Harry's Take

April 26, 2021

Reader Mailbag: Questions and Harry's Answers on Real Estate, Inflation, and the Coming Crash

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: What exactly do you mean by saying, "Get out of real estate"? I have a $190,000 mortgage. Do you mean I should sell that house now while the market is high and rent something until this "time of tribulation" has passed?

A: Yes. If a house is overvalued and you can sell it and go rent something else for a time, there will be a payoff: you should be able to buy a similar house for 30%-50% less in a few years. If you do keep your house, don't pay off your mortgage, as the next time around, banks may be forced to write down mortgages to market value, so you could get a break if your house goes underwater. Also, having money readily available will allow you to take advantage of investment and real estate bargains in a downturn—so don't give any of your money or capital back to a bank.

Q: If you wait for a housing crash before buying, wouldn't the 30-year fixed-interest rate be much higher than it is now, somewhere around 3 percent? Powell seems to be inching the interest rate higher in very small increments.

A: It is true that mortgages could go up, due to rising default risk, and that it could be harder to get a loan. But once you gather enough profit from selling at the top of bubble, you can either buy later for cash much cheaper or you will have a lot more to put down.

But no scenario is worse than buying now and losing 30%–50% of your home's value, which will give you negative equity if you put 20% down.

Also, real estate takes longer to recover than stocks. You could time it so that you buy when the economy more clearly is recovering and still get a low price and more-reasonable mortgage rates.

Q: Would you say it is true that residential real estate in places like the Midwest or southern states (Missouri or Tennessee), where someone can buy a home in the $150,000–200,000 range, won't crash like other places in the country will?

A: Most real estate will go down and reset, but to very different degrees. The less-overvalued areas will go down less.

My best rough gauges for the broad array of properties are these:

1. **What was the property worth at the bottom of the last downturn, typically around 2011–2012? That's the likely downside this time around.**
2. **What was the property worth when the bubble started in early 2000? That's more the worst-case scenario.**

Once you've answered these questions, then you can decide if the property is worth keeping or if it's better to sell.

Q: (Peter) Schiff says money printing causes inflation, whereas Brent Stevens and Raoul (Pal) say that it does not. What is inflation, and will it happen due to QE or not? What is your take, as you are a proponent of deflation: Will the dollar rise or will it fall?

A: This is an extremely simple concept that most people just can't get. Monetary printing does not tend to cause consumer price inflation, it causes inflation in financial asset prices, i.e., stocks, real estate, and

bonds, as the money printed simply injects more money into the existing financial asset pool through buying of bonds or financial assets. That causes those in the upper income classes to spend more, but not most people. Fiscal stimulus tends to go to consumers and businesses or to actual governmental spending, and that can cause consumer price inflation. That is why inflation has been rising a bit over the last year, as more of the stimulus has been fiscal, which requires borrowing money to spend—money that then has to be paid back.

Some would say that of the two types of stimulus, money printing is better, as you don't have to pay it back or pay interest on it.... But I'd argue that monetary printing is worse, as payback will come once the massive financial asset bubbles burst. That will destroy real money and wealth from real consumer, business, and government brokerage and investment accounts... and then, everyone will spend less because they feel less wealthy.

My best example of this is Ted Turner damn near crying on CNN, his own creation, back in 2002 or so. He lost $9 billion of his $10 billion net worth in a few years in the tech wreck of 2000–2002. Do you think he spent a little less money and invested less in the years that followed? And you know ordinary people just thought, "But Ted, you're still a billionaire." What's the difference between $1 billion and $10 billion? Jane Fonda!

Q: What is the future of the U.S. dollar in the crash, and how does it compare with other currencies?

A: The U.S. dollar will rise in the crisis, as it did into mid-to late 2008 in the last crisis… and this coming crisis will be worse. The U.S. is simply the best house in a bad neighborhood, due to 12 years of endless, something-for-nothing money printing. Now, fiscal deficits are beginning that will last for years and will fulfill a forecast I've had for a decade: We will see U.S. federal debt near $40 trillion by 2025 when Biden's term is over, as the federal debt has been doubling every two administrations since 2000... from $5T to $10, $20, and now $40T!

Other developed countries will tend to end up relatively worse off. And the U.S. dollar is less likely to rise in the next boom, as Southeast Asia and India/Pakistan will dominate growth and progress, whereas Europe will fade even faster than the U.S. So, while the dollar is looking like it'll be a safe haven and the best house in a bad neighborhood in the financial crisis and Great Reset between 2021 and 2023, it won't necessarily keep looking so good after that, when more of the Asian nations rise and begin to dominate.

Q: What is your latest update on Treasury bonds and our targets?

A: I am continuing to monitor the Treasury bond yields, as the direction is not clear. I originally was looking for a buy opportunity at 2.42% for the 30-year, but they shot straight through that, so I have held off. Now, yields are a bit lower, at 2.27% or so. I still suspect we may get one more spike in rates, and I will issue a buy signal if that occurs. If not, I may have to issue a buy signal a little lower, and that would be unfortunate. This is not likely to take long to play out.

You only hold these safe-haven bonds into the worst of the stock correction into late 2022 or 2023. Interest rates will rise modestly in the next boom, and that will hurt these low-risk bonds. So, you want to be long 30-year Treasury bonds if possible, or TLT ETF for 20-year average on any rise in rates ahead and then sell around when stocks bottom, by the end of 2022 or later.

Q: I agree with you that there is a financial crash coming. It is even closer than one can imagine. You may be a macro guy and you may be using macro analysis for your forecast. I use charts, and I think we are very close to a grinding halt in the market, which can send markets so low.

I'm surprised that your targets are quite similar to my targets. These were the targets I enumerated around September 2020, when I expected the crash to occur, before the market rose on hope (i.e., vaccine hope, stimulus hope).

Dow Jones: 15,300
S&P: 1,800
NASDAQ: 5,800
Brent: $20

Gold: $1,300
Silver: $11

I expect the fall to be a flash crash, faster than March 2020 was. Just look at India (Nifty 50 and NSE Sensex indexes) and Brazil (Bovespa). These charts should have a very rapid crash. Very rapid!
Most commenters will laugh at you when you say these things, but don't take it to heart. I got laughed at in December 2019, when I told my friends that a big crash was coming sometime in January 2020. By looking at the chart, you can't see what is coming, but you definitely know that something big was coming. And in February 2020, everything melted. I bought back in the third week of March 2020 and exited the market in August 2020.

The same signals from December 2019 are presenting themselves again now, in April 2021, in all global stock markets and commodities.

A: I don't even seek media at this point, as no one can believe that we can have a big crash when governments are pushing nonstop stimulus that only escalates. But escalation is the very problem. How can you top 55% of GDP since the repo crisis for combined monetary and fiscal stimulus? This is insanity. I agree with you, obviously.

This will be a big crash. It could even start this week on a potential turn date of April 28, or it could come as late as late May. My minimum target, around 1,600–1,700 on the S&P, is similar to yours and is based on the bottom trend line of a very long-term log chart that goes through the 1932, 1974, and 1982 lows. My worst-case scenario is to go down to 600 (5,000 on the Dow). That would be a crash of the magnitude of 1929–1932—but I think your targets are more reasonable, as central banks may lose control here but aren't likely to let stocks fall 89%, as happened in 1932. I see gold going to around $1,000–$1,050, a little lower than your forecast. I also project that this crash could be over by the end of 2022, which would make it faster (albeit steeper) than the crash of 2008 or 1929–1932.

Don’t miss the latest *HS Dent Forecast*, coming out May 3, which will look into the future—both long term and right around the corner—of Bitcoin.

Harry

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