

Interviewee: **Michael Aronstein**
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Erick Schatzker

Why do stocks keep selling off? Is it the fundamentals or is it really just a bunch of old white men angry that Mitt Romney didn't win? Perhaps something a bit more rational. We're about to find out. Mike Aronstein has been looking at the selling patterns the past couple of days, and he has some ideas. Mike is the President of Marketfield Asset Management.

Erick Schatzker

So talk to us about what you've seen since the election. What do you think is going on?

Michael Aronstein

I think people who have embedded capital gains and securities, and that includes corporate executives, investors, venture capitalists, private equity firms, I think they've been given notice that they have six weeks to get out of Dodge.

Erick Schatzker

Given notice by whom?

Michael Aronstein

Well I think not only the president, but the discussion now underway I think contemplates probably a 95% chance that capital rates are going up substantially, and rates on earned income are also going up radically, particularly if you live in somewhere like California.

Stephanie Ruhle

So break that down a little bit more for us. So companies out there who their executives have the majority of their stake in stock, like what kind of companies?

Michael Aronstein

Well they're certainly in all the technology companies that have come to the front of the parade of the past few years.

Erick Schatzker

Like a Facebook for example.

Michael Aronstein

Well that's been created in California is all technology based and it's mostly stock based at this point.

Stephanie Ruhle

What's the more exaggerated reactions on some these high flying companies than you would in others.

Michael Aronstein

Well others, also because in a lot of companies the top 10 or 15 executives who've been there for a long time even in industrial companies have most of their personal net worth very low base of stock. And this is true also on Wall Street where it's not as true now as it was, because the price, the stock prices are down a lot. But even so, the top 50 employees of Goldman Sachs certainly have the vast majority of their wealth in Goldman Sachs.

Stephanie Ruhle

And who specifically is giving them this wink-wink, get out now?

Michael Aronstein

It's not wink-wink. You do the arithmetic. If you've gotten through sixth grade math, this is pretty easy. And the other factor is going forward, the punitive nature of some of these tax changes on earned income, if you happen to be fortunate enough to have enough money in capital gains to take it and live off that for five or six years, really defer all of your earned income, all of your W2, that would make sense. And if you're a venture capital firm that's participated in one of these big IPOs over the past two years and you're still a majority owner, and this is true in most all of the technologies base, the partners in venture capital firms get all of their compensation in the form of capital gains through carried interest. Again, you have six weeks to take advantage of the current tax code.

Stephanie Ruhle

So this insider selling will lose momentum, will run out of steam after six weeks because we're up against a hard deadline?

Michael Aronstein

I would think so. I think people now are looking at their personal tax situation and saying, if ever I was going to take a capital gain and stocks are the easiest one. But I would think if you have a house, if you're thinking of downsizing and you have a very low basis house you really, really would like to monetize at this point. Because not only is the rate going up next year, but you have an additional I think Medicare, healthcare tax on top of the capital gains. So the change is really dramatic for the people at the very upper end.

Stephanie Ruhle

What are you doing with your money then? Are you selling? Are you buying?

Michael Aronstein

My personal money or the fund's money?

Stephanie Ruhle

The fund.

Michael Aronstein

We're more hedged in the last few days than we've been in a couple of years.

Erick Schatzker

Mike, how much downside, I know it's difficult to quantify, but can you ballpark what kind of potential downside you see as a result of this tax motivated selling between now and the end of the year.

Michael Aronstein

I have no idea really. I think the fundamentals apart from the political considerations are pretty good, and you are going to see another up cycle in at least the U.S. housing market, and I do think parts of Europe are really on the verge of getting better more than Europe. I think in general going forward, you have conditions that are conducive to more top line growth, but just from a practical standpoint from people who are asset owners at this point, you're really being given a heads up.

Erick Schatzker

You're making the case that this should be rational behavior. If you have a lot of embedded capital gains in your personal equity holdings, especially if 95% of your net worth is tied up in company stock, you should be selling.

Michael Aronstein

Absolutely. You know, I'm not a tax expert by any means, but I've sat around the table with my partners and just done the math quickly, and it's pretty compelling. And particularly if you live in somewhere like California where next year if you're a high earner you're going to paying something like 60% of your gross income in taxes.

Stephanie Ruhle

What's missing so far from our conversation is any mention of the fiscal cliff. Do you see that playing a role right now in this sell off? I mean, so many people keep bringing it up and we hear constantly from the politicians the backdrop is there and it's not rosy for anyone looking for resolution just yet.

Michael Aronstein

Yeah. I think whatever happens though you do have this, I would call it the tax cliff when the ball falls on New Year's Eve, and that's going to happen either way from the talk out there. I think there was a lot of hope that had Governor Romney won he really would have tried to maintain - you know, we've had the same tax code now for a decade. He would have tried to pretty much keep it the same and maybe reform it by lowering rates and really going away from the whole structure of exemptions and tax games. I remember when I got into the business in the late '70's, I think the most profitable area in Wall Street in terms of the brokerage firms was selling tax shelters.

Erick Schatzker

Well we may see those days come back. Mike, thanks very much. We really appreciate your joining us. Mike Aronstein of Marketfield Asset Management.

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