Harry's Take

July 23, 2020

Gold Breaking Out for Now; Stock Crash Still Looks Imminent

I had a long text volley with **Peter Schiff in Puerto Rico** yesterday. We're both living down here. He's like, "Harry, when're you gonna get bullish on gold?"

He sees stocks crashing soon as well, but he also sees the dollar crashing and rising bond rates crimping the Fed's game here… and as everyone knows, Peter and I both see a massive downturn and financial crisis ahead.

So, we agree on stocks 100%. I just don't see a big crash in the dollar, as the U.S. is the best house in a bad neighborhood. Our cumulative net money printing and Fed balance sheet is at 34% of GDP. The European Central Bank is at 55% and Japan is at a whopping 118%. Yes, as Peter says, we have a pernicious trade deficit to our disadvantage; but Japan, Europe, and China have worse demographics ahead and mostly have higher debt ratios. I say the strong trade surpluses of China, Japan, and many European exporters like Germany will work to their disadvantage in the biggest global crash of our lifetimes.

I do see potential for the dollar, which has already declined 8% since the crash, to go down further, while gold could go up. Gold went up into mid-2008 before crashing 33% as the dollar advanced 28%. I still see that as the end game, as deflation must win out in the end in my scenario.

As you would expect, Peter sees an inflationary outcome. That is our chief difference. Peter and I are both independent experts with deep long-term research, and neither of us has ties to or is influenced by major institutions or the government. And we agree on a lot more than we disagree on. I think people should consider both of our arguments and at least get clear that stocks and the economy are in for hell, the greatest in our lifetimes!

This morning, gold is just over $1,880. That is beyond a normal overthrow rally of 1% to 3% and does now look like a clear break out. The obvious next resistance is at the all-time high of $1,921, only 2% higher. The $1,800–$1,805 area presented much stronger resistance, as it was tested three times over a year. The $1,921 top was a momentary surge and, hence, I don't think gold will have as hard of a time breaking that, ultimately, but it's not likely to near term.

I would not buy gold here. But people holding may want to keep it and see what happens. The best bullish gold scenario would be for gold to correct with stocks soon but hold up much better—especially if it holds the $1,670 level of its sideways channel, up until recently, and if stocks test the March 23 lows or lower in the next few months—a bigger crash than last time. In that scenario, gold could rally again while the dollar continues to fall, and then it could break the $1,921 level and make new highs into the low $2,000s+.

But note, like stocks, gold is bucking the fundamental trends. It does rise and fall with the 30-year commodity cycle, with its previous long-term peak in 1980. The Commodity Research Bureau Index hit $470 in mid-2008, at

$152; currently, it’s at only 32% of its high. The precious metals peaked in the secondary surge into 2011. Platinum is at 42% of its all-time high. Silver has recently rocketed in a catch-up rally to gold. It has done that and more and is at 48% of its high.

Stocks have been bucking the demographic fundamentals that should be bottoming between 2020 and 2023 for the massive Baby Boom down cycle of spending. They are now 120% overvalued. Gold and stocks are both bucking together solely due to QE and the unprecedented bubble it’s causing.

Stock trends point to a V-shaped recovery and more bubble ahead… good luck on that one! Gold says the bubble, inflation and rising interest rates will continue ahead… fat chance on that one, for a while. But Treasury bonds and their falling yields, now back below 0.60, continue to see slower growth, which does not support the bubble or higher inflation expectations.

My rule is: when we are nearing a downturn, the bond markets will be ahead of stocks in detecting it! I side with the bond market here. There could still be some fallout for the dollar, as the U.S. is clearly leading the global money printing and fiscal stimulus surge this time around, and that could be good for gold for a while, as it was in early 2008.

The economy is not expected to bottom until 2023, with stocks, metals and commodities bottoming more around very late 2022. Hence, I see almost everything going down. Stocks should go down 80%+; commodities are already near lows and may go down another 30% to 50% from here, to end up down over 80%.

I still see gold ending up the best, between $950 and $1,050—down 45% to 50% from its highs, including potential higher highs ahead… but still down until the next 30-year commodity cycle bottoms around 2022–2023 and then heads up big time again into 2038–2040. Gold should be a leader in that long-term bull market supported by heavy Asian buying rather than heavy inflation, as Asia continues to rise dramatically while world growth and inflation rates (compared with the past) continue to slow.

Here is the bottom line: I would not buy gold, and less so silver here, especially with the next resistance at $1,921 only 2% away. But on a correction that is much less than stocks, gold could be a buy for potential gains into early 2021—and it's now more of a hold here, with a sell stop at a convincing break below $1,660. Given panic buying-in with low inventory and falling mortgage rates, you probably have until near year-end to sell real estate you don't want to keep.

Stocks are an outright sell here—literally today is the best shot. I noticed that Adam O'Dell's short-term model just went from risk-on back to risk-off, and he is having people bet on a rising VIX and falling stocks today. Andy Pancholi also has a turn point for stocks, gold, and oil between the 21st and today. And just in today: corporate insiders are selling their own stocks at a 5:1 ratio to buying. They did the same thing right before the February top.

I would say today may be the best day to sell or lighten up on stocks and other risk assets.

For people that are thinking about subscribing to our monthly newsletters, I just put out the August issue of *The HS Dent Forecast* early with a very comprehensive analysis of why this could be THE top! Now would be a good time to get on board.

Harry

Got a question or comment? You can reach us at info@hsdent.com.