

Interviewee: **Michael Aronstein**
Title: **President and Portfolio Manager**
Company: **Marketfield Asset Management**

Interviewee: **Ken Sennett**
Title: **Director in the Equity Research**
Company: **Evercore**

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Interviewer 1: **Tom Keene**
Interviewer 2: **Ken Prewitt**

Tom Keene

From the New York Stock Exchange, that is the opening bell. We are not at the New York Stock Exchange. We're at the next best power breakfast thing at Loews Regency Hotel in the SAS power breakfast. Ken Sennett helping us out from Evercore. Really interesting conversation on all tech and now joining us, Michael Aronstein joins us from Marketfield Capital as well. Your thoughts on the week, Michael. You've got decades of experience. You've talked about the white swan. It was the volatile swan this week, wasn't it?

Michael Aronstein

Yeah, this was, this was almost like a 700-pound swan. This was something people hadn't seen before, but, no, I think it's indicative of two things- the market structure, which is now pretty much put on auto pilot at the beginning of the day and it's very much without human intervention worldwide and also the integration of global markets, which and that wasn't a factor in the last big volatile cycle and now you have participants pretty much arbitraging movements across all capital markets, all asset classes instantaneously and it creates kind of directional momentum that can be pretty eye opening.

Ken Prewitt

Michael, are you surprised that retail sales are doing so well?

Michael Aronstein

No, not at all. There's not a problem in the US economy. There's a problem, you've had some slowing in the parts of the world where they've had serious monetary tightening and you've heard that from US multinationals in the last couple of months. They've said some of our order books from overseas have slowed somewhat and that's really scared people, but we have a structural problem here. We're in a housing depression and people whose employment was linked to that are really having a difficult time of it. So we have a permanent of blue collar unemployment that is really intractable, but the rest of the economy is functioning.

Tom Keene

Yeah.

Ken Prewitt

Yeah.

Tom Keene

Let's get- well go ahead, Ken Prewitt, please.

Ken Prewitt

We'll get back to that.

Tom Keene

Okay, Ken Senett, jump in here with a question for Michael Aronstein, Ken Senett from Evercore.

Ken Senett

Well, if you, I don't know, if you had to talk just about when you're looking at some of the spaces getting hit right now, how much are you looking at it in terms of what's cyclical getting hit first versus what---

Tom Keene

The structural end of it.

Ken Senett

Yeah, I mean, if you could just maybe talk about what you're seeing kind of industry by industry in terms of the selloff.

Michael Aronstein

Well, I think in this selloff, one of the more remarkable things to me was how quickly the technology sector, particularly technology hardware and semiconductors, got hit early before there was this sense of general conflagration so that was the first indicator that there was something changing possibly on the overall global demand side.

Ken Prewitt

It was pretty much anything that just didn't kind of meet that full expectation was got hit really hard, correct.

Michael Aronstein

Yep.

Tom Keene

And Texas Instruments down 25% from a peak that was earlier than a lot of the other peaks.

Michael Aronstein

Right and all the high multiple aggressive sort of hedge fund names that had to do with, I guess, networking and optical really got liquidated in a hurry and to a point where, you know, I think yesterday, a lot of money went back into those. You know, yesterday you saw a tremendous rebound in some of the most heavily sold stocks.

Ken Prewitt

Speaking of which, Citi is up 5% and Bank of America is up 5.1% here early in the trade today. So the sentiment is completely changed now on banking?

Ken Senett

I don't think so. It's a snapback.

Michael Aronstein

You know, it's a typical snapback of something that's been really, really sold into the void and I think the banking sector has got long-term problems. This is not news to suggest this now, but they're going to have a very hard time making money over the next decade to any extent that makes them exciting stocks. I don't think anybody's going out of business.

Tom Keene

How do you link it, as Douglas Cliggott said earlier this week from Credit Suisse, how do you link a more sluggish economy even if it's 2 or 3% versus the gloom now of 1 to 2% down to cash flow and the ability of American corporations to make money. Texas Instruments, 34%, five-year

dividend growth, almost a 2% yield. Can they maintain the middle of the income statement given a reduced global economy?

Michael Aronstein

Sure, I think the corporate sector keeps surprising people because the corporate sector in the United States went through what government is going through now. It had a forced restructuring in the wake of the '97, '98 Asian crisis, which was a huge deflationary event for everybody doing business in America and for the last 10 or 12 years, these guys have gotten their collective acts in gear. So even this late into the cycle, the numbers keep surprising people. You still see a pretty good range of positive surprises even here we are a couple of years past the low point in the stock market, which is very, very unusual, but I think the problem the world has is we have two separate asynchronous processes going on, the first being in the private sector, which has sort of gotten itself straightened out. The second, in the official sector, which is terribly, terribly [inaudible] now and very mismanaged and has all of the bloat and problems that say the US industrial sector had in the 1960s and 70s.

Tom Keene

And you just described the US Post Office.

Ken Prewitt

The Dow is up 127 right now at 11,269 about 1.1%, S&P up about 1.2%. Michael Aronstein at

Tom Keene

Marketfield.

Ken Prewitt

I lost my place, Marketfield Asset Management, is with us and Ken Senett of Evercore Partners. You didn't see this, but Ken Senett was sitting over here playing Angry Birds upside down.

Tom Keene

Michael, do you play Angry Birds?

Michael Aronstein

I don't even have a phone that can get pictures on it.

Ken Prewitt

Most of us can't even read upside down, but he's

Tom Keene

Ken, where's the worry here of the names that Michael's talking about, which is an entrepreneurial America. Michael's mentioned the governance issue of our politicians. If we don't have an entrepreneurial Silicon Valley and I mean that on a national sense, where do they go to? Which country is the Silicon Valley alternative if it's not America?

Ken Senett

Finland.

Ken Prewitt

Home of Angry Birds. That would be Finland, right?

Ken Senett

It's a good question. I think, you know what? There's a lot of investment and excitement, I think, just even in China when you look at the opportunity there and you look at Alibaba and how's that growing, you know, even the ecommerce platform that's larger than Amazon at this point, I believe, and, you know, growing potentially even faster and we've already talked about the

growth rates that we're seeing at Amazon. So it's, there's a big opportunity there and I feel that there are some concerns about investing in that country.

Tom Keene

Right.

Ken Senett

You saw what happened with Alipay for Yahoo, but I think there are some other areas of excitement.

Tom Keene

Michael, you like persistency of cash flow, as I do. Can you look at the Ken Senett space? Can you look at these kind of companies that got a revenue pop and they got, they're using valuations that get you out 4 or 5, 6 years to fruition? It's not Colgate Palmolive.

Michael Aronstein

Yeah, that's a tough judgment for me to make because I'm not expert in this and I probably too old to appreciate the new wave of [inaudible].

Tom Keene

How do you talk, Ken Senett, when you're out on a sales call with a fossil like Tom Keene or Ken Prewitt or young Michael Aronstein? How do you talk to fossils about Groupon?

Ken Senett

Yeah, I think sometimes it helps to actually pull out

Tom Keene

Did you see how he didn't bat an eye there?

Michael Aronstein

I could have my children translate for me.

Ken Senett

Well, I think sometimes it helps just to be able to show an illustration to show like an example because people will get it even if they aren't on their mobile phone all the time, if they can walk in and if you can show them, look, in three or four buttons, you can find out exactly the restaurant that is around you that might want to go to and find out if it's, if there's a deal to go there or not and you can go into a store and see something you like, scan it and find out the reviews on it, find out a cheaper price, have it delivered to your home. I think some of that stuff helps people understand and once people get that behavior, you're saving them money, it becomes addictive and you just have to kind of follow it from there.

Ken Prewitt

Let me get you back to banking, Michael, which even old fossils, Tom, of course, is speaking for himself, can understand. I pointed out that Citic is up 3.5% and Bank of America is up 3.9. You were kind of negative on the industry when we asked you about it. Does this mean the banks are just trading vehicles now? Like airlines kind of?

Michael Aronstein

Yeah, the banks, I would say the analogy that comes to mind is and this isn't something I witnessed firsthand, but I know about it, is the utility sector post 1961.

Tom Keene

Dominion Electric.

Michael Aronstein

Yeah, they were, the S&P electric utilities traded at 23 times earnings as a group in the early '60s. They were considered a really hot sector with unlimited growth and you know what? The government got on their case. Regulation picked up and the world became somewhat inimical to their process and that was it.

Tom Keene

It the tie was a little narrower, I could see Michael Aronstein on Mad Men talking up utilities at some bar.

Ken Prewitt

He's kind of a bad man

Michael Aronstein

The man for it maybe.

Tom Keene

And you're like, Ken Senett, this is a fountain pen. I was buying ink during that announcement. Ken, that's a fountain pen. Okay, this is my Angry Birds.

Ken Prewitt

Michael, what was your reaction when Bank of New York Mellon announced last week that you're going to have pay them if you're a big depositor. They're not going to pay you interest.

Michael Aronstein

Yeah, that's one of the interesting things about this world. There are all kinds of stresses in all kinds of capital markets except the world is awash with money. This is the first time you could say one of the world's big problems is there's too much money.

Ken Prewitt

There's too much money. How could that be a problem?

Michael Aronstein

Well, it's the location. It's fluid and it's like Angry Birds, it goes places where it's not necessarily needed and that was the illustration, but it makes policy response on a global basis much, much different than in an environment where you have a shortage, where you're liquidity constrained because, in fact, basically no central banks are liquidity constrained at this point since the dollar has been so weak and they've accumulated so much in the way of reserves. So it's interesting that if the ECB wanted, they could just pay off all the debt of all the troubled sovereigns.

Tom Keene

Let's come back. Michael Aronstein with us and Ken Senett as well. We're up 90 points at Bloomberg *Surveillance*.

We welcome all of you around the world on Bloomberg.com and then Sirius and XM across the nation and Canada and particularly good morning to James in Reno, Nevada. I was listening at some ungodly hour, 3:30 in the morning or something, Ken, in Reno. James, thanks for listening. You need to get a life. Get some sleep. Michael Aronstein with us from Marketfield Asset Management and Ken Senett from Evercore is our power breakfast brought to you by SAS, the power to know. Michael, on the break, you and I were talking about first, second, third stages of Marxism and this idea of capitalism and Ken Senett's entrepreneurship reigning supreme. What about the other Americans that don't have a Ph.D. in computer science?

Michael Aronstein

Well, the way in which you create opportunity for labor is to encourage capital formation. That is the core necessary precedent in the process and that's how economies grow. They are entrepreneurial acts and that can be extending the counter at a restaurant, which requires the

committing of capital. It could be the putting another hot dog stand out here on 61st Street. That requires committing capital and calling on new suppliers. It doesn't have to be quite as large scale and grand as starting a new Silicon Valley internet marketing company, but those acts are what creates demand for labor within a system and the more of that you allow and you can't forcibly provoke it. All you can do is create an environment in which that becomes a viable alternative for people and, unfortunately, politically right now, we are dealing with an administration that seems to have a visceral kind of antagonism toward business of all sorts and, particularly, successful business.

Tom Keene

Ken, is there ample investment in Silicon Valley among the entrepreneurs? Is it

Ken Senett

I think that's not a concern right now. I think if you look at some of the private money being raised, I think that the companies have no shortage and so the idea that the IPO window might be delayed or whatever, I think, it's not, they do have still, I think, other options.

Tom Keene

I just interviewed Kevin _____ of [inaudible] from Stanford. How does the big money find code writers at universities? Is there like a code fair?

Ken Senett

That's a good question. I'm not a developer so I haven't gone through any of those recruiting processes, but I think, sure, I think there's probably lots of methods for outreach there at the universities level to find the talented code writers early.

Ken Prewitt

Yeah, wouldn't you guess the code writers seek out the money since there's more of them and they're

Ken Senett

I think it's true. Yeah, and I think you want to work with, I think, Facebook has done very well attracting talent. I think Google has had some issues more recently, but I think even Google is doing a better job, I think, at this point.

Ken Prewitt

Michael Aronstein, are you a buyer of US government securities at these levels?

Michael Aronstein

We had been and we've actually been selling them. I think

Ken Prewitt

At a profit?

Michael Aronstein

Yeah. I think we've had kind of a panic at the safe assets over the past week and while you can't be sure that that's the low, you look at some of the [inaudible] like the Swiss Franc, which had an enormous spike up and then an enormously reversal. That's kind of terminal action and it's related to the flows into US Treasury assets. I don't think you have a big problem with US Treasury assets. I think, over time, savers and investors are still going to be hard pressed to earn any sorts of returns without taking enormous risks and that's going to be the one mechanism for, I think, alleviating some of the real debt burdens in the world is that people who own the debt and who are creditors are going to get paid nothing for the risk they take.

Ken Prewitt

So you look at that yield on the 10-year, 2.28, as we speak. Do you have a forecast?

Michael Aronstein

No. I just think it's a lot higher than what you get in a bank deposit. You now have to fight your way into banks to give them money. Actually, we spoke to a midsized bank two days ago to one of the officers. The deposit base and this is many billions of dollars, doubled in the last four weeks.

Tom Keene

Wow.

Ken Prewitt

Wow.

Tom Keene

That's a great [inaudible].

Michael Aronstein

Corporations Europe.

Ken Prewitt

Give me that FDIC insurance.

Michael Aronstein

Yes.

Tom Keene

Yeah. That's the fear that's out there. That is absolutely remarkable.

Michael Aronstein

Yeah and they pay virtually nothing on deposit, but it's essentially a convenient way of sticking it under your mattress.

Tom Keene

And, Ken, within all this turmoil and as we go into what we hope is a relatively quiet weekend, what's the next marginal IPO in your world and is it just sort of like business as usual from a month or two months ago?

Ken Senett

Well, I think the one that most people are focusing on right now is Groupon.

Tom Keene

When does that come?

Ken Senett

I think it's, there's talk of it moving, potentially a few months.

Tom Keene

Can you get me 1000 shares?

Ken Senett

Well, no, but I think they just buy all they're a revised S1 yesterday and so but I think that was, I think that indicates that things are still on course, but I can't give you an exact time period.

Ken Prewitt

What about Facebook? Have you been able to narrow down that time?

Ken Senett

Facebook, I think the plan there, at least from what I kind of hear more in the press is still on sort of a 2012 sort of timetable.

Tom Keene

Where's Twitter in all this? Are you on Twitter, Michael?

Michael Aronstein

No.

Tom Keene

I find it not only great, but it's like the breakfasts here get even better, like [inaudible] great service. Twitter gets better and better. It gets more interesting.

Ken Senett

Right.

Ken Prewitt

Tom's on Twitter, but Tom would also go door to door.

Tom Keene

When do they monetize it? That's true. When do they monetize it?

Ken Senett

I think Twitter kind of symbolizes kind of the best and worst of what's going on. I think it's one of the best experiences, I think, but it has one of the biggest challenges in terms of monetizing that and the value there is how well Twitter could kind of fit into like a Facebook or a Google and so there's clear value, I think, in terms of the asset, but for them to monetize on their own right now is a bit of a challenge and so going through that IPO window would be, when we're talking about even getting the tough valuations for like a LinkedIn, when you think about Twitter, I think the challenge is even greater potentially.

Ken Prewitt

I wanted to bring this up and you probably don't want to discuss the legal aspects, but after the riots in the UK, Prime Minister David Cameron said the government is working with police, intelligence services and the communications industry to see whether it was right to stop people communicating via social network sites. The Home Secretary is going to meet with representatives of Facebook, Twitter and Blackberry maker Research In Motion to discuss the technical and legal issues of stopping people from organizing unrest.

Tom Keene

That sounds like Cairo.

Ken Prewitt

Via social networking, is that even possible?

Ken Senett

I think, well, I believe the networks have control over a lot of the, they can control more of the content that gets trends communicated than they do if they needed to, but I feel like their view is, look, they are providing tools to the community in order to communicate and that should be allowed.

Tom Keene

Let me get Michael Aronstein here with the last idea before we go on with our busy days. Michael, the tumult of the week, you have had an optimism about the American experiment. How separate is America from the European crisis?

Michael Aronstein

I think quite separate. We had our own crisis having to do with a little mania in single-family housing and the finance attached to that and everybody kind of pointed their finger at us, but one thing that I was quite encouraged about is that we actually do have a debt ceiling and we had to fight about it. It wasn't pretty watching that, but as opposed to Europe where there's no, Greece just went out and borrowed however much, half a trillion dollars with no prospect of paying it back so the idea that there are some natural governance mechanisms here about the usage of other peoples money in the government level is a good thing and we've always been a much freer economic system than Europe. That's been pretty much forever.

Tom Keene

Well, Michael, we thank you so much for coming by and Michael Aronstein, Marketfield Asset Management.

Michael Aronstein

Thank you.

Tom Keene

Ken Senett, generous of you to darken the door for us.

Ken Senett

Yeah, thank you.

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