Harry's Take

January 25, 2022

Reader Mailbag, Part I: Questions and Harry's Answers About Housing and Investing

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 ***. This month, we are splitting reader questions into two parts. We will print Part II on Thursday.***

Q: What do you think will happen to the mortgage industry?

A: Unfortunately, home sales and mortgages will crash for a few years. But this will make housing much more affordable again for the Millennial generation and will bring more buyers in, although probably not until at least early 2024, and maybe into 2025.

Q: My question is, what do you think about mining stocks? Would it be wise to wait for the crash and then speculate on the major ones like Franco-Nevada, Agnico Mines, Hot Chili, TMC (The Metals Company), etc.? Also, would you suggest increasing my position on BBUs or purchase BBOZ on ASX to gain exposure in the ASX crash that will follow?

A: I still believe in long-term, high-quality bonds like the U.S. Treasury and Australian. I prefer the U.S. Treasuries, as they are the ultimate global safe haven, and even Australian bonds will tend to underperform in the worst of a crisis, as it did before in the second half of 2008. I don't have much faith in the precious metals during the crash and have even less in the miners. Gold may go up a bit in the early stages, but I see gold heading toward $1,000

into the worst of the crash, especially into late 2022—and then booming long term with Asia's boom into the next commodity cycle top around 2039–2040. The miners will not do well when gold and silver are falling, and such businesses will get hit hard by the general stock collapse and economic downturn. It's best to be in the safest bonds, and then get back into stocks, miners, and precious metals after the crash sets in, say around late 2023 forward.

Q: My investing account is RBC Direct Investing, and I have no idea if they lend against it. I called them to check, and they said they do not. However, I still am questioning if I trust it. I downloaded their agreement forms and had a look through them but nothing stuck out. What are your thoughts on this? What's the best way I can verify my funds are safe in a major bank meltdown?

A: It sounds like you have an investment account with your bank. That account should not be lent against, which is a good thing. However, things might get a little complicated if the bank itself gets in trouble. For my stock investing, etc., I prefer having an account with a discount broker like Ameritrade or E-Trade, as they don't have much exposure to lending and the broader investments they speculate in—and banks and brokerage firms do a lot of leveraged speculation these days! My personal investment account is with Ameritrade. Schwab is in between the discount brokerage firms and major brokerage firms like Merrill Lynch. So, they are among the better firms but not optimal.

Q: With the absence of an event, whom do you believe is ready to start huge selling, and why? What's their trigger to start the selling?

A: It's very simple. The smart money behind the scenes trading large positions on high leverage starts the selling once they think everyone else has jumped onto the ship. The dumb-money, more-everyday investors are the ones piling in the most in the late stages like this. The more the smart money sells, the more the dumb money panics and sells, and that is how a small correction in a super-overvalued market like this can turn into a major crash quickly. The first crash of a major bubble is, on average, by 46% in the first 2.6 months. My megaphone pattern in this most-stretched-ever bubble is predicting that first crash is likely to be as high as 55%–58% in 2–3 months. That's why it's better to get out early.

Q: What's in store for the San Diego County area in the upgoing real estate BUBBLE?

A: All of the major cities in California are at the top of the overvalued and bubble lists, but they tend to fall as much as the bubbliest cities like Miami and Manhattan due to scarcity of developable land. San Diego should get hit 40% to 50% or worse on the higher-end and vacation homes. Real estate freezes up once there is weakness when things are this bubbly, so it's better to get out now/early.

Q: First, how much does e-commerce and logistics weigh on the world global economy? Second, how much does the health of e-commerce and logistics weigh on the world global economy?

A: Yes, the information sector and services will certainly lead this downturn, and the index you are showing in Italy looks like it has already topped, as has the broader Nasdaq in the U.S. and globally. It's time to get out or go short and look to reinvest around the end of 2023. Some leading sectors like crypto could bottom earlier.

Q: Do you recommend purchasing U.S. Treasury bonds individually or purchasing via a fund? Does your recommendation include a long-term bond fund with holds, maybe 80% in U.S. Treasury bonds and other investments backed by the U.S. government? Where do you feel is the most sensible place to purchase U.S. Treasury bonds?

A: There are two simple ways to buy Treasury bonds The first is to go with TLT, an ETF that holds 10- and 30-year Treasuries (averaging 20 years). I prefer the 30-year T-bonds direct, as they will appreciate much more in a deflationary crash. Hence, the best bet is to buy 30-year Treasury bonds through a broker or an online brokerage. You're not buying for the minimal, 2% interest you'd get today. Instead, you hold them and sell at the worst of the crash and crisis, likely a little before stocks bottom around late 2023 or so. That would have been late 2008 in the last crisis, so this time, it's likely to be somewhere from very late 2022 into mid-2023. You are only buying these as crash protection, not as a long-term hold. I'll be commenting on when to sell when the time comes, which could be as late as late 2023.

Q: Does your forecast from the Kitco interview include a crash of gold/silver mining stocks? Also, does it include precious metals like SBSW (Sibanye-Stillwater)? We are now badly losing with these and wondering if they will be near-worthless when that overpriced "bubble" crashes this year.

A: I would definitely sell mining stocks, as they also correlate with the broader stock market, which is due to crash the earliest and most in my scenario and may have already peaked on January 4. Gold is trickier, as it can rally in the early stages of a crash, as it did into the first months of 2008 before crashing along with everything else. I would not buy gold here, but for people who have it, you could consider holding out for a rally in the first half of this year... but after gold did the same thing in 2008 and then crashed hard anyway, I'm not sure we will see that rally, or for as long. If gold does rally, then $2,200-$2,250 has strong resistance on the upside if it makes a new high. I would rather short stocks or buy 30-year Treasury bonds here than buy or hold gold... but I know a good many of our subscribers still like it. If you hold some gold, give it a few months if it keeps edging up, and then let it go by mid-year at the latest.

Q: In your Kitco interview, you mentioned that we have "more than enough houses" for housing the Millennials. As Baby Boomers die off, their empty houses will be a rich target for the Millennials (or maybe my generation, the Gen Xers). However, in real estate, the key thing is "location, location, location." I got to thinking that the "work from home" trend (which I've done for the last 20+ years, BTW) will only grow. And since Millennials can live wherever they want, basically, why would they limit themselves to buying "old" houses that are in sprawling suburban areas or in dense, dirty city areas? Yes, the sum of houses might outweigh the sum of home owners, BUT I'm thinking that real estate, in some areas, might remain strong or even grow!

A: My longer-term work focuses on simpler fundamental indicators that are much more reliable, and I have some unique ones. But in the short term, trends are much more complex and you have to use a whole different set of technical indicators. My fundamental indicators would have never uncovered the 2000–2002 or 1987 crashes, which were a big deal. So, I overlay technical analysis on the more fundamental indicators. People that want to keep it simple can ignore those. I can't, or I would look like a horse's ass for missing some major moves.

What you say about real estate is true. There are always regional shifts as areas (like the Rocky Mountains) or cities (like Austin or Tampa today) become more popular. There is also a modest, continued shift out toward more exurban areas, like where you are. I was forecasting a bigger shift to places like that, but the truth is that most people still like the cities and suburbs because there's more to do. Real estate is also more local. Stocks tend to go up together, while local areas boom and bust more on their own merits...

But don't underestimate the macro trend that is clear to me here: This is the second major real estate bubble this time around, and like the first one, it is greater and more global than such bubbles have been in the past. All real estate will be affected by such a broad crash, as also occurred in the last real estate crash from early 2006 into 2011–2012. But some areas are way less bubbly and will hold up better. I wouldn't worry too much about where you are, unless the primary buyers are from places like California or if many are speculators. But it would be unlikely that your real estate would not go down to some degree in such a major crash.

My best two tests are these: First, how did your area do in the last crash? And second, what was your house or real estate worth in 2011–2012 at the last bottom? Those past lows are likely to occur in most areas at a minimum. If you are comfortable with a fall to those levels, then you can sleep better at night.

Q: Does your forecast for an upcoming crash factor in the fact that a large percentage of home purchases are driven these days by investment firms buying starter homes as rentals, Airbnbs, etc.? This type of buyer didn't exist during previous crashes and now accounts for at least 25% of the current, already tight housing market.

A: This is precisely the type of investor/buyer that most contributes to a bubble and takes it to such a ridiculous point that it has to crash from extreme overvaluation. It is less important what causes the bubble once it gets so overvalued that even the speculators won't buy anymore and/or start to sell. Rising interest rates are usually critical in triggering that sell point, as is occurring now.

Q: In your interview, you mentioned that certain developed countries have not yet peaked—such as Australia, New Zealand, Sweden, and a few others. May I ask what makes those countries different than other developed nations?

A: Those countries tend to have high numbers of skilled immigrants, because they are great places to live with great cultures. They don't tend to have high birth rates; wealthier nations overwhelmingly don't. It's both the higher immigration that makes the difference... and the qualifications of the immigrants. The U.S. gets more unskilled, poor Mexicans, whereas Australia gets more highly educated Asians!

Stay tuned for Part II on Thursday.

Harry

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