



Harry's Take

June 2, 2021

How To Forecast in a Seemingly Chaotic Universe

The reason I stopped majoring in economics in college and switched to business was simply that the economists' theories did not seem to have real-life applications. The economists were more of the collective opinion that no one really could predict the future.

At least business courses like finance, accounting, marketing, and management had real-life applications. But for forecasting, I have always gained the most wisdom from following the best of the scientists who study very-long-term trends. When a person does this seriously and systematically, patterns begin to appear.

This is a picture of the center of the ever-changing Milky Way, from the amazing Hubble telescope.

The Universe Looks Chaotic: How the Hell Can You Predict Anything?



Source: <https://www.yahoo.com/lifestyle/center-milky-way-looks-art-024556767.html>

www.HSDent.com

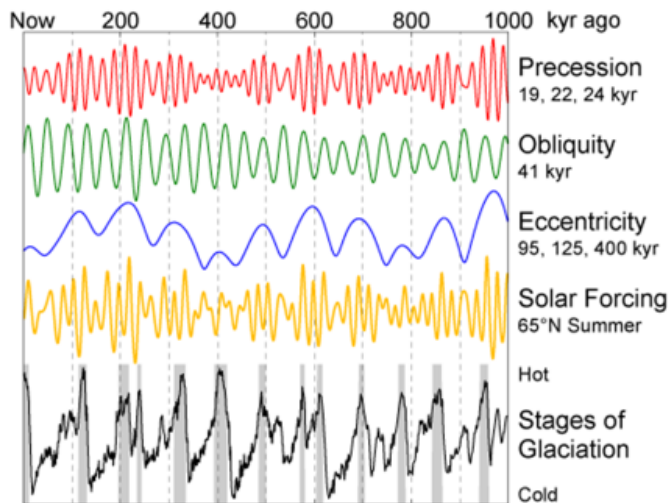
Does this look like absolute chaos, or what? Yet the earth revolves around that center every 250 million years. Well, that already brings to mind a cycle similar to earth's revolution around the sun every year, which breaks into 4 seasons of climate, and so on. That gives us some predictability already!

When I was in college, I could see that we had these repeating booms and busts in the economy. I always knew that there had to be a reason for that, something driving it... but I didn't know what, back then.

That was the time during which I was first inspired to come up with a system to predict economic cycles—and my inspiration came, of course, from a Serbian scientist, Milutin Milanković. He was able to track three major long-term cycles that explain climate variations over 1 million years and can project into the future longer than anyone would care about, in 100,000-, 41,000-, and 22,000-year (on average) cycles. I'm not going to go into that here. But the work of Milanković stands as one of the earliest and still most successful systems of long-term cycles and forecasting.

Milankovitch Tracked Very Clear Long-Term Climate Cycles

Now – 1 Million Years Ago



Source: http://commons.wikimedia.org/wiki/File:Milankovitch_Variations.png

www.HSDent.com

His model had all of the key success factors. He didn't incorporate endless cycles (as there are), but he found the key few that matter the most. One cycle dominated: the longer, 100,000-year eccentricity cycle, which correlates with ice ages, the most notable climate events in history, and that cycle reminds me of recessions and depressions in economics.

The best cycle models typically have 3 (or 4, at most) key cycles arranged in a hierarchy of dominance. The economic hierarchy I find most compelling has at the top the 45-year technology cycle for progress, which is the most dominant cycle. Below that is the 40-year generational cycle, which correlates most with major booms and busts and then the 10-year cycle, which correlates most with major recessions and depressions. That 10-year down cycle tends to hit in the first 3 years of every decade, as in 2000–2002, 1980–1982, and now 2020–2022; the only exception in my lifetime has been 2008–2009. That downturn hit early, because the 40-year demographic cycle triggered a major downturn after the Baby Boom generation peaked in their spending.

The economic cycles in my key hierarchy all converge and point to a major stock low happening around late 2022... a once-in-a-lifetime event that almost no one will see coming!

What's the most important thing to watch here? The dominant cycle is peaking now; that 45-year cycle is especially potent for forming major long-term bubbles every 90 years. This cycle was due to peak around early 2020, but escalating stimulus, especially after COVID hit, instead created one last and most extreme bubble run.

To me, this final cycle appears ready to peak soon, and likely now by early to mid-June.

Do NOT take this time period lightly. Do not think governments have more power to change economies than the biggest long-term economic cycles, which emerged since the Industrial Revolution ignited modern technologies on an unprecedented scale.

Plenty of newsletter writers out there can chart stocks and indicators and make short-term predictions. But something different is about to happen....

This is the time to listen to me and a few others, including Andy Pancholi and Robert Prechter, who seriously study long-term cycles.

Harry

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