<u>Keep On Pickin' On</u>

By Bill Gross

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My name is Bill Gross and I'm a picker. In admitting that I don't think picking is as serious as OCD, or that it would qualify me for "Pickers Anonymous". But yeah, pickers have their problems. Whether it's genetic or due to parental oversight I have no idea, but I do know that for me it started at an early age. Biting my toenails at 4 years old was just a precursor to picking them now, and why I pick them now instead of behaving like a normal adult with clippers I am similarly clueless.

I do know that when they get to a certain length I am compelled to pick 'em even before I have a chance to clip 'em in a bathroom just 30 feet away. The usual result is not pretty but my wife Amy says I have beautiful feet so I keep on picking 'em as well as fingernails of course. I've never had a manicure in my life -- saving lots of money along the way. Wife Amy is a picker as well, but just on her left thumb. We both will slap each other's hand at night when the picking is most obvious, but it does no good. Sixty seconds later the picking continues, with hands under the sheets in an obvious attempt to cover it up.

I'm also a nose picker, as are almost all men. Somehow women have figured out a more polite way to clear nasal passages but men? Well, I remember as a first grader in Middletucky, Ohio, watching male friends not only pick their nose with no evident shame, but then eat the boogers as if they were M&M's. I do know though that nose picking as an adult is an activity best done alone. There are few more embarrassing moments than to pick your nose during a red light and to look over at another driver "in flagrante". "Caught 'cha you nose picker," he must think, having just picked his own at the previous light. Men – picking – I'm a veteran.

On a more serious note, I write to expose myself, to pick and to forecast for 2022, much of which is contained in my new book to be published shortly on Amazon called, "I'm Still Standing." There will be some nose picking admissions there as well but for now I'll stick to financial market forecasting.

The most glaring observation I have is that in the face of 6%+ inflation and consumer expectations for at least 3% over the next five years, that the 10-year Treasury remains at 1.50%. Historically, 10-year Treasuries have traded at 2% above annualized CPI, but now? Well, the negative 150 basis points has never been seen except for a brief OPEC-driven period in the early 70's.

Similarly, global bond markets in Euroland and the UK are unflinching with their historically negative real interest rates. Would you believe German 10-year inflation index "linkers" continue to trade at a negative 200 basis points? Who would buy them at a negative 30 basis points and lock in a guaranteed 3% loss at maturity? Such a deal!

Well, somebody's buying them. Certainly, central banks themselves with continuing QE programs that may or may not be curtailed in 2022. But if central banks won't be buying them why should you? And why should an investor continue to be "excited" by stock markets that in significant part (30% I estimate) have been driven by lower and lower yields over the past many years? I wouldn't – be excited that is.

I'm still owning defensive stocks with an attractive yield that take advantage of the implicitly low arbitrage spread between borrowing yields of 1-2% and dividend yields of 4%-plus and in many cases 9%-plus. The thrill is gone however with high P/E or no P/E stocks that are most sensitive to interest rate increases in future years. Amazon may be amazing but at 80 times forward earnings, it's gotta grow pretty fast when those higher future earnings are discounted at a 2% 10-year instead of the current 1.5%.

My portfolio is full of "90% certain" arbitrage buyout candidates that trade at an annualized 5-10% discount return. NUAN, XLNX, ARNA, and CERN are just a few examples with acquirers such as Microsoft, Merck and Medtronic standing behind these buyout bids. I also continue to own natural gas partnerships with tax-deferred yields of 9% to 10%. Oil sensitive? Somewhat, but a 9% to 10% compounded tax-deferred yield doubles in seven years which should make up for future price sensitivity. Couldn't say that doubling assumption about many high flyers with no current earnings. Examples that I own are EPD, ET and SHLX.

GME and AMC remain perennial shorts, especially after yesterday's announcement by GME announcing entry into the NFT market. Meme stocks will have their day for awhile but this is not the time for 30% daily gains on hope.

No guarantees of course. Stock and interest rate picking is certainly not a science nor in many cases an art. Investors have been immunized into thinking their retirement goals can be guaranteed by double-digit market appreciation in 2022 and beyond. They cannot. If 10-year Treasuries rise to 2% or higher; if non-financial risks associated with global warming, geopolitical conflicts, internal red state/blue state turmoil, and U.S. fiscal belt-tightening become more and more relevant – they cannot.

Move aside and let the millennials buy the metaverse, NFT's and most crypto currencies (I like Bitcoin). The time has come to pick conservative (not bonds) investments instead of your toes or your nose or whatever has floated your portfolio to 2022.