



Retirement *Lifestyle*
Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Charles Hugh Smith
CharlesHughSmith.blogspot.com

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Produced by:

Retirement Lifestyle Advocates
961 Four Mile Road, NW
Grand Rapids, MI 49544

Phone: (866) 921-3613

Email: info@plplanners.com

Website: www.RetirementLifestyleAdvocates.com

Dennis Tubbergen:

You are listening to and watching RLA Radio. I'm your host, Dennis Tubbergen. Glad you decided to listen in or view the program today. In the second segment of today's program, I'll be joined by returning guests, Mr. Charles Hugh Smith. Charles is a prolific commentator at oftentimes.com. He has a very popular Substack newsletter, and we're going to talk to him about his brand new book, Investing and Revolution. That's coming up in segment two of today's program. There's a lot of excitement about stocks making all time new highs. The S&P 500 last week, as I'm recording this, made all- time new highs. The Dow is near all- time new highs, and there seems to be a lot of optimism that things will continue. Well, I'm here to tell you that there's a lot going on in stocks now that make me think things are looking very topky.

For one, when markets rise at a very fast pace, an unsustainable pace, you'll almost always see that trend reverse. So the first statistic I'll give you today is that the NASDAQ market has risen more than 60% in just one year. If you were to look at the NASDAQ price action on a chart, it would be straight up. It would be parabolic. And often when you see stocks or any other financial market display bubble behavior, you see that bubbles tend to be symmetrical. They take just about as long to unwind as they do to build up, and they go about the same level down as they went up. Now, I'm not suggesting to you that a stock market correction is imminent, but I am telling you that it's my view that the probability is very high, that we see a stock correction here before the year is out.

So in this segment, I want to give you a couple more bits of evidence that support that theory. One is that as I'll talk about with Charles Hugh Smith, stock prices and consumer sentiment are simply not in sync. As I mentioned, stocks, depending on the index you're referencing, are either at all- time new highs or just below all- time new highs. And at the same time, consumer sentiment is at record lows. The University of Michigan has a consumer sentiment survey that is near an all- time low, and yet you have stock markets making all- time highs. So to use an old analogy, Wall Street is optimistic and Main Street is pessimistic. That's because the stagflationary economy in which we are now moving, in my view, we'll see inflation in assets that we own for a while that benefits the people that have the assets, but it makes paychecks go not as far.

The dollar does not buy what it used to. Now, historically speaking, when you go back and compare consumer sentiment and stocks, they have been somewhat correlated. When consumer sentiment is high, stocks have also tended to be high, but that is not the case presently. We have a bearish

divergence between stocks and consumer sentiment, and that could definitely be a bearish sign for stocks. So my message today in this segment is if you're a stock investor, be cautious. The second indicator that I'll share with you is an indicator I've mentioned on today's program, or on this program, I should say many times. It's an indicator titled The Buffett Indicator. Why is it called the Buffett Indicator? Well, it's named after Warren Buffett, the now former CEO of Berkshire Hathaway, who mentioned in a television interview many years ago that this was his favorite stock valuation indicator.

Now, the Buffett indicator simply measures the total value of the stock market. That's called market capitalization. If you add up all the value of all the shares of stock that exist, that's market capitalization, and you measure that against economic output or gross domestic product. Now, if you go back and look at a chart of this Buffett indicator, you see that at the market peak in 2000, at the time the tech stock bubble unwound, stocks were more than 160% of the economy. At the time of the financial crisis, they were about 120%. They are now over 230% of the economy, which is an all time high. And when you go back and look at history, depending on the timeframe in which you're investigating, that number historically has been 60 to 80. So there is another reason that you may want to be a bit cautious moving ahead.

Now, there's one other thing that I think has a lot of parallels with what happened at the time of the tech stock bubble unwinding about 25 years ago. At that time, there were many unprofitable companies that had wildly successful initial public offerings. Now, an IPO is the first offering of a company stock. In calendar year 2000, some of you listening and watching today are old enough to remember that. In calendar year 2000, we were at the height of the dot-com stock hysteria and 81% of the companies that were going public were unprofitable. Eight out of 10 companies that went public had never made a profit. Not long after that, stocks rolled over. So is history now ready to repeat itself? Well, we'll find out, but Reuters reported that we are about to see the largest wave of initial public offerings in history. One that could see investors invest more than \$3 trillion in three companies that have yet to make a profit.

SpaceX, OpenAI, and Anthropic are all going public, and all three companies are losing money. Now, there are estimates that these three companies could have an initial combined market value of three trillion. That would be added to the current US stock market cap of about 69 trillion. And remember, as it relates to GDP, that number is very inflated. SpaceX to zero in on that company is planning and initial public offering as early as June. The company had revenues of about 18 and a half billion last year and

posted losses of about five billion, yet the company is targeting a market value initially of 1.75 trillion. Now, if that valuation is achieved, it would be the largest initial public offering ever. Now, there is an agreement to be made for investing in an unprofitable company now to reap profits later, but it's difficult to make a lucid argument that a company with \$5 billion in current losses has a value of 1.75 trillion.

Now, without debating the likelihood of ultimate success for these companies, the broader, more salient point is that unprofitable companies during IPOs often happen at a stock market top. So the reason I share these stats with you, the reason I share this information with you is that if you're a stock investor moving ahead, I think it's going to pay to be cautious. If you're not using exit strategies in your portfolio, I think it would be very wise for you to seriously consider implementing them. I'll be back after these words with my special guest, Mr. Charles Hugh Smith. Don't go away.

Hey, Dennis Tubbergen, your host of RLA Radio. I'd like to invite you to get for the very first time a complimentary copy of my bestselling book released in January. The book is titled Portfolio Playbook: Investing Strategies for the Current Economy. To get your copy of the book, all you need to do is visit the website, RequestYourBook.com, RequestYourBook.com, and I'll be very glad to send you a complimentary copy. Portfolio playbook reveals why traditional investing strategies, especially the 60 / 40 portfolio I believe have the potential to fail in today's debt-driven boom and bust economy. And I give you a clear common sense roadmap for you to consider, to use to protect and grow your wealth in what I believe could be turbulent years lying ahead. So to get your copy of the portfolio playbook, which contains investing strategies for the current economy, all you need to do is visit the website, RequestYourBook.com. The website again is RequestYourBook.com, and I'll be glad to send you a complimentary copy.

You are watching and listening to RLA Radio. I'm your host, Dennis Tubbergen. I have the pleasure of interviewing today, Mr. Charles Hugh Smith, who is a returning guest. Many of you who are longtime listeners will recognize Mr. Smith as the proprietor at the website oftwominds.com. He is a prolific commentator. He is a terrific analyst. You'll also want to check out his new book. It's called Investing in Revolution. And Mr. Charles Hugh Smith, welcome to the program today.

Charles Hugh Smith:

Thank you, Dennis. It's my pleasure.

Dennis Tubbergen:

So let's start, Charles, by talking about the US economy. Are we in a recession?

Charles Hugh Smith:

That's a great question, Dennis. And of course, we could speak for hours about it, but we'll try to get right to the point. I think we have a problem in the economy and it's fixable, but we're going to have to change things. And so my approach is not ideological. I don't really find it valuable to say it's a left or right or socialist or capitalist. I don't think those labels really help us identify the problem. So what I see is the economy and society must be in balance. And so if they're out of balance, then things destabilize. And we can put that in human terms and say, the economy is supposed to generate a society where everybody feels they can get ahead. And if people feel like they're working really hard and doing everything right and they're still not getting ahead, that economy's out of balance.

Something's wrong there. And so that's my approach to it is the economy is bifurcated into a top 20% who own the assets that are soaring and in value and their 401ks are going up and the stock market's rewarding them, but the bottom 80% don't own enough of those assets to share in the asset expansion. They're depending on wages. And the purchasing power of wages has been declining for a long time. The dollar amount we're earning goes up, but what we can buy with that money is decaying. It's lessening. So we're actually not getting ahead. We're sort of running faster and falling behind.

Dennis Tubbergen:

So Charles, we could talk about Fed policy. We could talk about all this, but you really laid out a couple of very salient points in a piece you wrote on your Of Two Minds website, as well as your Substack newsletter, which I would encourage the viewers and listeners to check out. What would make me bullish? And in there, you had some things that really will work hard to correct and they're fixable.

Charles Hugh Smith:

Yeah, that's a great topic, Dennis. And the point of my article there was everybody's bullish on the stock market because it keeps going up and corporate profits are going up and all that. Well, that's nice in terms of finance, but in the real world, what we see is a deterioration of the durability of products. And in other words, beneath the surface, our economy has

deteriorated in ways that we're not really focusing on. So 40 years ago, American manufacturers made washers and refrigerators that lasted 30, 40 years or even longer, and that was normal. No one thought anything of it. You could buy a washer and it's going to work for two generations. Now you buy a fridge and it fails in three years or four years. And then, oh, it's unrepairable because the repair costs more than the new appliance. And so that deterioration of durability has led to an economy where we're falling behind, partly because we have to replace everything every few years.

And Apple is a good example of this. It's a trillion dollar company because it makes us buy a new phone every few years. And that's true of the long time. My battery goes

Dennis Tubbergen:

Bad after two years and my updates don't work as well. I know exactly what you're talking about.

Charles Hugh Smith:

Right. And corporate America, and not to paint it with one single brush, but there's a lot of corporations that have actually boosted this requirement that we replace stuff by making things obsolete before their time. And so that I think is a big change that we're going to have to go back to rewarding durability and repairability instead of rewarding preparations for forcing us to replace stuff by stuff breaking all the time or after a few years. So that's one thing. The other thing is healthcare. And of course, healthcare used to be affordable, and now it's not affordable, and it's so expensive that it's crushing households, employers, and even the government. So that is a big problem, and yet we don't seem to be able to put our arms around it in any way that makes sense to everybody. And so I think my approach is we have to go back and look at what worked in the past.

And just as a quick summary, my understanding is three generations ago, hospitals in America were owned by community organizations essentially. Sure, they had to make a little money, they had to pay their bills, but they weren't owned by rapacious mega corporations only interested in squeezing out another \$100 million in profits. And that's what we have now. So I think we've taken the profit motive and it's gone in a direction that's no longer helping the economy or society. It's become this dead weight. So CEOs of healthcare insurers and hospital chains are making \$10 million and a hundred million in stock options, and then people are being bankrupted by the bills that this system generates. So we're going to have to fix healthcare one way or the other.

Dennis Tubbergen:

Charles, I know this is a bit off topic, but I believe I read on your Of Two Minds blog, maybe it was in your Substack newsletter. You really compared the number of medical professionals that deliver frontline care to the number of administrative people that work in healthcare. That was really eyeopening to me. Can you just expand briefly?

Charles Hugh Smith:

Yeah, that chart is very persuasive and worrisome because it shows that all the money, the trillions of dollars that go into healthcare, a lot of it is being spent on paper, shuffling, denying claims, counterclaims, and layers of administration. And I think what you can say, "Well, how did this happen?" And then we can look at higher education, college and universities, and we'll see the exact same chart. The number of professors teaching has kind of a flat line and the number of university administrators has soared 300%. And so I think part of the driver there is if there's lots of free money around, if the money trough is always full, then you're going to have find people who will find a way to hire more staff and increase their own salaries. And so in the case of higher education, student loans allowed the universities to jack up their tuition and fees because, oh, the student can just borrow \$100,000.

Well, we forget that in 1993, student loans really didn't exist. And somehow we managed to educate millions of people and they did not exit the university owing \$100,000. So what happened? And the same thing with healthcare. So it's kind of an irony here that when you fund something with free money, kind of like Medicare and Medicaid is free money to the healthcare sector because the government's just going to pay for it. Well, then you get this imbalance and you get a system that's broken, but everybody's afraid of changing it because there's so many people that now depend on it for their livelihood.

Dennis Tubbergen:

So Charles, what's the end game here? You wrote another piece that talked about the advice you would give a young family friend. And I think one of the things that jumped out to me in that article was you advised sell now. And I think that's reflective of the level of debt that exists. I mean, when you talk about tuition costs going up, when you talk about medical costs going up, you can't really have a price bubble without easy credit or easy money. So can you dig in a little bit to that advice because I think it was very practical for a lot of our viewers and listeners today.

Charles Hugh Smith:

Well, that's a great question, Dennis. And of course, if you go online, you can spend the rest of your life reading essays and commentaries and looking at charts about the economy and people claiming that the money's all going to go away. It's going to go to zero because we can't pay our debts. And all of that may be true. We don't know. But what we do know is that inflating asset bubbles as a way of making us rich is kind of like fake. In other words, I didn't add anything to my house. I didn't add a second floor. I didn't redo the house. I mean, and yet it's doubled or tripled in value. That has nothing to do with the actual value of the house. Did I improve the value? No, it just sat here and it's an asset bubble. And so the same thing with stocks to some degree.

So those asset bubbles are unstable because they're really fake. We didn't really create that much extra value. We just started making money cheap enough, as you say, that we could all bid on these things and drive the price up. So if those bubbles pop, then of course the valuation of housing and other things goes back down to what is more natural, what would be more in line with previous eras of valuation. But then the debt's going to still be high. In other words, you buy a house for a million bucks and you have an \$800,000 mortgage and it falls to 500,000, well, your debt didn't fall in half.

So you don't want to wait for that to happen. And that's kind of what I was trying to suggest is every debt asset bubble in history always pops. It deflates more or less as fast as it rose. So the dotcom era, stocks went up like crazy for three years, then they fell for three years. The housing bubble deflated, went up over four years, and it took four years to go back down. So you don't want to wait until you've already lost all the money to have to sell. You want to sell before when everybody's greedy and euphoric and sure that it's only going to go up higher, well, that's when you want to get out and so that your debt is reduced hopefully to zero. So if there is a recession, less fewer bad things can happen to you if you don't have any debt.

Dennis Tubbergen:

Well, that's terrific advice. So let me ask you this. When you look at government debt, and this is a little bit off topic, but we're approaching 40 trillion, I cannot construct a scenario that that debt could be paid possibly with honest money. It's probably going to mean that the Fed's going to have to step in at some point, become the buyer of last resort of US debt. We all know the Fed creates currency literally out of there to do that. What is this sovereign debt bubble, this US debt bubble when it deflates? What does it look like?

Charles Hugh Smith:

Dennis, I think we could say that's the \$40 trillion question that no one's really sure about. People have a lot of opinions and history is fairly decisive on this that when you have these kinds of enormous bubbles, whether it's private credit or private asset bubble like the Tulip bubble in Holland or government bubbles, they all crash. They all return to some baseline that's realistic. In other words, so we can say that's going to happen and then you can say, "Well, how is it going to play out?" And you can say, "Well, you can kind of bleed it off over time with inflation." And that's kind of what Japan did. They just sort of stagnated for 35 years as a way of deflating their gigantic bubble from 1990. So there's that model and some people think that's going to work. Other people say, no, you have to reset the whole thing.

There's a bank holiday and you get a new currency. Those are examples from history. And so we're not really sure which direction it's going to take because as I say, we need to balance the needs of society and wage earners. And so if you're going to take away all the value of everybody that owns these assets and you're going to reduce their wages to zero, then you're going to have a social disorder of great magnitude. Now, how that plays out, we don't know because once you get into that kind of instability, it's unpredictable. The system devolves into chaos. So we would prefer to avoid that, right? But if you're going to dump all the pain on the bottom 80% and you're going to take all the gain and give it to the top 5%, then you're creating an imbalance that's not healthy, and that's not going to play out well.

So if there's going to be pain, and I think as you kind of suggested, there will be pain in dealing with a gigantic debt bubble, the pain has to be distributed widely. And if it isn't, then you're going to get some sort of social chaos and disorder as people refuse to accept that, that they feel like they've already absorbed all the pain they can stand. And so now they're going to demand something else. And that's a problem for the US right now because the billionaire class and corporate America have all the political power. So they're the ones who are reaping the gains and the wage earners are the ones taking the pain. And so we're going to have to rebalance that and we need to do it soon so it doesn't evolve into chaos.

Dennis Tubbergen:

I want to take a minute and talk about your book. And we've got about five minutes left in this segment, but before we get to your book, do you see us proactively addressing this issue or do you think that as often happens

historically, there's going to be an event and the reaction will be, well, reactive to use the same derivation of the word of the same sentence?

Charles Hugh Smith:

Yeah, Dennis, I think that's a great topic. And we can go back in American history and we can look at, say, the seeds of the American Revolution or the seeds of the Civil War or the seeds of all the change that occurred in the early 20th century where the gilded age, which a lot of people feel is very similar to the current era, where the super wealthy and the big companies had tremendous power and the wage earners lost ground. And then there was lots of Wildcat strikes. There was a lot of disruption in the economy and society until those interests were sort of rebalanced and wage earners got a better deal, if you will. So there's those lessons, and those lessons show us that it can be done, but it will generally requires a level of social conflict that forces us to make hard decisions.

And until that point, then everybody wants to kick the can down the road because there's going to be a lot of pain in that sorting out that rebalancing because somebody's going to have to give something up in order to make it more balanced. And so the people, nobody wants to give anything up. But when you have the kind of divide that we have now, then it's going to require rebalancing. And you had mentioned before we started recording a great chart that's going around the internet showing that consumer confidence is at historic lows while corporate profits in the stock market are at all time highs, and that's kind of the divide that we're speaking about.

Dennis Tubbergen:

Yeah. So Charles, in the time we have left, tell us about your new book, Investing in Revolution.

Charles Hugh Smith:

Yeah, thank you, Dennis. It's like my idea is that revolution often comes with a connotation of some sort of violent overthrow of the regime, but there's also other revolutions of there can be social revolutions where people change their values. There can be technological revolutions. We're used to that. And so I think what I'm anticipating as necessary is a revolution that touches on all these things, technology and our social values and finance. We're going to need to reorder the balance of our economy and our society, and that's really what I'm saying is necessary. And the book is about what we can do as individuals in this kind of era where we can expect kind of tumultuous conflict and change as the necessary steps of getting out of this

loop of just kicking the can down the road. We're going to have to actually make some hard decisions as a society.

Dennis Tubbergen:

Well, the clock says we are going to have to leave it there. My guest today has been Mr. Charles Hugh Smith. His website where you can find his blog is oftwominds.com. I'd encourage you to check out his very popular Substack newsletter, and of course, his most recent book, *Investing and Revolution*. I've added it to my reading list. Charles, thank you so much for joining us today. Love to have you back down the road and appreciate your perspective and appreciate your work very much.

Charles Hugh Smith:

Thank you, Dennis. It's been my pleasure chatting with you.

Dennis Tubbergen:

We will return after these words.

Hey, Dennis Tubbergen here, host of RLA Radio. I'd like to invite you to get for the very first time a complimentary copy of my bestselling book released in January. The book is titled *Portfolio Playbook, Investing Strategies for the Current Economy* to get your copy of the book.

All you need to do is visit the website, RequestYourBook.com, RequestYourBook.com, and I'll be very glad to send you a complimentary copy. *Portfolio playbook* reveals why traditional investing strategies, especially the 60 / 40 portfolio I believe have the potential to fail in today's debt-driven boom and bust economy, and I give you a clear common sense roadmap for you to consider, to use to protect and grow your wealth in what I believe could be turbulent years lying ahead. So to get your copy of the *portfolio playbook*, which contains investing strategies for the current economy, all you need to do is visit the website, RequestYourBook.com.

The website again is RequestYourBook.com, and I'll be glad to send you a complimentary copy.

Welcome back to RLA Radio. I'm Dennis Tubbergen, and thanks again to my special guest today, Mr. Charles Hugh Smith, for joining me on the program. Did you see that the Bank for International Settlements Recently reported that more than 90% of World Central banks are now researching, developing, or piloting digital currencies. Now, this will not be a big

transition should it happen because presently in the United States, more than 95% of all transactions are digital. Could be credit card, could be debit card, could be direct transfers or a mobile payment platform. What that means is we're almost there already, and in my view, that's troubling. A central bank digital currency is not just a digital version of the same fiat currency. It's different because it's programmable. That means currency can be controlled in real time. Transactions using the digital currency can be approved or denied at the time of purchase, just like a credit card transaction.

That means if you spend something on an item that in the central planner's view you've already had enough of, you could find that your digital currency does not work. For example, if you've already exceeded your allowance for beef for chicken or fuel for the month, your digital currency could be programmed to stop working. Digital units of currency could also have expiration dates like a coupon does to force consumption. Lest you think this is only speculation, these capabilities of digital currencies have already been openly discussed in some central bank reports and are currently being utilized in China where digital payment systems are already combined with government oversight. Digital currency can also provide a mechanism that would allow governments to impose real-time taxation as transactions can be monitored instantly. Think about that. Capital controls can be enforced automatically by restricting transfers or preventing withdrawals or limiting fund use for only approved goods or only services.

Some states have already passed laws outlawing the use of central bank digital currencies, including Florida, Indiana, and Alabama. I, for one, hope this movement expands to many more states. That's my program for this week. Hope you got something you can use. I'll be back again next week. Thanks for tuning in.