Harry's Take

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Reader Mailbag: Questions and Harry's Answers About Investing During the Coming Crash

We receive many questions on various topics, including 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 subscribers as part of our Reader Mailbag series. Reader questions may be edited for clarity.

Q: Will the stock market tanking really hurt the consumer as badly as in 2008, given that the amount of consumer debt has plunged in the last few years?

A: The 2008 crash was halted early, due to massive stimulus. By natural cycles, that recession should have been deeper and lasted well into 2010, like the 1930 to early 1933 depression. I am assuming for now that the central banks will lose a lot of credibility and the public may not support printing exponentially more money, because doing so since COVID should fail badly… but we will have to see on this. Just consider my megaphone pattern, which suggests a crash to around 2,000 on the S&P 500 in just a few months. That should be astoundingly sobering… I hope. Why would we print trillions more if just printing $5 trillion since COVID has failed badly? However, I could be overestimating the intelligence of the American people. I hope not!

Q: Do you recommend staying in TLT when the stock market tanks? Or should one move out of TLT for now and move back in after the market has sunk 40%–50%?

A: TLT should do okay as the crash sets in and will be best when stocks crash the most, likely into at least late 2022. Look back at 2008: TLT spiked the most in the second half of the year. So this time, it will likely pay to sell TLT before stocks bottom, which is expected more by the end of 2023. I may be looking at recommending that subscribers sell between late 2022 and early 2023 if stocks start crashing soon, but we would have to wait longer to buy stocks again for the 2024–2037 Millennial boom.

Q: What is the risk that if we have a prolonged, massive market correction with the government carrying so much debt people will avoid U.S. Treasuries? If economic conditions deteriorate to the point the Treasury defaults and the worth of the dollar is obliterated, where do people put their money? How will Bitcoin be impacted by a national power outage or power restriction, even if momentary? Won't the nation's ability to independently mobilize and defend itself against an attack be weakened if the nation finds itself dependent 100% on electric vehicles?

A: What happens can be seen by looking back at the 2008 financial crisis; this one will be bigger and will more conclusively turn us away from the endless and exponentially increasing money printing strategy that's been happening since demographic trends predictably started falling in 2008 on my Spending Wave. Even gold crashed into the second half of 2008. It was the long-term Treasury bonds that spiked most as a safe-haven asset (along with the U.S. dollar) in that second half of 2008 when the s#!t hit the fan. Thirty-year Treasuries should appreciate the most. In a downturn, cash will preserve your wealth but Treasuries will grow it. All other risk assets, from corporate bonds to stocks and real estate, will fall—yes, even gold, although it may hold up more in the beginning! I don't see the move to electric vehicles threatening our nation in this scenario, as electric vehicles sales will slow at first and so will electricity use in general in a deep recession. The biggest thing people don't get is that the U.S. dollar and its Treasury bonds are the best safe haven in the world, along with maybe the Swiss franc. Money has to go somewhere, and that's where it went in 2008!

Q: I am curious about something I see happening in stocks. To most, it would seem that everything is still going up and doing well, but I see something different in that the performance of the majors (AAPL, MSFT, GOOG, AMZN, NFLX), masks the underlying carnage in dozens of "second-tier" stocks

(PTON, ZM, BYND, UPST, COUP, etc.) that have crashed and are trading 50%+ off their respective highs.

Let's face it, the banks create every major move up and down on the market, cashing in on dumb money; it's just a game for them, setting traps and cleaning out the fools. Now, I know everything cycles (all set up by the banks), but I'm getting to feel that maybe the "crash" won't happen because a huge percentage of stocks are going down being "masked" by the majors, and when they are well on their way back up, this then gives the majors time to move down somewhat, balancing the market with a seesaw effect of ongoing stocks going up and stocks down, hence preventing an actual crash. Are the banks powerful enough to prevent this by manipulating in the way I have suggested?? In your opinion, could this happen? YES/NO?

A: Good insight. As stocks approach major long-term tops, the dumb money increasingly piles into a narrow range of well-known large, leading stocks. This "decline in breadth" is actually a strong sign of a top approaching, not vice versa. As of December 27, one stock index after the next, U.S. and global, has peaked, leaving only the S&P 500 making a new high as of the 27th. That shows this narrowing in real life and is a sign of a top nearing.

Q: Do you think the 10-year and 30-year yields have peaked, and is this a good time to buy?

A: At this point, I would give the market a little more time to react to the recent sharp rises in inflation, which it hasn't yet. The December CPI comes out on January 12. That could be the time to react. If there's not much reaction by then, buy the T-bonds anyway. If rates keep heading up, let them run a little first.

Q: I have been investing in Bear Fund shares, BBOZ, on the ASX (Australia market) for 3 years now. My cost is $8 per share; however, they are now $4.30 per share. So, I am down 47%. When the next bear market happens, will I make my money back? And how long into the bear market do I wait before selling for maximum profit?

A: I still expect stocks in general, including the ASX, to fall about 50% from the top in the first crash alone. That may have started already on December 27 with a slight new high in the S&P 500 alone, but we will need to see

follow-through on the downside soon, or it might have to make one more run to new highs. I expect a drop of more like 87% over the entire crash; if you hang on in such a scenario, you definitely will come out ahead. You must be triple short or something to be down that much when stocks are still near their highs in general.

Q: Our family is in the same situation as many others: working hard, saving all we can, and still being priced out of the housing market, even with an advanced degree, no debt, and several years of work behind us. My question is simply this: Is it unwise to keep our down payment that we have worked so hard for in the banks in cash, especially when inflation seems to be eating so much of it away each year, or are there ways we could invest that wouldn't include the risks of the stock market or other risky ventures? Also, do you perceive that there will be a time when asset prices will return to somewhat normalized levels in relation to the dollar?

A: The 30-year Treasury bonds are the best place to put money now and into the market crash from this bubble, which is increasingly likely to start now or soon. The 30-year T-bonds lock in interest rates for longer, which will amplify the gain if we go into recession or depression and rates fall. You will get a small yield of near 2%, but the value of the bond will appreciate substantially if there is a crash, as occurred into the 2008 crash—which was by as much as 40%+ in just 1–2 years—while everything else, stocks, real estate and even gold, tops and then crashes more seriously, in that order. Around late 2023 or so, you should be able to get back into stocks, gold, and real estate (stocks will do the best in the next boom) but not Treasury or corporate bonds, as mildly rising interest rates in the next boom will offset their interest.

Q: I'm wondering how The Great Reset, as well as Blackrock buying up properties, could affect your outlook. I guess when I see a Blackrock-type investment real estate company paying 130% of asking prices now, it tells me they see real estate as a positive money force moving deep into the future... maybe by holding properties and renting them (i.e., like The Great Reset's tagline goes, "You'll own nothing and be happy."). So, just to play devil's advocate, would that counter the traditional bubble patterns that guided thinking in the past?

A: This sort of investment behavior is likely to continue to create and extend the bubble to the point that it must pop due to its own extremes. This does not change my forecast of a major bubble crash, most likely very soon. But it does help explain why this bubble has extended longer and farther than any time in history. This is only a sign of a bubble close to crashing.

Q: In the event of a "bail-in, bail-out" banking situation where the bank seizes depositors' money, is there a way saving depositors can protect their money? How would this seizing of money play out? Would the money taken be a gift to the troubled bank? Would it be a loan? Would the money ever be returned to the depositors' accounts? I have read various articles about "bail-in, bail-out" but no details about the money part of this event.

A: **It is very hard to project how this will work out exactly, as this crash will likely be the worst since 1929 and many more people now have more income and financial assets to lose compared with then. You can't really protect a deposit or savings account at a bank if the bank gets in big trouble. They lend 10:1 against your assets. What I recommend is that you only keep enough in your bank account to pay your monthly bills and you put everything else into an investment brokerage account at an investment firm like Merrill Lynch or a discount broker or even a brokerage account at a bank... because they can't lend against that. Some investment accounts will let you pay bills out of them. If things look bad, you'll want to put an even tighter leash on your bank deposit accounts.**

Q: Do you think we could see a pickup in the money velocity after the deflationary bust? I'm quite sure that the response from central banks and governments will be massive monetary and fiscal aid. If we've had $4.5T USD expansion in the Fed's balance sheet in the last 20 months, we could see perhaps $15T next year and in 2023. That monetary expansion in combination with high money velocity would create inflation, not deflation. What are your thoughts?

A: This is the trillion-dollar question. Most assume that the Fed will only print massively more when this recovery fails again. But at some point, the printing must end. Money velocity has only been crashing since 1997 and will go to new lows never seen before. I think it is more likely that we will see that massive first crash in stocks of 54% to 58% I've been predicting,

and that will wake people up by signaling that this strategy isn't working! The markets won't get the rush to new highs, because people will just keep piling in, as in the past. The real question is, "Will the Fed lose credibility quickly once its recent stimulus, the largest stimulus ever, flops?" I think it will. But whether this happens will depend on that first very sharp and deep crash. If people don't get that the bubble is over then, then I will be even more glad I moved to Puerto Rico!

Harry

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