Harry's Take

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Investor Euphoria at Record Extreme as Major 40-Year and 90-Year Cycles Hit

Since the fall bubble boom season began in 1983, we've seen a string of bubbles peak, in 1987, 2000, 2007, 2018 and now 2020–2021. But especially when it comes to stocks, the 2000 top and the top now, in early 2021, clearly represent the most extreme bubbles—and both are concentrated in tech.

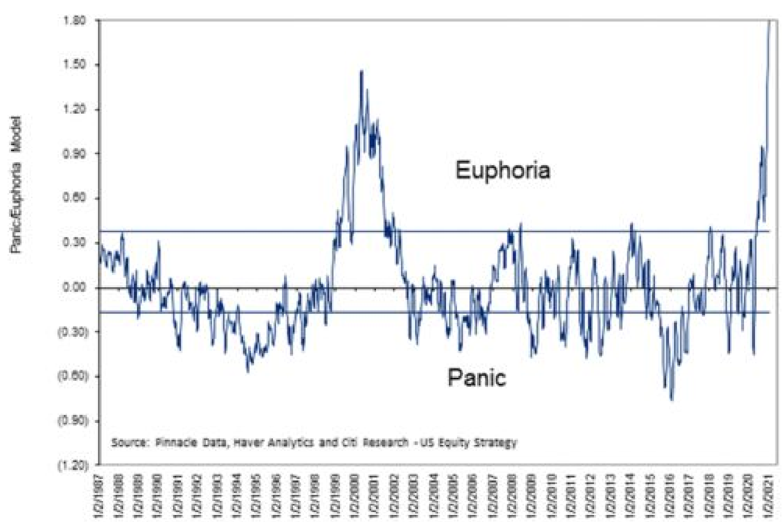
During my lifetime, 20- and 40-year cycles in stocks have repeated very consistently, bottoming in late 1962, 1982, and 2002. The latest cycle should bottom ahead in 2022. The 20-year cycle pattern is stronger every other cycle, or every 40 years, when generational spending bottoms tend to hit, as happened in late 1942 and 1982 and as will happen in 2022 ahead. Historically, the overall top-to-bottom pattern in these 40-year cycles has been 1940–1942, 1980–1982, and the newest one, 2020–2022. The last extreme tech wreck on the 20-year cycle hit from 2000 to 2002, similarly.

Another important cycle, the clear "granddaddy" cycle for stocks, hits the most sharply every 90 years and has done so since the Industrial Revolution supercharged the 45-year Innovation Cycle. In the 90-year cycle, two bubbles build on each other, creating a superbubble, as in 1836, 1929, and 2020–2021, that crashes to the extreme, with major debt and financial asset deleveraging. It's hard enough to see the 40-year cycles, which occur at most only twice in a lifetime. But this cycle occurs only once a lifetime at most, and many people will never see it.

What started to crash in early 2020 was the most-powerful 90-year cycle, but with a 40-year-cycle crash added to it. Hence, this crash as it continues ahead could be worse than the 89% crash in late 1929–1932 of the blue-chip stocks that were the equivalent of today's FAANG stocks.

What would you expect to happen at such a rare and extreme top? Investors gone wild! And that's what this chart clearly shows.

Euphoria Over Stocks Now Much Higher Than Even the 2000 Tech Top



Source: https://www.lmtr.com/market-euphoria-is-literally-off-the-charts/

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At tops like 1987 and 2007, we saw just normal, overly bullish sentiment. Really historically high sentiment—literally off of the charts—happened only in the first tech bubble driven by the dot-com craze, and that ended in a 78% crash on the Nasdaq and 95% on the Internet Index with only a very minor recession.

The present top obviously is going to an even more extreme level, 20% higher than the extreme in early 2000, but this time, the highest levels of debt and financial asset deleveraging have come due since the Great Depression of 1930–1933.

Central banks are fighting this bubble burst harder than ever, but the less-than-desired results are obvious already, even though they have printed as much QE money in only 8 months as they issued previously over 80 months…. Yes, it takes more and more to keep from coming down off of the high!

Central bankers will not win this exponentially escalating battle, and they are not going to tighten to end this bubble as they have others—they simply can't afford to let this bubble burst now that they have pumped the bubble up so much!

This is a simple go-until-you-blow scenario…. And the smart money has to be betting that the "blow" is coming sooner rather than later, given the unprecedented extreme in investor euphoria. You should be, too!

Harry

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