On My Radar With Felix Zulauf

Stephen Blumenthal: Before we get started, federal securities laws require us to make the following disclosure.

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Felix Zulauf is founder and CEO of Zulauf Consulting, a boutique research and consulting firm that offers investment advisory services to institutional investors and family offices. He has over 40 years of experience in financial markets and asset management and has served as a member of the Barons Roundtable for 30 years. That's where I've read you for a long period of time.

Felix Zulauf: Yeah. Okay. **[Inaudible 0:01:02]** said, I'm not a green chicken.

Stephen Blumenthal: Well, you're a wise chicken. He started as a trader with Swiss Bank Corporation in the early 1970s and received training in research and portfolio management thereafter with several investment banks in New York, Zurich and Paris. Felix joined UBS in 1977 as a portfolio manager of global mutual funds. He subsequently became the company's global strategist in 1982 and head of the Institutional Portfolio Management Group in 1986.

In 1990, Felix founded Zulauf Asset Management, based in Switzerland, and he then sold the majority of the firm in 2009 and spun off a family office. Today, he manages his family's wealth.

Felix, this is a thrill. Great to meet you in person, and I've been a fan for so many years.

Felix Zulauf: Oh, I have made many mistakes. You probably didn't know Steve, so it's a pleasure for me to be here and that we meet in person. I have heard a lot about you and very good things. And so we are here and we can talk about markets and what's ahead, the future.

Stephen Blumenthal: You're nice to join. Okay, so here's where I'd like to start. My father was a CPA and we got together in the investment advisory business in the early 1990s, 1992. But it was back in college when I was an accounting major, and I'd get stuck on something and he would always teach from the end, here's what we're trying to accomplish. This is where we're going. And for me it was helpful because I could always then know the destination and then figure out the roads to get there, and they might detour a little bit or changes. And I think about the investment space much the same way.

So what I'd like to do is start with the conclusion, meaning all of this ultimately comes down to understanding the big picture and how we position assets. So let's talk about big picture, kind of the outlook, the period that you foresee ahead, how investors might think about positioning for this different period that few of us have seen for a long period of time. And then we'll walk through some of the pieces to figure out the roads to get there.

Felix Zulauf: Okay, well, in the last 15 years, and even if you go much further back, it's been a tremendous ride, particularly from the early 80s, declining interest rates and rising stock prices at a speed and total return basis, that is mind boggling. And, of course, getting used to these trends. The industry we are in is trying to extrapolate the past into the future. And I think you cannot linearly extrapolate the past into the future because things are changing.

First of all, we have come out of a period of a very stable world order in geopolitics. We had a unipolar, US centric world order. And the US was considered to be very strong and could discipline and intervene wherever it wanted. It could move and shake the world according to its liking, and it dominated and it was accepted worldwide. That period has ended. We have the hegemon us defending its position, but we have a challenger coming up, that is China. And China has lined up its allies in the BRICS, or global south or whatever you call it, whereas the US has its allies in the G7.

So we have now a situation of conflict, of rivalry and potential wars. And this is a transition period we are in, because the old system has crumbled, has ended, and the new system is not here yet. So we go through a volatile transition period. And in the transition period, you see more and more conflicts coming to the surface that need not pop up before, because before it was a disciplined world and the top duck kept everybody disciplined. That is changing.

What that means is that inflation that has been declining for 40 years, lower and lower rates of cost of living advances, has changed. And I think the secular trend is rising because in a world that is not globalizing any longer, but deglobalizing and regionalization that we see and nationalism popping up will become a less effective world, a less productive world. And that also affects, over time, the standard of living. And it also means that products will get more expensive, and that's rising inflation.

So we have a rising secular trend of inflation, and we are coming to the point where equity valuations cannot be maintained at high levels for much longer. They will become very volatile because the ruling concept that has been used successfully in the past may be tested and maybe shaken. And I consider the current decade as a decade of roller coaster markets where we go up a lot and down a lot and up a lot and down a lot, and it will lead to rising uncertainty. And uncertainty is not very good for total returns.

So I think the total return from the current valuation levels that we see in US stocks and in global stocks over a ten year time span will be very disappointing if you cannot take advantage of the mini cycles that we are going through. And that, I think will become more extreme as we continue further progress into the future. So that's the setup. And the current cycle, we have a mini cycle, bull cycle in equities since last October. I think the Fed started to ease in March of this year because of the banking crisis.

The first leg up of this mini bull cycle was just a correction to the previous decline. Then the Fed eased due to the banking crisis that took the market in its second leg up to the July highs. Then we had a correction, which is normal. And since the end of October, we are in the early stages of the third up leg. Usually a bull cycle has three, sometimes four, and very rarely even five medium term uplakes. And I think this current uplag will last into Q1 of next year. It is supported by declining bond yields and short term interest rates at the margin. And it is based on a sentiment that is moving towards soft landing or Goldilocks, or a fantastic world that will probably get disappointed sometimes in the first quarter.

The consensus of soft landing is extreme. And whenever all the experts and forecasts agree on something, something else is going to happen. That is the normal behavior of markets. And I think it could be either a stronger economy or a weaker economy. I think we will first get a stronger economy than expected in the first half of next year, and then a weaker economy than expected in the second half of next year.

And that is due to the fact that we have full employment, we have rising real income, we have certain segments of the economy in recession. And the world economy is not strong. The US is the strongest part of it. Global GDP growth is at about 1.5%. And in the past 50 years, that was considered a global recession.

So China is structurally weak and digesting the excesses of the previous boom. That will take many years. Asia is weak because China is weakened. Europe has messed up in terms of economic policy. They have very rapid increase of energy prices over their electricity and so on. And it differs by country. But in general, I would say the European economy is stagnating or borderline to recession. And the US is the least dirty laundry shirt in the laundry. In a way it is doing well and investors are focusing on the US and they are expecting a soft landing. Soft landings do not happen very often. Actually in the last 50 years we had one soft landing in the mid-90s and that was about it.

So I'm very careful when I see such an extreme consensus. And I believe that we have now a medium term decline in rates and in bond yields in particular, into the first quarter it could go to 370 or so on ten year treasuries. But after that, I think the surprise will be that the Fed will, instead of cutting rates, they will drain liquidity.

The Fed is underestimating or overestimating the free reserves in the system, and thinks that the system is very tight and therefore is providing liquidity over year end. It's a very similar effect that we have seen in the year 2000 due to YK2 in those years under greenspan. And I think sometimes in the first quarter, the Fed will look back and then begin to drain the reserves and the liquidity that it has injected. And that will create a problem for the markets. And I think the stock market will make a top in the first quarter and then decline.

Based on the economy, it should not decline very much because the economy, when it goes into a recession, it will be a shallow recession, because the inventory overhang and things like that is relatively moderate and does not require a deep recession. The problem is that we have a technical situation in the market that is unique. We have never in history have so much capital concentrated in so few stocks. It is more extreme than the Nifty 50s in the year 73, or the TMT stocks in the year 2000.

And you have to understand that the fashion in investing is that the individual gives his money and mandates institutions, the institutions, they are then under performance pressure, they need to perform. And most of the money today is indexed, or if it's not indexed and actively managed, it is quasi indexed or closet indexing indexing. That means that probably 80% of all the money flowing into the markets is indexed today or so, quasi index. And that means that from all over the world, money flowing into a world index, 62% goes to the US stock market, and out of those 62%, 30% go into seven stocks. And I recently read a report that the large hedge funds hold 70% in their assets in ten stocks. So the concentration is tremendous.

And once the market peaks in the first quarter and then begins to turn down. I fear for these technical reasons. When people managers must sell, they have no other choice but to sell these magnificent seven stocks. And then they begin to decline because so much capital is invested in these seven stocks. It may be a few others as well, but they dominate. That means that the downside in the market could get exaggerated due to that technical factor. That's what I fear.

So 2024 could become a year with an important high, new high in the first quarter, but also an important low, probably in the third quarter of the year. So that means timing will be essential to get through with a decent performance in 2024. And that is also true for the coming years. But I think after the major low that I expect in summer, sometimes in summer, maybe late summer of 24, I think at that time we have a weaker economy. And at that time we have a lower stock market and lower asset prices, weaken consumer sentiment and consumer spending. And that together should lead the central bank in the US and elsewhere to turn around and begin to ease monetary policy.

And of course, the systemic setup is such that in each cycle we have a higher leverage in the system. That means debt to GDP in total in the world is going from one high to the next high in each cycle. That means that in the downtrend who prevent a meltdown of the system, the central banks have to provide more liquidity than at the last low.

And that means that all that liquidity goes into the markets and not into the real economy because the real economy cannot take all that money all of a sudden and do something with it. That will follow later on. And that will lead to rising asset prices, rising equity prices, rising commodity prices. And with rising commodity prices, inflation will come back and inflation will rise again. And inflation will likely go above the highs that we have seen in the current cycle.

So it could easily go into the 13, 15 percentage type of levels. And that would mean that rates will follow up the inflation trend and bond yields will go up in 25 and 26. And at some point in time that will trigger a stock market decline, likely from a higher high than in the current cycle, likely from 6000 or something like that in the SP. So I think what's ahead is really a roller coaster. Interesting for people who know how to time the mini cycles that I refer to, and very difficult for investors who buy and hold and sit, because they will end up with frustrating total returns. And at times they could become fearful at the wrong time of the cycle and sell out near the bottom.

Stephen Blumenthal: You've talked about the granddaddy bear market, an 80% type of decline. Is that the environment that you're thinking? 26, 27, 28? Somewhere around there?

Felix Zulauf: Yes. At that time, I think we will be that high in terms of leverage in the world economy that I think with interest rates going to the levels that I just referred to, we are in for sort of a depression. But the depression will be very different from the depression in the 1930s. In the

1930s, we had a situation where the currencies were anchored to gold and the currencies remained stable, but the real economy went down 25% or even more in some cases.

And I think in the current situation, we have fiat currencies, and central banks can print as much money as they want, so they will underwrite the economy. And you may see two, three years in a row, maybe GDP declining by 3% or something like that. So it's not the 30% or 50% down in GDP as in the 1930s. It is much less than that. But what they will let go is the currency, and the currency will go. And then we have a currency crisis, and some countries and some governments may default, and some currencies may disappear, and new currencies will appear. Currency reforms will become the order of the day and things like that.

So it will be a period that differs completely from what we have lived through, what everybody who is active in the markets today has ever experienced. It's completely different. And I just want to tell people to be prepared for a change in the environment, for a change in the markets, and for a change in the way markets behave, it will be much more volatile, because when you enter uncertain times and things appear that you have never seen before, you are afraid, you become fearful.

And that means that uncertainty will go to higher levels than ever before. If there was an index, like an uncertainty index, it would go into a new bull market. And when you are uncertain and fearful, you run the risk of making wrong decisions. And therefore, it's important to keep that in mind, to prepare yourself for what's ahead and not panic when things happen that you are not used to.

Stephen Blumenthal: Well, down 80% in an index is panic. I write a lot about debt, and particularly focused in the US, but I know much of the developed world is in the similar or worse situation in terms of their debt, and that we are accelerating in the US, 33, almost 34 trillion, 50% of it matures within the next three years. And if it rolls over at current interest rates, we're talking about the interest expense on the budget going to 2 trillion from roughly 680 billion, we're currently running a $2 trillion annual deficit. So the debt just keeps mounting and mounting and mounting.

What's this debt reset, pension, entitlement system problems, what we owe in social security and medicare aging? This certainly it all collides at about the same time of everything that you're talking about, at least in my view. So how does this, the deflationary pressures of all of that affect kind of the inflationary outlook? That plus the demographics aren't good in most of the developed world, so that's generally more deflationary. If we're in an inflationary cycle, we're at the back end of wave number one. Wave number two you're saying is coming, it will be much bigger than this first wave. You had a great chart in your recent research update that compared the current inflation wave compared to the 70 and how eerily it sits on top of each other.

So I guess my question is that am I too focused on this debt problem in the fact that I think that governments will ultimately decide to monetize the debt and inflate their way out of it? I don't know who amongst us are going to vote for the politicians that are going to tell us to buckle up and tighten up and things are going to be tough for a few years and we're going to tax you more and reduce your Social Security benefits.

So this breaking of something, either the system causes a forced restructuring of some sort. Your thoughts around that in terms of what that means in terms of inflation, it probably fits right into the picture that you're talking about. So I want your view on that. And then what types of assets do we look to to invest for the period ahead? I think overall, what you're saying is do everything you can to protect your wealth.

Felix Zulauf: Yeah. It's interesting when you ask Americans what the government should do to balance the budget and reduce that, et cetera, they come up with several ideas. If you come up with those ideas and you deduct that, it's peanuts. The big thing are entitlements and defense and all that kind of stuff. It's really entitlements. That is two thirds of the expenditure. And that's true for all the nations in the industrialized world.

And of course, people do not want their entitlements to see, but you see, and politicians do not want to cut spending because that goes against their interest of their career. So that's the problem. The guy who has to force the system to make the changes that are necessary is the bond vigilante and it's going to be the bond market.

And I think in the late 20s we will have such a crisis, and it could start in 25 and then into 26, 27. We will have such a crisis that the bond market will push the system in such a deep crisis that something major has to happen. They will probably raise whatever taxes they can raise. They will probably sell assets. The US government owns a lot of assets, land, et cetera. They could sell a lot of assets and do that. Under normal circumstances, they wouldn't do any of those steps. But in a major crisis, when there is no other way out, then they can do it and then they will do it.

So I think it will get fixed, but it will be painful. It will be painful for everybody. We will pay higher taxes, some will get maybe smaller entitlements, some pensions will be cut and things like that. So it will be a major systemic restructuring. And that's the positive outcome. And I hope that we will find that outcome.

The more negative outcome would be rather for nations that are much weaker, like some in Europe that do not have those assets, and they would probably go for a currency reform. And currency reform is nothing else but confiscation of part of the people's savings. So I'm quite positive that the US can manage that and get out of it, but it requires a systemic and very unpleasant and painful crisis.

Stephen Blumenthal: So how are you positioning your family's wealth?

Felix Zulauf: Well, I do not believe that you can buy assets and ride through that and say, oh, I'm the big winner and my assets are going up while all the others are losing money. We will all lose money, we will all be a little bit poorer. But at the end of the day, the game is a relative game, and if you can start the new cycle better off than others, you are among the winner.

You see, I think what is important is to own real assets and not nominal assets, because nominal assets is at risk of currency reforms. If you have a currency reform, you lose it all and it doesn't come back. If stocks decline 80%, they will come back. Even in a new currency they will come back because the companies are still out there operating, manufacturing their products and selling their products at the profit sooner or later. And I think you have to have productive assets.

Real estate will get damaged, of course, prices will go down, but good real estate, good locations will come back up again. And therefore, I say you have to be in real assets, in productive assets and not in nominal assets. Nominal assets are the killer.

Stephen Blumenthal: What's your view on gold?

Felix Zulauf: Gold will also -- gold is a real asset. Gold is real money. And with gold, we have experience over the long term what the value of gold should be. We can measure it. Gold should be at the price, trade at the price of an expensive suit for Maine. That's what they always say. And that could be. I know people who buy $3,000 suits, and that's maybe the right price. And you can go back in history, it works out very well. Bitcoin or other cryptos, we have no experience. We do not know what the intrinsic value is.

And gold, you know gold, when you look at the last major crisis of the system in the 1930s, the nation that came out as the winner was the nation that had the most gold, that owned the most gold, and that was the US. The US owned three quarters of all the gold in the world. And what we have noticed in recent years is that the Western world is selling gold, and the gold goes into the hands of the BRICS, the Chinese and the Russians, et cetera. I do not see Russia as a new leader in the world, but I think China will be among the top nations, no question. I doubt that we will have a currency that can fulfill the role of the US dollar. The US dollar's role will decline as a percentage of reserve currencies, but there is no other currency that can take its role.

So the BRICS will come out with a new currency unit that is not a real currency, because it's not backed by a country and it's not even backed by gold. It is related to gold, and it is a currency unit like the ECU was, as the precursor for the euro. But it will not be able to take over the role of the US dollar. I think that is also an open question. What the new system and the new world order will be like and what sort of currency system we may use in the future, we do not know yet.

At the present time, I think the US dollar is still the strongest currency. It is correcting from its high last September. It is now the second medium term decline, which I expect to end in the first quarter. The US dollar index could decline to 95, 96, or something like that. It's trading at 104 now, and it was 116, I believe, at the high.

What I think that together with interest rates and the view that the economy in the US could surprise on the upside in the first quarter, and maybe even in the second quarter, the US dollar, together with the draining of reserves that I expect from the Fed, will then try another rally and another upside attempt. I cannot say how far that will go and how long it will last. I think the dollar will begin to weaken once the US central bank begins to ease monetary policy. That will be the time or when the market feels that now the US central bank is moving towards easy. It's not now. I think it's not now. I think the US Fed will not cut rates in the first half. I think the market will get very disappointed the way I read the tea leaves.

And therefore I think we will have another rally in the dollar coming up from a low in early first quarter. And then we will see probably into late summer or late 24, when the stock market bottoms, when the commodities bottom, and when central banks begin to ease. That's when the dollar begins to decline.

Stephen Blumenthal: Which will be a recessionary period?

Felix Zulauf: This will be a recessionary period. And I think this will then be the time when the gold market will benefit from the monetary factor. Right now, the rise in gold has not been due to monetary factors. It has really been due to geopolitical factors. Gold rose in line with real interest rates, which is very unusual and to my understanding has never happened before. And it tells you that gold is changing its character to what factors it reacts. I think the monetary factors will kick in in the second half of 24. And the eight year cycle in gold was due for a cycle low in 24. I think we made the low in 23 early. And I think it will accelerate on the way up when the monetary factors kick in in the second half of 24.

Stephen Blumenthal: So you also write a lot about, you use a weekly MACD, other tools too. So you're saying period ahead, more technical analysis, understanding the intermediate term cycles, the other cycles. Of course, there's no one thing that is the tool to follow, but what would you look at, if you're looking at trying to understand some of these cycles with interest rates from a technical standpoint, what are your favorite tools?

Felix Zulauf: I use a proprietary momentum tool on virtually all assets in the world, from the macro assets to the individual security. And it's based on time weighted momentum. It is faster than the MACD. It's time weighted momentum. It's not perfect, it has its weaknesses. But I have been working with this tool since the late 70s and I'm familiar with the weaknesses and with the strengths. And you can also doing overlays of different assets. And when you see the correlation, and you can calculate the correlation on Bloomberg's or whatever, when you do overlays, for instance, declining bond yields and rising stock markets, and you do that just by using the momentum charts and not the price charts, it gives you a pretty good idea of what's going on and when it will about stop and reverse.

So that's why I'm saying March is most likely the last late in this rise, medium term rise. It could be as early as late January, early February that it's over. We'll have to see. I have to check.

Stephen Blumenthal: I do notice that you had adjusted your bearish view and then had gotten more bullish into the first quarter. So understand that. And that's kind of what you're talking about, what you were seeing in your momentum indicators.

Felix Zulauf: I had trouble between April and July. That was very difficult for me because when we call at the lows at 3500, I said we'll have a recovery, probably a two lakh recovery, up to 4100, 4200. And that was the first move up. And then we had the banking crisis. And the way Powell was talking, I expected that he would withdraw the liquidity that he had injected in March over time and he did not really. And therefore it was a problem for me. When the market broke out top side at 4200 in April and then rallied into July, July, I saw a temporary high based on the technical indicators. And then we had a decline back to 4300 in October.

And in October I said this was a very good short term low. It could likely be a good medium term low. And there is an attempt to run over year end into the first quarter and that's the third uplake. And once that's done, I think the mini bull cycle is over. This is when we have a bear cycle. Bear cycles are never the end of the world. If you are a long investor, you can go into defensive stocks, you can go into cash for a while, you can use bonds as an alternative. So just then go very defensive, as defensive as your mandate allows, and then you can reverse that position again when it's time for the bull market. As an investor, you have to know what time it is in the cycle you see.

Stephen Blumenthal: Would you also switching gears here and we'll draw it to a close shortly. Talk about the war cycle. We see it in our media from one perspective. You have a perspective from where you live, your general thoughts about what's going on.

Felix Zulauf: Well, there are several cycles related to war and the most powerful one is the 50 year war cycle. And I think it's 53 years exactly. And the high for that war cycle comes in late this decade, let's say 2030. So I think we are going the next few years, going through the most dangerous period in terms of military conflicts. I was beginning to write about potential military conflicts and war in 2018. So five years ago, and at that time, some of my friends said, well, you are ridiculous. What are you talking about?

And then came Ukraine. And I don't want to go into the details of the Ukraine war, but the Ukraine war is more or less over in the sense that the west has lost. Russia has won that war. That's pretty clear. It's unclear how it will end exactly, whether it will end with a settlement, with a peace settlement that includes NATO, because that's what the Russian wants. The Russians want to make sure that Ukraine doesn't join NATO, and no NATO troops will be positioned in Ukraine right at the doorstep of Russia.

I heard some rumors out of Moscow that the Russians would accept Ukraine joining NATO, but only if no troops of NATO would be stationed in Ukraine. But I'm not sure whether that is true or not. These are rumors. And these days there are a lot of rumors going around. As I said, when the top dog is weak and considered to be weak, all sorts of problems pop up. And the Middle east obviously has been a trouble spot for a long time. And of course there is a conflict, Israel against the Arab nations. And inside the Arab nations there are also conflicts, the Sunnis against the Shiites and things like that.

At the present time, the Arab nations have lined up on one side and they just in the last few days had a meeting and they have made clear requests what they want, they want the two nations state, et cetera. They want the peace settlement and so on. I have a list of what they requested. And of course, Hamas has attacked because of some special situations. Iran has now the nuclear bomb, as has Israel. And Iran doesn't want Saudi Arabia to have the nuclear technology. And Saudi Arabia thought that the power balance was to their disfavor and they asked the US to get the nuclear technology and they said, we can help you, but you have to be at peace with Israel and friendly. And therefore the two nations came closer together and Iran did not like that reproachment and did not like the idea of the Saudis getting nuclear power.

And therefore that horrible massacre took place in Gaza and near Gaza. I think Israel is now cleaning out Gaza. They are losing the PR war in the role, I think, you know, when they end, when they terminate this operation, probably more or less successfully from their point of view, the risk is that Israel then turns against Hezbollah and tries to clean up that side of the border as well. And that will be dangerous. And Hezbollah is in Lebanon and is also in Syria. And Syria has military agreements with Russia. So it would probably pull in Russia and it would also pull in Iran because Iran is backing and funding Hezbollah.

And if Iran gets involved and Israel would attack Iran with a bomb or whatever, then I think the US would have no choice but to back Israel and it would get pulled in. And I feel that Iran has prepared to close the Straits of Hamas and would close the Straits of Hamas and then we have the oil price not at 150 or 200, then we have it much higher because 20% of today's oil demand in the world is shipped through that straits every day.

So I think that's the trouble spot. I do not think it's a problem in the next two or three months. I think it could become a problem later on and it will depend on how the west behaves. It's a very unstable world and it's a dangerous world and I fear that we will see more wars, unfortunately.

Stephen Blumenthal: Yeah, seems like a gigantic fight between light and dark and we're in a tough spot and we can love and pray, it's tough. Oil. You've talked about oil. You're generally bullish on oil. Just touch on that. And then got a glimpse of that in your last few seconds there, 150 and 200. Oil, that has been a target that I've heard you talk about before. If it does turn into war and Iran does cut off the strait then it could be higher. So just generally, where and why are you bullish on oil?

Felix Zulauf: First of all, like in all other commodities, investments to produce oil and to produce other commodities has gone down a lot in recent years. In oil in particular. In oil and gas in particular because of the green economy idea. Governments told the oil producers, we do not want your stuff in the long run, so why should they invest? You see, we want to go green, renewables, et cetera. And that has led to a dramatic underinvestment and the world economy goes back to normal growth rates, then I think we have a problem and the geopolitical situation could add to that.

Oil spiked to $130 when Russia attacked Ukraine in winter spring of last year. And I said at that time it will probably decline by 50% and my target was $55 to $60. And then we had another spike recently when the Gaza, the Masaconia Gaza materialized and it spiked to the low mid-90s. And the trend, however, since the high at 130 has been down and it keeps declining and it reflects a relatively weakish world economy, as I suggested.

And on top of that we had the US government selling out of strategic reserves because they wanted to bring the price of oil down to hurt the Russians, which did not really work out well. But all of that has led to more downside. And I think by mid-year 24, the downside should be reached $55, $60 or so. It's not that far away from current levels. We are below 70. And then I think we go into an upcycle, and in the upcycle, we will find out that the productive capacity is not as high as the world requires, and then we'll have a squeeze, and then oil price will rise to 150 and maybe beyond. And depending on geopolitical, political events, it could go much higher.

So I think in the next cycle, energy stocks, those who control a lot of oil in the ground, in safe jurisdictions, Western jurisdictions are attractive investments. Also oil service should be very attractive place. They are now suffering on correcting after the tremendous rally they had previously.

Stephen Blumenthal: Thanks. That's helpful. Anything that you can think of, other assets, classes that we didn't talk about, that's top of mind for you?

Felix Zulauf: I think what's important is that in this current rally, what you see and what you saw in the last few days, actually, is that cyclical stocks, cyclical value stocks, are becoming the great performers. And they, together with the oversold small cap stocks, the Russell 2000, will probably outperform even the magnificent seven into the top that I expect in the first quarter.

Stephen Blumenthal: That's helpful. Thank you for that. Okay, last question for you. I know you're in Switzerland. Are you a skier?

Felix Zulauf: Yes, of course.

Stephen Blumenthal: Okay. Good.

Felix Zulauf: Well, you know, today I'm a fair weather skier, quite honestly, and I usually go out for one week with my family, kids, and grandkids. We do that in February. And I ski 2 to 3 hours a day, not more than that. In the old days, I was going gangbusters from 09:00 in the morning to 04:00 in the afternoon. But those times are gone. We have to adjust.

Stephen Blumenthal: We have to. Favorite mountain?

Felix Zulauf: Well, I usually ski in the Arlberg area in Austria. And in Switzerland, the favorite slopes are in Zermatt and St. Morris.

Stephen Blumenthal: Oh, that's great. And have you skied over in the States?

Felix Zulauf: I have only skied up north on the East coast mountain in my younger years when I lived in New York. And that was not the great experience. It was very icey. Unfortunately, I have never had the great experience of the fantastic powder out west.

Stephen Blumenthal: Oh, I say, it's a drug. They should bottle it up and sell it to the world. It's such a fun, floating feeling.

Felix Zulauf: You are a skier? You are a skier?

Stephen Blumenthal: Oh, my God. Yes, I am. My dad got me in skis at age three and I tell everybody and every young person team here that get your family involved with skiing. It's the single best thing I think I did for my kids and my family.

Felix Zulauf: You know what's fantastic? When you are in the mountains and you look around from top to top to top and then you go down and up with the chairlift and down again, it's unbelievable how fast you get around in the mountains. It's unbelievable and it's a great experience. It's sort of being closer to heaven and the experience in nature is a lot of joy.

Stephen Blumenthal: Yeah, I agree. Thanks for all that and thank you for your insights and all you're doing. Much appreciated. Thanks for taking time with me.

Felix Zulauf: Thank you for having me, Stephen. All the best. We keep in touch.

Stephen Blumenthal: Thank you. We'll do.

Felix Zulauf: Okay.

Stephen Blumenthal: All right. Be well!