# Bloomberg-Interactive Brokers Studio hosts David Kotok on Markets and Investing (Radio)

### Why we bought stocks before Labor Day weekend

David R. Kotok, Chief Investment Officer/Co-Founder, Cumberland Advisors, joined Lisa Abramowicz and Paul Sweeney for a Bloomberg-Interactive Brokers Studio segment on September 4, 2019. He discussed markets and the current investment outlook and he's asked when investment managers should "dip their toe in or pull their money out." David also talked about Cumberland Advisors' quantitative work and the signals of panic and fear (see Matt McAleer's & Leo Chen's talk about that here: [https://youtu.be/yir-3H2Dfxg](https://youtu.be/yir-3H2Dfxg)).

This material that follows is excerpted from that interview with David.

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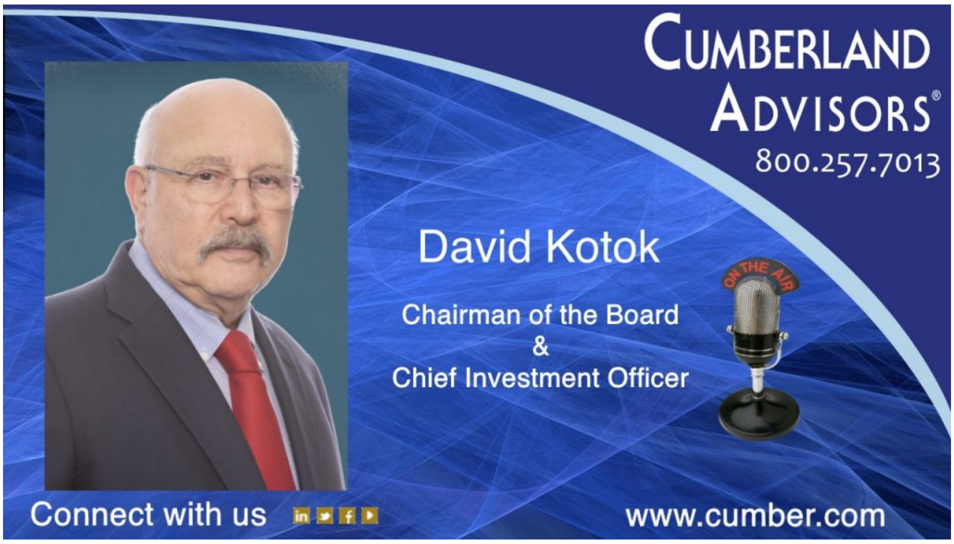


**Lisa –** As the market kind of jogs around this range and doesn't really make a big move one way or another, there is a question hanging over investment managers, which is, when do they make a big move, when do they dip their toe in or pull their money out?

Joining us now is David Kotok, Chairman and Chief Investment Officer of Cumberland Advisors. He joins us here in our Bloomberg Interactive Broker Studios. David, we love having you on. Thank you for being here. What are you doing at this point? Are you sitting on your hands, like everybody says they are, in terms of real money investment?

**David** – Lisa, it's always a pleasure. We've had a big change since the last time we talked. Last week we saw three rounds in our quantitative work on sentiment that was saying panic and fear is now rife in the markets, and that's appropriate when you see the kind of headline risk we've had day after day. We became nearly fully invested in the US stock market in those selloffs. So I sit here today; and yesterday, when I had my head handed to me, having just gone in the week before, it was looking pretty bleak. Today looks a little better, but the fact is we make the case three ways. Fiscal policy is expanding. That's a rising deficit; it's going to be over a trillion. That's a Trump deficit. Monetary policy is flat to easy. There isn't a chance that interest rates go up in the United States for the next year. They go down or stay where they are. And the third one is the important one, because the entire distribution of US government debt is somewhere between, say, 1.5 and 2.0 percent interest rates; and the inflation rate in the United States is somewhere between 1.5 and 2.0 percent. If you put that together, it means the real interest rate in the United States is zero, which means money is free. Money free, loose monetary, loose fiscal, and 160 million people employed in the United States legally, with wages; and the wages are rising. Show me how you get to a big recession; I don't see it. So, I don't like the policy; I don't like the trade war – I think it does a disservice to the nation and the world, and I think Navarro-Trump policy is wrong. But I have to be agnostic on policy and apply, as an investment professional, what I think is the right choice, and that's what we did. Now we'll find out if it's good or bad, but we're in a new place here.

**Paul** – Yes, so of course what we've seen almost on a daily basis is the headline risk, which you talked about; and it brings you back to what seems to be the number one driver of daily fluctuations in the markets, which is the trade risk. So do you, from your perspective, have to put that aside and think longer-term, I guess?

**David** – Well, we're evolving a different position on trade, Paul. We used to think about this as a temporary phenomenon, and the markets played that for a year and a half. And the politics of it seemed to suggest it, but I think what has really happened is, what Trump and his policy have done, is permanently set back globalization and integration, which was at work for decades. The result of globalization and integration was a declining protectionist path – we have it – and more or less growing peace, although we had hotspots. We are reversing that. It's a shame. What does it mean? It means we'll have enclaves, geographically, instead of globalization. So you take the US, and you take Canada and Mexico, put them together and say that's a North America enclave. You have another, and it will be China-centric. You have another, and it will be Europe, which is dealing now with this monstrosity of negative interest rates. But it's a separate enclave.

And so, for us, the focus then is on this new world. We are going through what I think is a hundred-year flood, and it's a major change. And if you try to play by the old rules, they don't work. Good example, if I have another minute: If you take negative rates – there's $17 trillion in negative rates (I know you follow that closely; Lisa especially follows bonds; she has for a long time) – so you say, okay, discount any asset with a negative interest rate, and the ultimate math says it's worth infinity. Now we know that's not possible. So all bond models don't work when the duration is longer than the maturity. The bond model doesn't work when you discount assets at these interest rates. You get prices which change behavior extraordinarily.

**Lisa** – Okay. So all this kind of comes down to why you just shifted your money into equities. Is that correct? You shifted your portfolio?

**David** – Well, that's right. We took up the weight in equities. When the S&P 500 Index yield is higher than the 10-year Treasury, would you buy the 10-year Treasury with your money? My answer when that question comes to me is no.

**Lisa** – Okay, but then I guess the flip side of that is, do you think that bonds are going to underperform, given that relationship, or do you think that stocks just need to rally a whole bunch more to sort of right-size everything, and then just returns will be lower going forward?

**David** – I think bonds underperform in price as yields get restored, if we don't have a global recession or depression, if we don't repeat Smoot-Hawley. And in the mature economies – in the US, which is now 70 percent services – it's not that likely. You can't make that case so strongly, or at least I can't. I hear it all the time: The world is coming to an end. Here's a Kotok forecast: The world won't come to an end. And if I'm wrong, you can tell me how wrong I am.

**Paul** – So, David, are you thinking – what we've heard from some people is, it is perhaps a new world order, less global perhaps; but that suggests that global growth is going to be less going forward over the next 10, 20 years than it was over the prior periods.

**David** – I think you're right. I think, Paul, global growth slows because we have impediments to it now instead of assistance to it. You know, for me, this is tough. I spent my entire adult life in philanthropic work and geopolitical work with organizations devoted to globalization and integration, attaining peace and a higher standard of living worldwide. And it's all coming apart. And the reason it's coming apart is a misguided policy that originates in Washington. That's awful.

So, it's hard, on the policy; but I sit with my partners at the firm, and I say, we don't make this policy. Our job is buy, sell, or hold for a client. And now we have an entry, and we have an entry because the world looks so ugly and crazy.

**Paul** – Right. Interesting. David Kotok, thank you so much as always for your comments. Very interesting takeaway, Lisa, is that Mr. Kotok is using the recent volatility, the recent weakness in the market to get a little bit more aggressive on the equities side.

**Lisa** – I think it's really poignant that he said this is a hundred-year flood, that this is, sort of, turning a lot of fundamental assumptions on their heads. And what does that mean for how you look at investing and just in general how to call your perceptions? Really important outlook.

**Paul** – Yeah, it's a different view and certainly one that makes a lot of sense, and it's perhaps just recognizing how the markets have changed out there. David Kotok, Chairman and Chief Advisor of Cumberland Advisors, thank you very much for joining us and giving us your thoughts on the market.

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If you like podcasts, check out this one from 2015 featuring David Kotok talking about his background and Camp Kotok with Barry Ritholtz. They also talk about the history of Cumberland Advisors since its founding, and delve into fundamental principles of investing and valuation.

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