The Disciplined Investor Podcast – Guest Interview Summary

Guest: Ed Easterling

Podcast Episode: 921

Date Published: 5/18/2025

Subscribe: www.thedisciplinedinvestor.com

Quick Recap

Andrew and Ed discussed the mathematical phenomenon of inflation reporting and the recent PPI report. They also explored the importance of understanding investor psychology, the recent market corrections, and the concept of secular bull and bear markets. Additionally, they discussed the current state of stock market returns, the recent inflation reports, the potential impact of tariffs on the US economy, and the potential impact of rising inflation on the Fed's actions and the bond market.

Summary

Inflation Reporting and Market Evolution

Andrew and Ed discussed the setup of a new studio system and the upcoming podcast recording. They agreed to avoid date-stamping the episode but allowed references to "this week" and the CPI report. Ed suggested focusing on the mathematical phenomenon of inflation reporting, where the next six months will see higher numbers due to base effects. Andrew mentioned the recent PPI report, which had a significant restatement. They then began the podcast introduction, with Andrew introducing Ed Easterling and his background. Ed briefly discussed his experience co-authoring a book with John Mauldin. The conversation then shifted to discussing the evolution of financial markets since the late 1990s, touching on technological changes, Fed policies, and market experiences from different eras.

Investor Psychology and Market Sentiment

Andrew and Ed discussed the importance of understanding investor psychology and the impact of external factors on investment decisions. Ed emphasized the role of psychology in shaping investor behavior and the potential for speculative investments to influence market sentiment. They also discussed the distinction between investing in the stock market and investing in individual companies, with Ed arguing that the latter is more grounded in fundamental economic principles. The conversation ended with a reflection on the potential for external factors to reinforce certain investment psychologies.

Market Corrections and Investment Psychology

Andrew and Ed discussed the recent market corrections and their impact on investor psychology. They also explored the idea of designing a basic financial curriculum, with topics such as Warren Buffett's investment philosophy, stock market history, and the distinction between actively managed and indexed portfolios. They agreed on the importance of understanding the fundamentals of investing and the enduring principles of value investing.

Understanding Mathematical Principles and AI

Andrew and Ed discussed the importance of understanding mathematical principles rather than just memorizing or using calculators. They emphasized the need for an innate understanding of how mathematical decisions are made, which allows for the identification of outliers. They also touched on the difference between learning and memorizing. Andrew mentioned using AI bots to generate questions for his podcast, and Ed asked which AI bot he uses.

Secular Bull and Bear Markets

Ed and Andrew discussed the concept of secular bull and bear markets, which refer to extended periods of time in the stock market. Ed explained that these cycles are typically driven by inflation rates and that high valuations often lead to low returns over the next decade. They also discussed the current market situation, which has high valuations and low inflation, making it difficult to categorize as either a secular bull or bear. Ed mentioned the "reconciliation principle" which states that there are only three sources of returns from stocks: dividend yield, earnings growth, and the PE ratio. They concluded that the current market is resilient and has characteristics of both a secular bull and bear.

Market Valuations and Future Returns

Ed and Andrew discussed the current state of stock market returns, noting that the total return is a combination of dividend yield, earnings growth, and PE ratio. They highlighted that the current PE ratio is significantly higher than historical levels, which could impact future returns. They also mentioned that the dividend yield is currently low, which is not due to a decrease in dividend payout ratio but rather due to the high valuations of stocks. They concluded that the market may be due for a correction or a secular bear market, as suggested by some analysts like Grantham.

Inflation Reports and Fed's Impact

Andrew and Ed discussed the recent inflation reports, specifically the lowest level of inflation since 2021. Ed explained that the year-over-year inflation number is a 12-month trailing average, and the change in inflation is the difference between the new and old months. He predicted that the annual inflation rate would start to fall in the first half of the year, but if the month-to-month inflation rate averages more than 2%, the annual rate would increase. Ed also mentioned that if the Fed had been successful in reducing inflation to 2%, it would start rising again due to the dropping of lower numbers and the addition of a 2%.

Tariffs and US Economy Impact

Ed and Andrew discussed the potential impact of tariffs on the US economy. Ed suggested that the tariffs might not have a significant effect due to the magnitude of imports and exports, and the possibility of substitution effects. Andrew questioned the idea of bringing jobs back to the US through manufacturing, arguing that the US has become a service-oriented economy. Ed agreed that the tariffs would create uncertainty and volatility, but believed they would not have a major impact on the economy. They also discussed the need for a trade deal to balance the US trade deficit.

Inflation Impact on Fed and Bond Market

Ed discussed the potential impact of rising inflation on the Fed's actions and the bond market. He predicted that the Fed would maintain a hawkish stance, keeping interest rates steady, which would lead to a decline in long-term interest rates. Ed also mentioned the 6/50 rule, which states that within a 6-month period, interest rates will move more than 50 basis points. He predicted that the 50 basis point move would likely occur in the mid or long-term rates, not the short-term rates. Andrew clarified the implications of this prediction, including the possibility of an inverted yield curve. Ed encouraged people to visit Crestmontresearch.com for more information and updates.