

An Interview with Keith Fitz-Gerald

By John Mauldin | November 26, 2022



An Interview with Keith Fitz-Gerald Miami, Palm Beach, and Home Again

Last week, I introduced you to my friend of 20+ years, Keith Fitz-Gerald of Keith Fitz-Gerald Research. As I mentioned, I recently signed up for his *Morning! 5 With Fitz* free research email, and I'm enjoying it immensely.

This week, around my trip to a far-too-cold Denver, then to Dallas, and ultimately Tulsa to spend the Thanksgiving holiday with family, Keith and I did a 45-minute "interview" via Zoom. Less an interview, perhaps, than the two old friends catching up. I was surprised how many topics Keith and I aligned on perfectly, though our few disagreements about what comes next made for a great debate.

My team produced a transcript of our talk, some highlights of which are below. As you'll see, Keith's a brilliant strategist. His mind moves at a lightning pace. I'm delighted Olivier Garret and Ed D'Agostino took the step of forming a new business relationship with Keith.

Once again, I encourage you to [click here and sign up for Keith's free daily research](#). Now here's the fascinating conversation we had earlier this week...

An Interview with Keith Fitz-Gerald

John Mauldin:

Keith, I cannot tell you how excited I am to be able to introduce you as one of my closest friends. For those of you who don't know Keith, Keith and I have been friends for at least 20 years. We've banged around with each other and had some great dinners and meals and just good times.

Keith Fitz-Gerald:

We have.

John Mauldin:

If we were sitting together for dinner tonight and with two or three buddies, one of the questions that I would ask you, I'd just start out with what are you seeing from a macro world? Where's Keith Fitz-Gerald's head at?

Keith Fitz-Gerald:

Well, I tell you what, John. Over the 20 plus years we've known each other, it's an honor and a privilege to be here. I can't tell you how excited I am to be part of the Mauldin Economics family now. And in terms of what I'm seeing out there in the world, you ask my bride of 27 years, she's going to tell you that I live on another planet and I don't see the world like everybody else does. So I look around the way my life...

John Mauldin:

That's actually a very good thing.

Keith Fitz-Gerald:

Well, it is. I mean, look around the world right now, and the temptation is very clearly there to see the negative, to see the doom and gloom. To see all the reasons why we cannot have a future. But in fact, I look to the mentors who schooled me early on who continue to play a huge role in my life like yourself. And one of the things that I come back to is chaos always creates opportunity. And you know what? There are tons of chaos out there right now. Which means, John, frankly, we are coming into what I am calling another golden age of investing. People don't think about it that way, but I think that it's out there, it's around the corner, and contrary to what people believe, the time to make your move is right now.

John Mauldin:

I agree there's tons of opportunity. I get called a permabear sometimes. And I'm going, well, you're clearly not looking at my portfolio because I'm a hundred percent invested and there's a lot of things I'm bullish about. I'm just not bullish about the S&P 500 index or NASDAQ Index Fund.

Keith Fitz-Gerald:

Oh, no, no, no, no. And this speaks to something that we do really, really well. And it's very, very important to the *One Bar Ahead*® research, to the way I look at the world. If you're going to be buying an index, it's a lot like buying cable television. You've got to buy the bass fishing channel to get the stuff you want, or you've got to buy the underwater basket weaving to get the history channel. So buying an index is really throwing pasta against the wall. And you might get lucky, something will stick. But today's markets are characterized by companies that have to be in to win. And you have to concentrate your wealth. I don't know of a single building named after a diversifier. But I know about plenty of fortunes that have been built by people who concentrate their bets.

John Mauldin:

How does looking at a potential recession affect your views?

Keith Fitz-Gerald:

I believe we've been in a recession since January of last year. And the fact that the economic buffoons can't agree on the reality of the situation and have to change the definition is significant, because it tells me they don't know what they're talking about. I think the Fed lost the plot a long time ago. They missed a crisis in formation. They have certainly missed a transitory call, which will go down in history as one of the single worst economic episodes in recorded modern financial history. They're going to be studying that for a hundred years.

So the very notion that we're dependent on the Fed to fix this right now is a significant problem. The Fed doesn't have an inflation problem, John. The Fed has a rates problem, it has a supply problem, it has a fiscal problem. Because as long as the government continues to throw fuel on the fire, it's like taking blood out of your left arm and to put it in your right. They can't do anything. They can raise rates till the cows come home and not fix this.

John Mauldin:

Recessions are by definition deflationary, and they have the ability to put us into a serious recession, to take interest rates to five and unemployment to five. But so many businesses like Tesla have grown up, started in an era of zero or low rates. And we're going to find out now how well they will do. They're going to have to change their financial structures, how they do things—their lending, their marketing, their operations—in an era where rates are 3% or 4% higher. They can't get that 0%, 2% money.

Keith Fitz-Gerald:

I agree 100%. The difference, I think, respectfully, is the best CEOs on the planet are already doing that. They're already playing 12, 24, 36 months ahead of this. They know that. They've got good, competent finance departments. They're already rewiring that debt. They're buying back their stock like crazy in anticipation of this event. They're already playing that game. So to me, I look at this and I say, how am I going to handle this as an investor? I'm going to do a couple things differently. First of all, I'm going to stick only with the very best names in the world—what I call the central ring for lack of a better term. If you're not in the one or two position in any segment you're touching, then you're at risk. I don't want that in my portfolio.

So number one, I'm going to be best, not rest. Number two, I'm going to concentrate on companies that make products that the world cannot live without. So we were long ahead of energy, we were long ahead of defense, we were long ahead of healthcare. We were long ahead of many of the things today that people are suddenly waking up and going, oh wow, this is a lot more expensive. No kidding. And we've been there the whole time because we anticipated that the world was not going to be able to stop spending when people didn't have the option, regardless of whether or not there was a recession. And finally, the third thing that we think about constantly, we line up with what's called the five Ds. There's five of them. There's digitalization, defense, diffusion, dislocation, and distribution. Every one of those trends, the common thread here is they're backed by trillions of dollars, John, that will get spent no matter who's in the White House, no matter what the Fed does next. And no matter how Wall Street tries to shape the markets in its own interest. I want to play to win, especially going forward, because there's going to be more profits in the next 10 years than the last 50 combined. But it's only going to be the right players at the very top that take them. If you're on the edge, you're a Carvana, a Peloton, you're not going to make it. And I'm sorry for all those investors who got shellacked by Wall Street darlings. We told people to steer clear of them. But those are the companies on the periphery, they're going to be dead weight in your portfolio. The stuff you've got to have is the must-have, the top brands, the world-class CEOs, they're moving forward.

John Mauldin:

So let's talk about your process. You're a stock picker at your base, and always have been.

Keith Fitz-Gerald:

Well, let me clarify that though. I'm a stock picker at my base who relies, specifically, on quantum analysis. The way we do this is we start at the very high macro level with a series of scenarios we develop every single year, 12 to 24 months out. This stems from work I did with think tanks over the years, 20 years ago, 30 years ago. And what we do is we figure out these scenarios. When we have those scenarios, we begin driving up from the bottom. We start looking for specific companies that meet those objectives. How do they fit into the five Ds? This isn't diversification or allocation, this is where is the money going to go, and let's get there first.

And then finally, from a timing standpoint, we work our way up very, very technically because, believe it or not, at any given moment in time, there are only about 50 stocks in the world, out of 600,000-plus listed securities, that meet this criteria. So it is very, very rigorous, very scientific, and is backed, at this point, by 42 years of experience in the marketplace.

John Mauldin:

Okay, unwrap that process of how you narrow it down to 50, and then further narrow it down to what we're actually going to put in our portfolio this week.

Keith Fitz-Gerald:

Price is simply divorced from value right now. And that's why so many people are having, in my humble opinion, such trouble today. The rules of money are quite literally being rewritten.

But if we come forward to today and we look at where the world's going, you can't just pick companies because they're great. You've got to have companies that are great companies at the right price. And my experience has been, the best time to buy those is when they've been kicked to the curb and everybody can't sell them fast enough.

So if we look to our world today, I think there's a couple parallels. You've got all the digital security companies that have been just thrashed. You've got companies like Microsoft and Apple that have been taken to the cleaners. They're going to continue to change the world. You've got defense contractors that are doing the same thing. Healthcare providers, medical technology. So there's a rich playing field, but you've got to be very, very choosy. And literally, you've got to be with the best companies but not the rest. And so...

John Mauldin:

How do you get comfortable? I mean, we're in a recession, you're saying. Stock market is down and up, and down and up. But when we get into an honest to God, not a weird recession, but a real recession, GDP's down 2, 3, 4, 5%. Historically, that's the operative word because we don't know the future, but historically stocks have pretty much across the board had a sell-off during recessions. Now, they come back. Good stuff does. But how do you invest in these best-of-breed companies that may be facing a sell-off?

Keith Fitz-Gerald:

Well, again, what I know, having spent a lot of time doing this, is that I might know just a thing or two here and there that's valuable. Starting with the five Ds. The thing that people have got to understand is that money moves where it's treated best. It's like water. It's going to flow to where it's treated best. And so if we look to get down to the 50, the first thing I'm going to do is I'm going to start comparing quality historically with price and value currently and liquidity. And that means for me, who owns it? Why do they own it? What are they doing? So it's not just all the technical things that are stock dependent. I'm looking at the environment. What are they doing? What do the sales look like? What are the big trends driving it? What money has to get spent no matter who's in the White House, no matter what the Fed does?

And that begins to shape a universe to me. And then when we factor in liquidity, we know what the pension funds, the big hedge funds, have to own. We know where those monies are going to go because we know what defined benefit and contribution plans look like. I began my career at Wilshire Associates, so I know they can't just walk away from those things. So the question becomes, what else are they going to buy for stability and/or growth? Because I don't care just about what's happening now. I want to know what's going to fall less, bottom first, and rocket highest faster. And again, studying history, doesn't matter what crisis you pick, going all the way back to 1870s, 1850s, even earlier, the quality stuff falls less, stabilizes first, and roars back fastest. That's where the five Ds come in. So we start looking at these themes and these trends.

And then finally we start locking it up to be company specific. Who's got the right CEOs, who's got the good capital structure, who is literally capable of changing consumer behavior? And that's companies like Apple, that's companies like Microsoft, that's some of the other big names that we talk about frequently on the media, and the mainstream television shows that I do so often. Because those are the names, when we start looking at them, that are going to provide great price and value over time.

So I'm going to take a page from Sir John Templeton's playbook. He was a mentor of mine. His thinking played the key role in shaping mine. You buy the best companies you can when people are despondently selling. The reason this crisis is so different, again, the rules of money are changing, but honestly, John, my belief is we've been in a recession. So I don't fear the fact that suddenly everybody's going to wake up and say, "Hey, we're in a really bad recession," because we're already there. So we're already making these decisions. And that's played out well for us over the past 12, 24 months because we've been significantly ahead of the game. And I think we're going to continue to be there.

John Mauldin:

How do you find those new companies that are going to be big movers, they're just not there yet? Or do you just wait for them to become bigger before you throw them into your portfolio? How does that happen?

Keith Fitz-Gerald:

There's two ways we attack that problem. So again, this is where the five Ds come in because it doesn't matter whether there's big tech, small tech, old tech, or new tech. If it lines up with a five D, then that's where I'm going to begin to get interested because...

John Mauldin:

Let's go through those five Ds again.

Keith Fitz-Gerald:

Okay. So digitalization is not digitization. I'm not talking about putting your X-rays on a stick. What I'm talking about is changing the world through the application of data. And this is everybody from your local cleaner to your auto mechanic to big monstrous tech companies that are truly changing the way we interact. Ninety-plus percent of all the data that has ever been created in the history of humanity has been created within the last couple years. That's what digitalization is.

So if you look at McDonald's, for example... Here's a great example. They don't make hamburgers. They're a tech company that happens to make hamburgers. When they introduced tech, it overhauled their operations. It improved their square foot sales, it improved their order sales, brought a 35% boost in margins. That's the kind of stuff I'm talking about for digitalization.

We've got defense, which is obviously a no-brainer. This is a very complicated geopolitical time we're living through. And we've got a collection of bad actors, everybody from Russia to China to North Korea, and probably a whole slew of others, that simply make the world dangerous. That money has got to get spent. Doesn't matter left or right, Democrat or Republican, mid or centrist, whatever, that has to get spent, very straightforward.

If we look at distribution, that's energy. And you can define that as the electric grid, you can define it with alternative energies, fusion. You can talk about EVs. But again, trillions of dollars. The world is not going to put that genie back in the bottle anytime soon. We've also got distribution in terms of diffusion, and that's a slightly different wrinkle, but that was really the first big evidence we saw of government breakdown. People began to distrust authority on a massive level.

The exodus from urban areas as we came into COVID, that is diffusion. Because now, all of a sudden, you had last-mile chains get rewired as Amazon figured out, "Hey, what are we going to do here? Because we're actually distributing and delivering this stuff way out in the hinterlands. We never had to do that before." That's why FedEx and UPS are struggling, for example. They're not ready to handle that. Amazon, we avoid it. We said to avoid it in January because we saw a whole slew of different things coming.

But that's an example of how we use the exact same information, that five D, to go the other direction and determine that one former Wall Street darling is no longer worth the paper the stock's printed on.

John Mauldin:

Okay. And the remainder of your Ds.

Keith Fitz-Gerald:

Dislocation is the other one. Dislocation is simply the removal of resources in the transfer around the world. Ranching won't occur where it has historically. Food supplies, as we go to synthetic biology, which is, to your question earlier, one of the key trends we're following. Diagnosis as a service is going to rewire where people go to see their physicians, how they see their physicians, how they use technologies to access all of those things. So it's a very integrated picture, even though it's just boiled down to those five themes.

John Mauldin:

What are two things that you are optimistic about for the future?

Keith Fitz-Gerald:

Well, this cuts to the heart of who I am as a person, John. As you know, I am wired for optimism, because optimists have an annoying habit of making gobs of money over long periods of time. Pessimists are great at making money at moments in time. And there's a huge difference. So despite how bad the chips get or how scary it gets, we know from the study of history that optimists tend to do very well over time, which is why I'm wired that way.

And so I believe we're on the cusp of a golden age of humanity. I believe we're going to solve many of the diseases that plague us today. I think we're going to fix hunger, we're going to solve water problems. We are going to create new technologies, things we can't even contemplate today, that truly, again, change the world.

As an investor, I want to pick the highest-probability companies that are lined up with those things. That's, again, going to be those exact same names we talked about. Because at scale, John, you have the ability to do these things. If you're a garage somewhere, you don't.

And what's going to happen is, in the old days, many of these unsung companies, these yet-to-be-discovered companies, could go public, grow a little bit, and then be acquired and the public could benefit. But what's happening now is you've got companies like Apple and Microsoft and Lockheed or whatever, they find somebody promising, they snap them up before they even get public. So this notion of a small-cap company that many people still habitually look for is all but gone.

I think between the manipulation, the IPO dog and pony process, you're just simply not going to find those things. And if you do, it's going to be rarer than a hen's tooth. So we look for them, but most of the time, we're going to be playing in that big space because the big boys are going to get to them before the little guys do.

So optimism to me is very much a part of the process because my belief is you cannot invest successfully if you do not incorporate optimism into your process. You can trade if you want to be a pessimist, but the longer-term view that is required by successful macro investing, by its very definition, includes optimism. It's got to.

John Mauldin:

Let's wrap it up here. Give us your thoughts as we're going forward, and as you and I together, as our teams go forward.

Keith Fitz-Gerald:

The temptation to stick your head in the sand with a sign on your rear end that says, "Kick me when it's over," is very, very real. And I understand where a lot of people get that, because we talk about it all the time in the mainstream media. I talk about it during all the television appearances I do. But the reality of the situation, the daunting reality that the pessimists cannot come to terms with, is that the stock markets have a very pronounced, defined, and consistent upside bias.

It does not change the fact that you feel scared at moments in time. The markets don't care about the fact that you can think about what happens next week because they're already planning for next month, next year, 5 years, 10 years out. That's the game that the world's best CEOs are playing. So it makes sense to play that game, not the short-term noise. We have a saying in our office, "When in doubt, zoom out," because if you're investing, John, for tomorrow, it's a 50/50 proposition.

And the last thing I want to leave people with is you don't get off a winning horse in the middle of the race. Digitalization is the single greatest trend, perhaps, in the history of humanity. It is on par with the invention of the engine, it is on par with the invention of the wheel, it is on par with the invention of modern medicine. Maybe greater than all of those things combined.

And when you look at that world and you determine where we're going, it makes sense to be in to win. I understand the temptation to go to the sidelines, but it could be one of the single, most expensive, damaging and destructive moves you could make to your portfolio. So if you can stay in, stay in. If you can do it, do it with the right tactics, do it with the right knowledge, do it with the right basis and intention, but stay in if you can.

John Mauldin:

Well, to that point, and I'll close, if you look at my portfolio, I'm in. That's what we at the Mauldin Economics, and now at Fitz-Gerald Research, will be doing is helping people find the things that aren't necessarily the bright shiny objects.

Keith Fitz-Gerald:

Well, I look forward to that very much and I look forward to doing that with you because one of the things you told me 20-plus years ago when we first met, John, and you may not even remember saying this, but you told me that the brightest future often comes to those who can't see what's right in front of them. And here we are today, John. It's an honor.

Miami, Palm Beach, and Home Again

As you read this, Shane and I are back in Dorado Beach. Denver, Dallas, and Tulsa were cold to my now thin blood. We will be announcing the new oil partnership I am involved in within a few weeks, but my partners currently have me scheduled to be in Miami and Palm Beach back-to-back nights in early December, talking about all things macro and my views on energy. I am working on a series of white papers to explore the entire energy complex. Suffice it to say, the entire complex is complicated. The word “renewable” does not necessarily mean what you think it means, but that doesn’t mean clean air is not a very important part of our future.

I write this early in the week, but I am really looking forward to being with my family for Thanksgiving, and then being back where it is warm. When Shane and I decided to move about five years ago, the one thing we both agreed on was no cold weather. I needed an airport, and she wanted a beach. I knew the stories about Puerto Rico and had friends there, but after a few exploratory trips, we made the move. We are both very happy with Dorado Beach. I couldn’t blow Shane out of there with dynamite.

I hope your Thanksgiving was good. I love this time of year as we focus on family and friends more, which makes for a better life. You have a great week. And don’t forget to [follow me on Twitter!](#)

Your sure I will be happy to be warm analyst,



John Mauldin

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