Harry's Take

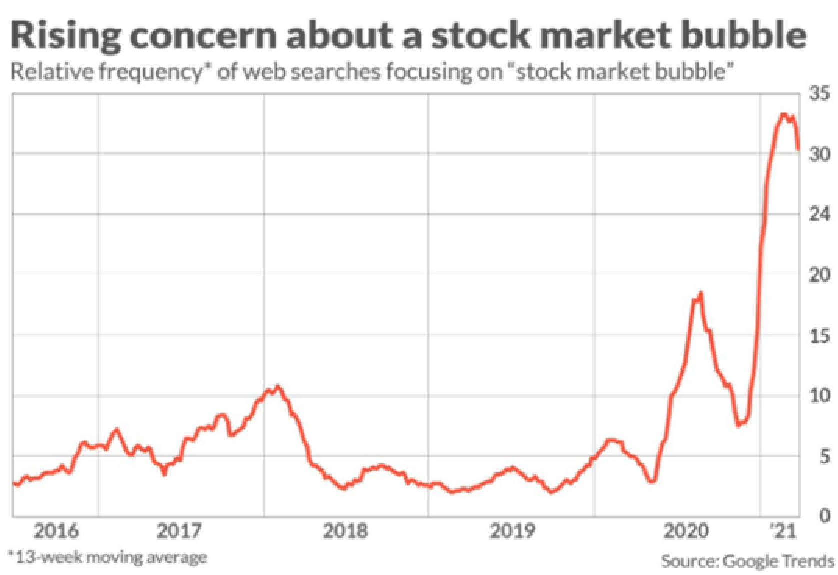
May 4, 2021

Stocks Likely Starting To Break Down: Gold vs. T-Bonds as Safe Haven

I have been warning that a major long-term stock top is likely in the present time frame, from late April to as late as early June. We may be off to a good start today with the sharp crash in stocks.

A recent query into the frequency of web searches for stock market bubbles showed a major peak and downturn coming soon. Most analysts would think that this is a contrarian indicator, as it indicates too much bearishness…. No, this one correlates very well with substantial tops.

This Media Indicator on Bubbles Now Extreme: Screaming for a Top



Source: https://www.marketwatch.com/story/the-psychology-of-a-stock-market-bubble-11619198164

www.HSDent.com

This chart shows that the current market is massively overvalued compared with the first strong bubble peak in early 2018. And we've been in a megaphone pattern of higher highs and lower lows ever since. Both this pattern and this indicator suggest stocks could top here or not too far ahead, likely by June at the latest.

So, the question is this: What will be the safe haven if this is the beginning of the great crash I have been forecasting? Gold? Or will it be the safest (long-term) bonds, i.e., the 10- and 30-year Treasuries and the AAA 20-year corporate bonds?

I say clearly: the 30-year Treasuries are safest, as they are the last thing the US government will default on. Also, they'll still lock in those already low 2.3% yields as they likely fall toward zero in the next two years or so in a deflationary downturn.

This next chart shows how gold and TLT (average 20-year T-bonds) did in the last crash, which is just a prelude to the larger crash and downturn that's still coming, even though governments have put it off with endless money printing.

Gold Great in Early Stage of 2008 Crash, T-Bonds Best Into the Worst

Source: Yahoo! Finance

www.HSDent.com

Note here that both gold and Treasury bonds edged up in value just before the October 2007 peak in stocks and into the growing crisis. But gold did better at first, as investors anticipated high levels of money printing to offset the downturn. They did not expect a larger collapse and minor deflation in prices.

I have always said that gold is an inflationary hedge, not a deflationary hedge. But gold still has its crisis value for the early stages before deflation rears its head.

When Lehman Brothers and the financial system started to collapse about 7 months after the stock peak, Treasury bonds spiked as the safe haven, while gold fell 33% in a matter of months. That's the truth here!

Gold started out strong in the downturn but collapsed into the middle and worst of it. Treasury bonds started off good and were the ultimate safe haven at the worst of the fall, between mid- and late 2008. But even T-bonds bottomed a few months before stocks in early March 2009 after just a minor new low.

If you can't decide between crash forecasters like me or Peter Schiff, then you can be out of stocks and risk assets and, at first, can stay in both T-bonds and gold.

But watch and wait…. When the crap hits the fan, with much more deflation than in 2008–2009, it's the T-bonds that will reign as the safe haven and gold that will bust…. And my estimate is back down to $950–$1,050 in gold, which will still be better than stocks and most commodities.

The most important move is to be out of higher-risk assets like stocks, real estate, and junk bonds at first. Then you can decide if it's the lowest-risk T-bonds that are the best or if it's gold…. **You know my opinion!**

An inflationary crisis like we had in the 1970s favors gold… but a deflationary crisis like we had in the 1930s (and like we are in now) favors

Treasury bonds. Cash only preserves your money. T-bonds can expand your money by as much as 40%+, as happened in the 2008 crash and even briefly in the flash crash of February to March of 2020.Then, after the massive downturn, you can reinvest in gold, stocks, and real estate for the next global boom.

Harry

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