Harry's Take

March 30, 2021

Reader Mailbag: Questions and Harry's Answers on the Safest Investments Now

We receive many questions on various topics, including the direction of the markets, demographics, and interest rates. From time to time, we gather a series of questions on a topic or two and send them to all subscribers as part of our Reader Mailbag series. Reader questions may be edited for clarity.

Q: With the stock market at an all-time high, is this a good time to invest or is this the point where the dumb money gets in just before a big correction?

A: Yes, this is much closer to getting in at the end and too late. I think that the Dow could go up to 34,000–35,000 and S&P 500 to 4,050– 4,200—so there's not much upside left in this market, from my view... and the clear megaphone pattern in stocks suggests that the next crash will be down 47%-50% within a few months, so there's likely a double penalty for getting in so late.

Q: Why are you saying we'll have deflation instead of inflation? So, we'll have no inflation?

A: People say that if you print a lot of money, it leads to inflation. But we've been printing money nonstop at the highest rate for over 12 years now—and where's the inflation? We've just gotten a little bit. There's no way in hell to create high inflation and not even a chance in hell to create hyperinflation in this bubbly, highly unproductive debt economy, because the money has nowhere to go. It's just going into

financial assets, which will make stocks and real estate get even more overvalued until their economic bubbles burst.

Here's why we could get a little inflation now: For the first time, the majority of the last round of stimulus didn't come from the central bank's printing of money, it came from fiscal stimulus. A lot of that money does go into businesses and into consumers' hands, and then they turn around and spend it.

But when these massive bubbles burst and our economy turns down again, there will be deflation in asset and consumer prices, not inflation—as so much money will disappear and households will feel poorer and spend less.

Q: Given the current real estate market and expected crash, is it wise to pay down your mortgage on your home?

A: I actually advise that you NOT pay down your mortgage if you keep your home. If it falls enough, you may end up underwater and be able to negotiate a lower payout as a result. This will give you leverage with the bank, and they may end up taking part of your loss for you. Also, I like to have as much capital and cash as possible to take advantage of the buying opportunities in financial assets in the next few years. You can maximize that by selling financial assets you don't need and by not paying down ANY loans unless it is a 22% credit card balance or something extreme like that.

Q: How do you purchase 30-year Treasury bonds if you do not live in the U.S., and what do you suggest if you live in another country?

A: Securities laws differ by country. It's possible that an investment advisor in your country can purchase them for you or can show you how to buy a fund that invests in U.S. Treasuries. However, if you cannot buy foreign securities, then the next best option is to hold cash. While holding cash won't provide investment returns in the event of a market decline and interest rate decline, it will preserve

your capital so that you can buy assets cheaper after the declines. — Rodney

Q: Should we really be pulling out of the market when the Feds keep sending stimulus checks? What are your top five safe havens in the current market?

A: You can always hang in there if you are quick to pull the trigger. The first crash after a bubble peak is almost always the fastest and largest. My megaphone pattern (which I'll show again in the April issue of the *HS Dent Forecast*) suggests that the next crash will be down 47%–50% and will happen in a few months. I would rather get out a bit early vs. late, with that likely coming at me. My top five safe havens are 30-year Treasury bonds, 20-year AAA corporate bonds, multifamily/apartment REITs, medical REITs, and unleveraged short stock ETFs (like SH for short S&P 500 or PSQ for short Nasdaq 100).

Q: What do you suggest we do with a 401k during this volatile time?

A: Get into the safest options, which would generally be long-term U.S. Treasuries or the highest-quality AAA corporate bonds. Other options are multifamily REITs, not in high-priced urban areas but more in the Midwest and Southeast. Otherwise, sitting in cash is best, waiting to reinvest until the crash looks like it's bottoming, by the end of 2022 at the earliest.

Q: Is it better to buy on the secondary market through my self-managed brokerage account or on a government bond site for new 10-year or 30-year bonds, and is it still a good idea to short the 500 or 30 indexes? If so, how exactly do I do that?

A: We suggest buying Treasury bonds through whatever process you would also use to sell them, where transactions are quick and efficient. Typically, this is through a brokerage firm. The quality of the bonds doesn't change. As for shorting the indexes, it's very difficult to get the timing right, because some of the sharpest rallies are

during market declines. Most people can't hold through that, and they end up losing money even if the markets fall further! If an investor wants to be part of that, then SH, which moves inverse to the S&P 500, would do the trick. — Rodney

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Read the April 2021 *HS Dent Forecast* for more on the coming major top and crash and how real estate will fare.

Harry

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