Harry's Take

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Reader Mailbag: Questions and Harry's Answers About Treasuries, Housing, Commodities, and Cash

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: What's your thought on using TMF?

A: TMF is simply three times TLT. Hence, it's a more leveraged way to play this deflationary crash. I like TMF, but if we are wrong here, it just means you are penalized three times... which I don't think is likely. But it can happen if we're wrong, especially near term. One way to play this is to buy TLT at first and then switch more into TMF as the downturn in yields starts to accelerate in the financial downturn very likely ahead.

Q: Why in the world would we buy ZROZ if we know the Fed is going to hike rates? Would we wait until they hike and try to get in before rates drop again?

A: The logic is that raising rates will reflect rising inflation in the late stages of a boom like this, slowing the economy and causing stocks to fall. Stocks are just a 6- to 9-month leading indicator on the economy. If you wait until that occurs, the markets already will have anticipated it, as they are doing now, with rates falling instead of rising in the last vestiges of inflation.

I think TLT and ZROZ already have peaked or are close to peaking, due to this anticipation. That's why you should buy now before it becomes more obvious later.

You don't make money being on the trends as everyone else is, but by being ahead of the trend changes. The market anticipates future trend changes; you have to be ahead of even that... Hence, you have to buy before it's obvious! But when what you are betting on does not happen, you have to be quick to change your bet! It's not about being right, it's about being ahead of what's right. That's what we try to do for you, but there is no perfect way of doing that. It's just about putting the odds in your favor with good research and indicators.

Q: Are there any U.K. alternatives to Treasury bonds which you would recommend as good options, please?

A: You would have to buy the longest-duration U.K. government bonds.

Q: I found it strange that AUD/USD keeps going up due to Russia vs. Ukraine war while I believe U.S. is the king cash. Am I wrong? While everything including global property could be crashing, U.S. dollar will grow stronger, right?

A: In this short period, the AUD only went from .72 to .73, not that big a move, and Australia is less exposed to the Russian crisis. In a larger global financial crisis, the USD should do better than AUD and AUD better than most other currencies. In the next boom, I would bet more on AUD than USD, because Australia should have a stronger economy in the future due to demographics and proximity to Asia.

Q: I see ads on TV all the time about reverse mortgages, and I'm wondering if we are missing something. From your posts, you say real estate will be hit hard in the near future, yet these banks are giving out reverse mortgages like candy. Won't that leave them holding the bag when the real estate collapses? Do these big banks see or know something that we don't?

A: Yes, this is what banks always do when the economy has been good long enough. They see less risk and lend out less discriminately. That's the

difference between smart money and most people. Most people and businesses get more confident the longer a boom lasts. The smart money sees more risk, especially when banks are doing what they are doing today. The banks will be left holding the bag, and I tell most people that have a high mortgage... don't pay it down more than you have to. The banks may have to write down a lot of mortgages in the downturn ahead, and you might just get a free gift. Some people say they have a few homes and think it's logical to sell the one with the biggest mortgage. I say keep the one with the biggest mortgage. Sell the one that gives you the most equity/cash with which to play the downturn, so that you can buy more in "the sale of a lifetime" after real estate crashes again, like last time, but likely by even more this time.

Q: Can you please explain why you think TLT will rise to $200 if the Fed is going to start raising rates?

A: It will happen because the Fed raises short-term rates. The economy slows from such tightening—and I think it will slow more than most anyone else thinks, because the economy has been overstretched for so long by so much stimulus. That slowing causes long-term rates for the highest-quality bonds to fall, and that will make bonds with higher rates at present more valuable. The longer the term of the Treasury bond, the more it will go up in value. I like ZROZ better, because it has an average 25-year duration instead of 20 years like TLT.

Q: I am from India and I just want some information on when I can invest in the stock market for the long term. In which year should I invest, 2022—2023 or 2024?

A: India is one of my favorite countries. I have been there three times now, for about two months in total. India will be the best country for stocks after this crash. The U.S. will do better than most of Europe and is leading the next tech surge in crypto, which will crash the most here in the U.S. After that crash, the U.S. will come out the strongest, but only for the survivors.

If we saw a long-term top on January 4 on the S&P 500, then my guess is that the bottom would come around the end of 2023, with most of the damage done by late 2022. That's when you could make long-term

investments in stocks again. India will be the best emerging country in which to buy the major indices or leading stocks. U.S. will be the best large developed country. Southeast Asia also will be strong. I think China's already seen the best of its long-term growth, and its demographic trends have already peaked; it's the first emerging country where this has happened. Crypto should be the best tech sector, as it is just emerging and crashing in its baby bubble. A long-term boom should follow this crash and shakeout, and crypto leaders such as Bitcoin and Ethereum could be a great long-term investment...

And by long term, I mean into 2036–2037 in the U.S., before the Millennial boom peak, but more into 2055+ for India and Southeast Asia, which should lead the next global boom.

Q: The price of gold and silver has increased, which a number of experts were saying would happen. Do you believe that the price will go down if there is a recession? I note that if there is a recession, my expectation is that the Fed and Treasury will be increasing the money supply, which can ultimately increase the price of gold and silver. There are also many experts saying commodity prices are cheap. Does it make sense to invest in, for example, commodity indices now?

A: Whomever is saying that commodity prices are cheap should look at the Bloomberg Commodity Spot Index, which shows all-time new high prices, even higher than at the 2008 and 2011 peaks, which were on the normal 30-year peak cycle. So, commodities are not only more expensive than ever, but not way off of the natural cycle. Gold went up in the early stages of the 2008 stock crash, consistent with both late-stage inflation that helps break a boom and a safe-haven assumption as the economy starts to look questionable. I have been expecting that gold would go up in this stage and have a peak target of around $2,250, but that is it, if it gets there. In 2008, gold finally went down sharply by 50% when the economy hit a deep recession and deflation was more the obvious trend. Gold is an inflationary hedge, not a deflationary hedge, and deflation is ahead.

It's too late to buy gold and silver. If you have some, then I would hold on to it and sell if gold hits that $2,250 level just ahead or if it breaks convincingly below $1,900 instead. Gold should continue to edge up in the early stages

of this stock crash, as it did into early 2008. But don't be fooled by the gold bugs who claim it's the safe haven in the crash. The 2008 crash already proved that not to be so. This crash will be a final and deeper version of the 2008 crash.

Q: Assuming your scenario is correct, if we do go into a major crash, there will be major unemployment, so the Biden administration will start printing money faster than before to send everyone a check, even greater than in the COVID debacle. How will this affect the market correction?

A: There are $550 trillion of financial assets in the world now, due to this unprecedented bubble, or about 6.7 times GDP. World assets should crash by about half, or $275 trillion. Once this crash gets going (and remember that crashes occur twice as fast as bubbles grow), governments and central banks can't possibly print money fast enough to offset that loss of real money.

When you print money out of thin air, it can disappear back into thin air! It just takes a trigger like this Russia/Ukraine war to catch the central banks by surprise and start an avalanche they can't stop. We may already be in that first sharp bubble crash that averages down 41% in 2.6 months, but only if stocks head down sharply one more time into mid-April or so. If not, that first crash of near 50% should hit between late April and early May after a final rally to slight new highs as high as 5,130 on the S&P 500.

Q: My question is, why do you think the ratio of financial assets to GDP will drop to 3.4, when in 2008–2009, the ratio only dropped to about 4.75?

A: That was a deep correction within the financial asset bubble. This is the final crash and thus should take the ratio back down further to more normal levels of 3.0–3.5. The 2008 crash didn't quite get there.

Q: Will cash be king after this crash?

A: Cash is king during the crash, as it holds value while almost all financial assets, including most bonds, fall. When the crash looks like it is bottoming, say around late 2023, then you could get back into risk assets with your cash or profits from the safest Treasury bonds. Stocks will do best in Asia in

the emerging world and in the U.S. (especially tech stocks) in the developed world. Put your cash back into the best risk assets after the crash. Cash will be trash then...

Better than cash during the crash will be the longest-duration Treasury bonds, like the 30-year Treasuries. They appreciate in deflation. The ETFs that also reflect are TLT 20-year average and ZROZ 25-year average Treasury bonds. The longest 30-year will appreciate the most. ZROZ and TLT are easiest to buy and sell.

Harry

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