faith of the yen, finally? Because the yen has been an amazing thing. It's always so strong, and it feels like if they did that, the yen ends up trading-- the yen ends up going to 200 or 250, which is that inflationary moment where it just goes so quick, because the trust in the currency is gone.

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KIRIL SOKOLOFF: Well, that's exactly what will cause the turn. And it doesn't necessarily have to be MMT to cause loss of faith in the currency. The US deficit could easily be \$3 trillion. At what point do people lose trust? At what point do foreigners lose trust in owning treasuries and financial assets? At what point?

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What is the rally in the long end of treasuries? Was that the first shot across the bow on this concern? Or was it just illiquid markets? I don't know the answer.

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But it's interesting you talk about the yen, because the Japanese have a massive amount of capital they move around. So if that were to happen, they would be moving capital. And that would be an important signal, an important thing to watch. So you're absolutely right on that.

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RAOUL PAL: Yeah, because if you don't have a domestic bond market, then all the capital leaves.

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KIRIL SOKOLOFF: Right.

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RAOUL PAL: It has to. It has to go in search of return so it can go elsewhere. So I think people-- that's just one of the things on my horizon for the next few years, that something people wouldn't expect would be that. And Japan, it would make sense to me, because they were the first of the demographic bust, so they should be first out on the other side with whatever happens.

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Now, Japan as a nation with the rise of robotics and the rise of different things. They can be okay in it, but at some point, that monetary situation will become ugly for a while. And maybe they tend to a digital currency or whatever. I don't know, but I think that's the real Petri dish of an experiment for us.

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KIRIL SOKOLOFF: Well, I'm glad you mentioned demographics. For me, Japan has been the laboratory. And I think we talked about this in July, that in the '90s, everybody was saying Japan was the outlier on long rates and shorting JGBs when in reality, it was the leader. So I've considered Japan the leader for 20 years. That's why I study it so carefully.

31:37

And you're absolutely right. They were the first ones to have peak population, the first ones to have a peak working population. The Japanese women don't want to marry, they don't want to have kids. It's a baby bust on a scale we haven't seen, and the rest of the world is heading in that direction, slowly but surely.

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The demographics over the next 10 years are the worst since the-- I shouldn't even make a comparison. I won't. Worst in 500 years. And every developed country's adult working population will fall anywhere from 8% to 12% between 2020 and 2030. That is a demand shock that this system right now can hardly-- it could not even begin to withstand.

32:28

And then you have the rising generation. The Millennials have a much different consumption pattern than their parents, so you've got that. And those two things together added to this is very, very deflationary.

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And that's why, if I had to choose between inflation-- if I had to choose between hyperinflation or the nuclear winter-- I hope I never have to choose, and not that it's up to me make any choices. How do I invest? I would take the hyperinflation over the nuclear winter, possibly. But the nuclear winter is really bad. That just goes on, and on, and on, and on.

33:16

You remember what Bernard Baruch said? He said, when you're absolutely sure that deflation has run its course, take a trip around the world for a year.

Then you come back and this is about-- now, take a trip another trip around the world for a year. That might be the bottom. So that's what happens in a debt deflation.

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Let's just think about-- let's just take WeWork as an example. I don't see how it can survive. And what about all of the offices that it has rented? And then what happens there to the landlords who are depending on the rent? You just look at the interconnectedness, and you start to think.

34:03

And with venture capital basically blasted, a lot of office space and buildings were created to house the venture capital boom, which is now over. We've looked a little bit at excess capacity. We looked at colleges, for example. I think it's some 20% of students are at American universities, foreign, and

they pay three times the average of what the American does at a state university. Well, that's over. They're not going to be coming anymore.

34:47

So there's too much capacity relative to the demand at the very time that we're having this pandemic and at the very time we're having a financial crisis. So you put that all together, and you just wonder, has the world been planning for too much growth that just isn't there or won't be there? And then how do you get out of that one?

35:07

RAOUL PAL: See, and just talking to you, one thing in my mind, as you will be in yours, is that I just can't see this being a short event, Kiril. It just looks to me that we've got 1929 to 1933 all over again, that we've got-- as I look at, the very top level, we've got three huge problems. One is the corporate debt bubble, one is the pension crisis and all the baby boomers. The other, I think, is this strong dollar issue. These three alone can blow up the world.

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Then we've got the societal issues, the globalization issue. I've never seen anything like it, even studying history as much as I have and you have. I've never seen cards so stacked against [indiscernible] that everybody so wants. It feels it's secular. It feels like it's secular.

36:02

KIRIL SOKOLOFF: When we were in the Adirondacks in July, we discussed the book *The Fourth Turning*. And this is exactly-- what's going on is exactly *The Fourth Turning* thing. What happens when governments, state governments, aren't able to pay pensions? These are the things that cause huge societal unrest. We have to watch this all very carefully.

36:29

One thing I think that's important to add about gold is that I say that all roads lead to gold. So if everything is fine and then the Fed reflates, and we go about our business and go, we'll do just fine. It's a pure supply and demand issue. If there's a banking system financial crisis, gold will do incredibly well, because it's outside of the banking system. If there is a debt deflation, gold will do extremely well.

37:04

So all roads lead to gold, and it's very under-owned, misunderstood. And people that own gold in the United States and the gold ETF, which is, how do you know? If you're going to get out of favor and you want to get into a hard asset, you're not going to own it through an ETF. Own the real, physical thing. And I think we'll see a time come, and we may be seeing it now, where the physical market sells above the paper gold market, as it should.

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RAOUL PAL: Interesting enough, I've got some friends who own gold companies, gold brokerage companies.

And as gold sold off, as there was a lot of liquidation, just for the usual stuff that happens in a bear market, they saw 10 times the amount of new accounts openings than they've ever seen before.

37:59

KIRIL SOKOLOFF: Right. Exactly.

38:01

RAOUL PAL: So the demand for physical gold is very different than the demand for futures that are in a liquidation. And we've seen that even within the ETF world, in lots of things. The physical assets, there was no demand in those, and they all trade in discounts to NAV, as you the likelihood is that gold trades at a premium to all of the paper versions of it.

38:24

KIRIL SOKOLOFF: Well, you also have been very right on the price of oil. And when Russia withdrew from the production cutback agreement, which was fascinating geopolitically.

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RAOUL PAL: Amazing.

38:38

KIRIL SOKOLOFF: This has got so much-- so many ramifications. Well, let's talk first about the ramifications for gold. The production costs for gold could be anywhere from \$100 to \$200 lower, meaning your margins go up even more for gold.

38:57

But this is such a geopolitical issue here. So as you know, and it's been proven, in 1986, there was a deal done with the Saudis to increase production, and that took the price of oil from \$22 to \$8, or \$10, or \$12, depending on which type of oil it was. I actually-- well, we shored oil. And it turned out later that there was a deal between the United States and the Saudis to do this to break the Soviet Union, and it was a brilliant strategy.

39:32

But Putin has said that the greatest geopolitical tragedy in history was the breakup of the Soviet Union. He has a very long memory. So just think about this. He does not do things without a lot of careful thought. He's very thoughtful. This was done with great thought.

39:55

And MBS of course, responded as you figured he would in a macho way by ramping up production. And we think-- we may be wrong, but we think the Russians have more staying power than the Saudis. We will see, but shale has no staying power here.

40:15

So Putin strikes a blow at all the sanctions that were put on Russia, and he also strikes a blow on Saudi Arabia, so it's a win-win for him. Now, that's important, because if it persists and oil stays down here, or if indeed the cartel is over-- and Gary Shilling, with whom I authored the book in 1982,

Is Inflation Ending? Are You Ready?, always believed that OPEC would fall apart, because all cartels do.

40:50

Well, all right. It doesn't matter if you're 40 years late. It's-- you're right. And the reason why they fell apart is because fringe producers cheat, and then the swing producers get tired of it, and that's when it ends. So I'm not saying this will happen. I'm just saying I'm open to it, that oil prices can stay lower for longer.

41:16

Now, I'm sure in the Cayman, where you are, but we are here in the Bahamas, lower oil prices is very good. There are a few places in the world that actually benefit from it. So it is lifting a huge burden on many countries that suffer from higher oil prices. But what do you think the price of investing--

41:35

RAOUL PAL: Yeah, so I've got-- I think Putin is probably the geopolitical genius in the world, and I think he looked at the opportunity. Now, there's two ways I think it went. One is that Putin, who is good friends with MBS, may have said, we can play it this way. You can show outrage, because Russia essentially is non-dollarized. They've been buying tons of gold, they have no government debt, so they can basically do what they want, and he did that on purpose.

42:11

So then maybe him and MBS said, why don't we do this?
Because we could destroy shale, and we'll get a larger share of the market.

42:16

KIRIL SOKOLOFF: I like that idea. That would have fit, because they were high-fiving at the--

42:21

RAOUL PAL: Exactly.

42:22

KIRIL SOKOLOFF: --or something. Right? I like that idea.

42:24

RAOUL PAL: And also, I think at the other level, where the level that Putin operates is, he is thinking, the US economy is now about to fall apart. It was already weak and now, we've got this virus. And if I blow up shale and the debt market by driving the oil price home, he said he would have thought Trump would have congratulated him for lowering the oil price, because Trump thinks it's a tax break.

42:52

And Putin's thinking, I've just driven the US economy into the Dark Ages by just doing this. So it was kind of a win-win. Trump thought he'd won, because he got the lower oil price. MBS knew he had a win in this, because you get rid of shale. But Putin had the ultimate win, because he won everything.

That's my kind of go on it.

43:14

KIRIL SOKOLOFF: Yeah, I love that. That actually makes more sense, and that's all the more reason to think it stays low, until shale actually has the coffin taken and put in the ground.

43:25

RAOUL PAL: Yeah, because don't forget, in the end, Russia also has a memory of the Russian crisis in '98, '99. And how they didn't, in the end, get the support, and the whole thing collapsed. And here's a situation where Putin can almost do the reverse. by pulling one of the rugs out of the US economy just at the wrong time, and he's not he's not stupid. He understands how big a part of the US economy shale is.

43:53

KIRIL SOKOLOFF: Right, right.

43:54

RAOUL PAL: And also, the very fact that if you drive down the price of oil, the dollar explodes, because everyone's short dollars are broad. And again, Putin doesn't care, because he doesn't have a dollarized economy. So it can basically allow the entire world to burn because of the strong dollar and he wins. It's an extraordinary stroke of geopolitical genius, I think.

44:15

KIRIL SOKOLOFF: It is. It's just incredible. It's incredible. So what do you think? Do you think we've seen-- are we seeing the lows? Or do you think it goes down to 10, or 15, or you don't know?

44:25

RAOUL PAL: My guess was always 20, but we hit it in a very short space of time. And it all depends on, okay, how long is this economic situation?

And you and I chatting, it's kind of cementing in my mind that it's longer than the market expects, regardless of-- we don't know anything, you and I. We're just trying to put together the jigsaw puzzle, but it feels like it's a longer event.

44:47

If it's a longer event and the demand for oil isn't there, obviously, the shale producers are trying to produce as much as they can just for the cash, as well as Saudis, as well, everybody else, because there is no demand. So you have to play the volume game. So my guess is with the global shutdown, what is the price of oil? Is it \$10? Is it \$8? Is it \$5?

45:10

I don't know. It could be, because as you said, if tourism is gone, well, that's all the airplanes. I don't know. These are so many black swan events compounding but probably [indiscernible]. It's hard, because everything seems possible now, or impossible.

45:31

KIRIL SOKOLOFF: That's right. That's absolutely right. Yeah, that's why not doing too much in my estimation is the best. I made my decision, how to be prepared for this, and I'm going to ride it out, and we'll see where it all comes out.

45:54

RAOUL PAL: I think that's exactly the right thing, is in the end, it's about self-preservation, preservation of your business and being able to deal with transition. And an old client of mine when I first started my career gave me one of the greatest pieces advice I've ever received, which is, he who has cash in a recession is king.

46:18

KIRIL SOKOLOFF: Yeah, and another one is, in a bear market, he who loses least is the winner. And I look around the world, and I look at what's happening to Greenwich real estate, or real estate in New York City, or what you thought was a \$50 million house or apartment. Maybe it's \$10 million, maybe it's \$5 million. Maybe there's no buyer for it all.

46:45

Maybe in this conspicuous consumption backlash, no one will want to buy it. It may just be worth nothing. So the wealth that's been created may turn out to have been very ephemeral, and that would be devastating for a lot of people, because they spent their life building a fortune, and they thought they were very wealthy. Then it turned out, oh, man, oh, I really am-- I may be wealthy, but maybe I'm not so wealthy. But this will get people to focus on different things, perhaps.

47:22

RAOUL PAL: I think that's right, and I share your optimism about a changing culture. I also think in the end, it's going to prove to people that being an entrepreneur is the best thing you can do, because you're in control of your own income. You take the risk that suits you, and you're not relying on somebody else. I think there will be great opportunity, as if we are right and this is a secular transition, then the opportunity is going to be everywhere. You just have to look.

47:53

KIRIL SOKOLOFF: That's right.

47:54

RAOUL PAL: The one thing you don't look back at is the past. You need to look into the future.

47:59

KIRIL SOKOLOFF: Yeah. I wonder if long distance learning for schools is the way of the future? Video conferencing, I've loved the concept of video conferencing.

48:09

who really wants to-- I've traveled so much of my life, as you have. I love to see people face to face, but this is-- I'm seeing you face to face. Sharing a glass of wine might be better, but we're sharing the experience, and this may become more popular, even if things change.

48:29

RAOUL PAL: Because you know you and I over a glass of wine have complained that we love traveling, but it's a lot. It's hard work. It's exhausting.

48:36

KIRIL SOKOLOFF: Yeah.

48:37

RAOUL PAL: And as you said, we can be here over Skype, and it's almost like I'm there. I've been to your house. I know exactly where you are and everything else, so it's very familiar to me.

48:48

I mean interestingly enough, this evening, because the office in Cayman it is closed, and we're quite a small office in the Cayman Islands, we're having a drinks party tonight online.

48:57

KIRIL SOKOLOFF: Nice, nice.

48:58

RAOUL PAL: --because everyone's at home and kind of locked in their houses, do we said, well then, we'll just have a Zoom call and have a bit of a drinks party so everyone can have a bit of social time together. And I think that will come relatively normal.

49:10

I interviewed a friend of mine who runs a family office in Italy, and he is quarantined in his apartment. And he's like, well, it was my father's 85th birthday. We all had a drinks party online. He said, it's a friend's birthday. He said, we're adapting to it pretty quickly now, and it's okay.

49:31

KIRIL SOKOLOFF: Yeah, exactly. Exactly. And well, I think that it'll be-- you know the old story. The wife complained to the husband, you're always traveling, you're always working, you're never around. Then he retires, and she can't wait to get him out of the house. So there may be a little bit of reality here.

49:52

I've got three kids. I'm in my house, I'm home tutoring them. But yeah.

49:58

RAOUL PAL: So how are you personally coping with getting your kids through schooling? Are you home tutoring, or you're doing it online? And how are you thinking about that?

50:07

KIRIL SOKOLOFF: Well, we-- I'm in the Bahamas, and my wife and two children are in Logano, Switzerland. And I took one of them to look at schools in London, and then she went back, and I came here to do some things. And of course, everything's shut down.

50:27

So I'm here, and they're there. I offered to fly them here, but my wife felt comfortable in Switzerland. And they're being long distance, learning through the school. And then they have their own tutors for the UK school system. So they're doing a lot of tutoring. So I've been asking my daughter whether she's going stir crazy, if she's getting enough exercise. But anyway, the human ability to adapt is just extraordinary.

51:00

RAOUL PAL: Well, and I think you're right. This is going to be their future, learning-- that you realize it's so archaic to be in a classroom. Yes, you need social interaction, because if not, you can't build societies. But there's other ways of solving for that.

51:15

KIRIL SOKOLOFF: Exactly.

51:16

RAOUL PAL: And so that gives a lot of people a different flexibility in terms of how they live their lives, where they live. You can live in a place that's cheaper or more suitable to you. There's a lot of societal change can come out of something like this. So even though I'm incredibly pessimistic right now, I'm kind of optimistic. I kind of think the Fourth Turning is a good thing.

51:40

KIRIL SOKOLOFF: Yes. Yes, I agree with you. And I think the distortions in the free market-- we have not had a free market. Certainly, ever since the GFC, but going back.

51:52

And those distortions are gradually going to end, I would think, some of them. And it may make markets and investing fun again. Between now and then when that brave new world begins, it's going to be unbelievable pain. But on the other side, we'll have learned a lot of lessons of things we don't want to do going forward.

52:18

RAOUL PAL: I think you're right.

So Kiril, I think we will have to see how this develops. I'm definitely going to check back in with you, because I need your brain to bounce ideas off, because we are in unprecedented times, and it's going to take some real thinking here.

52:37

KIRIL SOKOLOFF: Yeah. The important thing is not to listen to the people who were shouting, bull market, bull market and say, well, what do you think now? This is the people who call this right, because they might be seeing it more clearly.

52:51

RAOUL PAL: Yeah, exactly right. Well, Kiril, thank you, my friend. Stay safe in the Bahamas.

52:56

KIRIL SOKOLOFF: Thank you.

52:56

RAOUL PAL: And the family's all okay in Switzerland.

52:58

KIRIL SOKOLOFF: Enjoy your online drink tonight.

53:00

RAOUL PAL: I will do.

53:02

KIRIL SOKOLOFF: OK. Bye-bye.