Harry's Take

March 2, 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.

Investment

Q: What will be the best investment for the coming inflationary trend?

A: The trend for the next 2–3 years during the crash will be toward deflation, not inflation. The longest-duration and safest bonds, 30-year Treasuries and AAA corporate bonds, appreciate when yields fall in a deflationary setting. Other, higher-risk bonds will be devalued as a result of defaults.

Q: What else is there to invest in if you don't want to buy Treasuries?

A: You are underestimating the appreciation on a 30-year T-bond if rates fall from around 2.2% to 0.5%: 40%+. But if you know this and still want other options, then consider AAA corporates or short stocks unleveraged. You can buy PSQ to single-short the Nasdaq 100 or SH to short the S&P 500.

Q: How do you make money on a 30-year Treasury when you are selling it in a 2-year span?

A: Bonds are weird investment animals. They pay a constant rate of interest that must be compared to prevailing rates. If a bond pays 1.6% and the prevailing rate is the same, 1.6%, then the bond will be priced at 100. However, if the prevailing rate falls during a deflationary period to, say, 0.30%, then that same bond paying 1.6% becomes more valuable and is priced at more than 100. This is the situation I talk about in my slides.

High-quality, 30-year Treasury bonds that yield as little as 2.2% today could appreciate by as much as 40% when prevailing interest rates drop to near zero. And what's important is not the low interest rate for 2 years, it's the appreciation in the value of the bond when you have locked into a higher rate for 30 years than rates fall to. You can sell your bond near the bottom of the downturn and cash in on that appreciation without having to hold it for 30 years.

Timing

Q: Harry, don't you think the next $1.9 trillion of stimulus will keep the market frothy, elevated, and overvalued for a while?

A: That's the trillion-dollar question. Like any drug, using artificial stimulus leads to diminishing returns. It takes more and more to get the same effect. Eventually, the costs and toxicity of stimulus outweigh the added impacts, and implodes.... Damn, you really don't get something for nothing.

There is no way to determine perfectly when you've reached that point, but I say we have and now Jeremy Grantham is saying the same thing. If we could take heroin endlessly with no consequences, we would all be on heroin and stay happy forever! Stimulus works the same way for the economy. How long have we been keeping a dead economy going with more and more stimulus? Far longer than we should have. Much like when an avalanche launches, there is a point

when the whole market breaks after the "snow" of continuing artificial stimulus causes it to pile too high to be sustainable.

Q: What signs should we be looking for to indicate the upcoming crash and when to get out of stocks?

A: Unfortunately, the first clear sign is a 42%+ crash in less than 3 months, but by then you may already have lost a lot or have missed being short on stocks or long on safe, long-term Treasury bonds. In the March *HS Dent Forecast*, I show several valuation indicators that are way overbought and, hence, suggest that we are at or near a top.

Real Estate

Q: I'm 65 and still paying a house payment. I was wondering if it would be wise if I refinanced to a lower rate?

A: Yes, I would refinance now, as rates are still low. Also, even though risk-free rates will drop on Treasury bonds in a downturn, riskier rates will rise and loans or refinancing quickly will become harder to get.

Q: I was wondering if I should hold off on purchasing a home, since you say there is a big crash coming?

A: Absolutely hold off on buying a home for at least 3 years after stocks have clearly topped. Real estate will take longer to bottom than stocks and will be slower to come back. You will get a much better deal in a downturn and crash, especially if you can put a lot of money down or buy for cash.

Precious Metals

Q: Do you have any idea on what one should do with silver? Unlike gold, its price has been holding up and even increasing. The gold/silver ratio has been narrowing. Should silver be sold or be held in the short term?

A: Gold and silver are not very clear at this point. Gold has been very weak but is starting to bounce. If silver can break to a new high, that would be a good sign for now. I do see getting out of both pretty soon, but for now I would lean toward holding. You have to make sure to get out eventually, as they both will crash once the economy clearly shows both weakness and deflationary trends, and silver will go down much more than gold. I would get out if gold breaks back below $1,750. If gold happens to make it to my top target (which now is less likely) of $2,200, then sell gold and silver and run!

Bitcoin

Q: What do you anticipate will happen to Bitcoin, crypto miners, and blockchain companies during this crash? Should we be selling those things also?

A: Much like the dot-coms in the late 1990s, now crypto is in its strongest and latest-stage bubble. Therefore, Bitcoin and crypto will fall more than stocks, with the exception of stablecoins, which pay you only minor interest. Miners will do badly, of course. And much like buying Amazon after the 1990s dot-com crash, buying the crypto survivors at the bottom of this coming crash should be highly profitable in the next boom, when crypto/blockchain will move fully mainstream.

IRAs and 401Ks

Q: Most of my investments are in Roths, to save capital gains. Where or how should I move those investments to safe spaces?

A: If possible, move them into 30-year Treasury bonds or into the safest long-term bond funds—those that are AAA or AA rated. Otherwise, it would be better to be in cash until the crash is largely over.

Q: Is there a good source that will actually tell me what to do with my IRA and 401k accounts so that I can avoid the next Great Depression?

A: See my answer above.

Banks and Brokerage Accounts

Q: You have stated to keep your money out of banks and go to brokerage companies. I assume that you are referring to places like Charles Schwab. Do you suggest spreading money to a few brokerage companies to be safe, too?

A: Yes, it definitely makes sense to spread your money around to different discount brokerage firms. I'm not recommending the big financial brokerages, as they are into so many risky businesses. I prefer the ones like TD Ameritrade, E*Trade, Schwab, and Fidelity that make more of their money on trading fees, not on investments and speculation.

Q: You've stated that banks might not be safe. If not there, then where should the money go?

A: See the above answer, and note that even banks have only the minimum of funds to pay your monthly bills and hold the rest in a brokerage account in your name that cannot be lent against like a normal deposit or savings account.

Read my March 2021 *HS Dent Forecast* for even more information on indicators of the coming crash and how to best position yourself.

Harry

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