

Interviewee: **Michael Aronstein**
Title: **PM**
Company: **Marketfield Asset Management**

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Interviewer 1: **Carol Massar**
Interviewer 2: **Adam Johnson**

Carol Massar

Well, markets are getting slammed today. You know that. We've got the Dow down about more than 400 points right now or maybe 440, got to check my terminal here. Our next guest says it hasn't been the US debt ceiling or even US economic data that is sending stocks lower. He says the market turmoil is a result of the debt crisis over in Europe. With me right now is Michael Aronstein. He's CEO of Marketfield Asset Management where he oversees more than \$1 billion. What do you make, first of all, of what we're seeing, the selling around the globe? It does feel, you know, Barton Biggs saying it feels like panic selling at this point.

Michael Aronstein

It's getting to the edge of panic, but I don't think people have discerned the reason for it, the real fundamental driving force, which I do believe is the breakdown of the kind of post World War II system of governance and government action within the EU.

Carol Massar

So you think it really is all of Europe at this point. What about the concerns, Mike, about what's going on here in the United States? We got those revised GDP numbers. That was a bit of a shocker. The labor market continues to struggle. We'll get another read tomorrow. The housing market, it's not the US here?

Michael Aronstein

No, we do have issues, but they're not the same issues that are the acute phase in Europe. I mean, our government voluntarily undertook to debate a debt ceiling in the last couple of weeks. It wasn't pretty, but that's

Carol Massar

But it was a good thing in your view, and the restructure to it?

Michael Aronstein

It's much better than going the way of Greece, which just borrowed everything it could get its hands on for years and years, and then came with its palms outstretched saying: by the way, we owe half a trillion dollars and we don't have it.

Carol Massar

How, you and I were talking a bunch in the break and we were talking with Adam. I mean, it's really a mess over in Europe.

Michael Aronstein

Yep.

Carol Massar

There's a lot of different players. They can't seem to figure this one out. I mean, if that's the case, then what's the drag on the global markets? I mean, is this a drag that goes on for what? Another year, another several years? I mean, how do we get out of it?

Michael Aronstein

Well, the acute phase is going to last until the ECB is forced to undertake QE3. We are going to have QE3. It's going to come from Europe.

Carol Massar

It's going to be a European forum.

Michael Aronstein

Yeah, and if they were even slightly competent, it would start tomorrow, but they're not; so it's going to take a little bit of time and the markets are going to hold everybody's feet to the fire until the ECB capitulates. They are going to be like a margin investor who's long and the phone is ringing. And, however much they protest that they're not going to be driven to do anything, they are.

Adam Johnson

Hey, Michael, I think you got plenty of company in thinking that there will be a QE3, but my question is: QE1, QE2 obviously didn't work; look at the markets where we are today. There's evidence of that. So why throw more good money after bad?

Michael Aronstein

Well, I'm talking about a QE3 in Europe, not in the United States and

Adam Johnson

But same difference, I mean, we're all in this together.

Michael Aronstein

It's not the same difference, really, because what we're going to have with European QE3 is some, well if they do it properly, they will stop the complete breakdown of their sovereign debt markets, which, if it continues, will destroy their banking system, and it won't take very long before they do that. They have a real funding crisis over there right now. US money market funds, which are big participants in European bank short-term funding, are pulling back everything right now, as they should be. And the ECB, along with the banking regulators, basically, has forced the European banks into holding a tremendous proportion of sovereign debt on their balance sheets, and that's been the effect of the aftermath from a regulatory standpoint of 2008 and, of course, they've chased them right into the most dangerous part of the global markets.

Carol Massar

So, what do you make then of what the ECB, what we got from Jean-Claude Trichet today. He made a statement, he said: "the downside risks may have intensified." He says: "they relate to the ongoing tensions in some segments of the Euro area financial markets as well as to global developments and the potential for these pressures to spill over into the Euro area real economy." So he says this. I mean, do you feel like the ECB is kind of getting us ready for some kind of action here?

Michael Aronstein

They ought to be and they ought to do it tomorrow morning.

Carol Massar

They ought to. I mean, why didn't we get maybe something more today?

Michael Aronstein

They're not competent. They are woefully lacking in competence. They just tightened four weeks ago.

Carol Massar

Right, I know, I know.

Michael Aronstein

I mean, that's the second-most idiotic official response I've seen; the first being their tightening in 2008.

Carol Massar

Let's talk more about the ECB. I got to take a break here, but I want to come back and talk a little bit about that and talk a bit more about the markets in general. We are talking with Michael Aronstein. We'll get more on the other side of the break.

[Ad break]

Carol Massar

Welcome back to Street Smart. Now the market is getting hammered right now with the Dow down over 400 points and the bloodletting is global. We continue now with Mike Aronstein. He's CEO of Marketfield Asset Management. I saw you raise your eyebrows. I mean, are we making too much out of the global selling. I mean, sometimes we need to have a voice of reason in all of this. We've seen a lot of panics before. I mean, how would you put this one among some of the other selling that we've seen over the last decade or so?

Michael Aronstein

Well, I think you have real problems in the capital markets outside the United States. A lot of money is gone and we talked about this ad infinitum

Carol Massar

A lot.

Michael Aronstein

It's into EM and other non-dollar markets. And the EM has a problem with intentional monetary tightening, which they've done in response to the inflationary pressures that have emerged and that's very destructive at this stage because those economies have become more leveraged in the consumer and real estate sectors and the

Carol Massar

Which is what we're seeing in China

Michael Aronstein

Right.

Carol Massar

It's playing out big time.

Michael Aronstein

Exactly. And then the EU is seeing tightening from the markets who are, I mean, spreads have started to widen dramatically. Sovereigns are really coming out and there's a lot of pressure being put on by market action. It's not intentional although, again, the ECB has just finished tightening four weeks ago, which really was one of, I mean, that will go down in

Carol Massar

Oops, big time.

Michael Aronstein

Yeah.

Carol Massar

Hey, so let me ask you, Mike, I mean do you think then, because of the selling we're seeing, I know you say the guys over in Europe, they just don't have it together. Could we, though, potentially tomorrow, early next week, see the ECB do something to start correcting things because they have to out of necessity at this point?

Michael Aronstein

I would think so. I have no idea what their pain threshold is, but they're going to reach it, whether it's today, or tomorrow, or Monday, or when they all come back from the Cote d'Azur.

Carol Massar

But they're got to do something. Let me, what have you been doing with all of this selling? I mean it's not just today- obviously, a lot today- but go back to July 22. I mean we've seen pretty much a real market correction here on the S&P and the Dow if you go back to those April highs. Have you guys, you've done really well. Have you been aggressively buying here?

Michael Aronstein

We've done some buying. We've covered some shorts, too early obviously, and added some others, but, yeah, I think we're looking at this as an opportunity to probably buy some things that became extended that have come back into buy zones and, again, we're reasonably constructive about the United States versus the rest of the world and we'll see. The proof is going to be in the pudding.

Carol Massar

Is it a less-dirty shirt as I keep hearing over and over and over again? Is it that or you actually like the US?

Michael Aronstein

We really have a functional economic system despite our political problems at the moment. We have a mechanism that underlies the markets that's really generative, and we have the capability to grow and generate a great deal of wealth. The European periphery, given the current state, does not.

Carol Massar

So you mentioned that you guys have been somewhat adding to some positions. Can you give me an idea of where you guys have been buying, what you like at this point?

Michael Aronstein

We've added some in retail. We've added some, kind of, in the direction of the US consumer. We've covered a few shorts in emerging markets.

Carol Massar

Do you feel a need to go defensive at all? I mean, we're seeing the defensive sectors also get hit here.

Michael Aronstein

Yeah, we bought a couple of companies that have been traditionally defensive, but I will say the most, really when you look fundamentally, the most defensive index in the US markets is the NASDAQ 100. If you look at the QQQs, look at the names that dominate that list. It's Apple. It's Google. It's Intel. It's Qualcomm. All these companies that have pristine balance sheets, they generate tons of cash, they have no problem with debt or leverage and that's almost become the defensive part of the US market. And the fact, if you look at the relative performance of the NASDAQ here versus the emerging markets, it's quite remarkable how well it's done over the past couple of days.

Carol Massar

That's some interesting perspective. Mike, we got to run. Thank you so much.

Michael Aronstein

Thanks for having me.

Carol Massar

Appreciate it. Mike Aronstein, over at Marketfield Asset Management.

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