



# ***Harry's Take***

November 29, 2022

## **Reader Mailbag: Questions and Harry's Answers on Market Timing, Bonds, and Real Estate**

*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:** I am interested to hear your opinion on market timing to jump off SQQQ and double down on bonds. Do you favor a long position in SQQQ until the conclusion of wave five, if we are in fact about to enter wave three of this super bubble?

**A:** The best strategy is to do both: short stocks like SH, SPXS, PSQ, and SQQQ and add long T-bonds via TLT, ZROZ, or TMF. You decide how you want to allocate. Short stocks tend to do better in earlier stages, and long T-bonds do best at the worst of a crash, in the later stages. There also will be a four-wave bounce after the third-wave decline in the months ahead. It's up to you whether to try to time that with comments from me and others or just to stay short until the final lows in late 2023 at the earliest, or if not, in 2024. The early 2020 lows around 2,190 on the S&P 500 would be a good place to take profits on the third-wave decline for stocks... and then wait for a good bounce before shorting again for the fifth wave down. You also could have a two-stage strategy. Short stocks now for the third wave down. Take profits on that when it looks like it has run its course, likely at the March 2020 lows, and then buy TLT or ZROZ for the fifth wave, as the safe haven bonds do best in the last stage.

**Q:** ZROZ and TLT have been your fixed allocation choices for us subscribers. TMF has not been mentioned by you in a while. Is it too risky now? If so, what would be your trigger to use TMF to take advantage of upcoming lower rates? Are there any other investment alternatives to consider? Is there any overall stop to be aware of going forward if rates go higher from here?

**A:** I don't like stops. They tend to get hit, and then the markets promptly go the other way and make you feel like an idiot... I've "been there, done that" long ago. TMF is simply going 3X short on 20-year-average Treasury bonds, so it's up to you whether you want to take that much risk for the 3X return.

With TMF, I think it best to be in TLT or ZROZ as a core position from here to play the continuing crash. Then you can use TMF to add in measured amounts to lever up near term once markets are in a sweet spot, for instance, when they are falling to new lows and thus confirming the next major wave down.

The other strategy is to use TMF in a smaller allocation, like 25% to 40%, to be short more like 75% to 120% net, and then use the rest of your money to take advantage of other opportunities, like leveraging up a move down or buying a bargain piece of real estate in a foreclosure.

**Q:** What about other central banks selling Treasuries to buy their own bonds, such as Bank of England and the pension funds? That will put selling pressure on TLT and the entire curve. This decline is hurting. It seems to me after breaking resistance the next stop could be 85.

**A:** That may be the trend for now, but interest rates should come down in a brief deflationary depression from early 2023 into 2024+. That means TLT will go up, likely by a lot. My target for TLT is as high as 196. Central banks will not be able to fight the markets totally and will lose that battle. We seem to be moving into a recession, despite all of the efforts of central banks to fight that. Recessions bring slowing growth and falling inflation or deflation. Bonds will rally strongly if that happens, and I think TLT already bottomed at 91.85. The trend through the tops points to around 196 for a target. You sell if we get near there, as that will be a long-term top for TLT.

**Q:** After selling my house, I am now holding cash (AUD) and keen to allocate some to Bitcoin. Would you consider converting it all to ZROZ or TLT until the Bitcoin price goes down somewhere under 10K to be a good idea? Or should I keep some dry powder for quick entry into Bitcoin while holding Australian dollars?

**A:** I think U.S. dollars are better than Australian dollars during the crash, as U.S. is a safe haven, as in the 2008 crash—and this will be a 1.5X deeper crash.

**TLT and ZROZ are the best crash plays, and then Bitcoin could be the ultimate “buy of lifetime” if we retest the lows of late 2018 around \$3,250 sometime between late 2023 and 2024. Between now and then, Bitcoin and crypto will continue to crash the most, because they have been the biggest bubble. I have been warning that Bitcoin IS NOT the safe haven in this period, as has already been proven and should continue to be proven. Bitcoin and crypto are the next big thing and should be the best place to buy once stocks and risk assets start to bottom, between late 2023 and mid-2024 or so, more likely towards mid-2024.**

**Q:** I want to know what is your take on the BRICS (Brazil, Russia, India, China, and South Africa)? Will this formation of new currency make our dollar look like toilet paper? So many of us are right there to make a fortune off of this "once in a lifetime crash," yet this BRICS situation bothers me. Will my soon-to-be fortune end up as toilet paper? Your thoughts and concerns, please.

**A:** The BRICs are emerging countries, which tend to be more volatile. Obviously, they are not the place to be in this “everything” bubble burst. Some countries among them will have larger crises, as they are more unstable and have greater debt extremes. No one should be in EEM (ETF) or broader emerging country stocks now, as they are even more risky. When it comes time to buy longer term again, I’d focus on the developed countries first as well. In the U.S., I’d look at the tech sectors in QQQ and on Nasdaq. India and Southeast Asia have the most demographic potential, and I will be looking for the best ETFs and funds for there.

**Q:** I understand that you think the crash of our lifetime is coming in 2023. There must be a limit to how far some stocks will fall. Do you believe that stocks that are profitable, with single to low-teen price-to-earnings ratios (PEs), will be spared? There are still enough overvalued, unprofitable stocks with high PEs that they should drag the indexes down to the levels you have spoken about. What are your thoughts on what will happen to well-valued, profitable companies?

**A:** When a rare stock crash of this magnitude occurs, as happened from 1929 to 1932, in 1973–1974, and in 2000–2002, almost all stocks fall, and substantially. It's just that some fall a lot more. I do not think it makes sense to hold ANY stocks that you can sell, as they will all be massively on sale for a few short years. Even the best are likely to be down 40%+, if the S&P 500 is down 86% and the Nasdaq is down 92%. And those indices are largely driven by the top stocks, so even they are going to drop close to or even higher than those high crash numbers.

All financial assets have bubbled, and it's the best that tend to bubble the most. Hence my surprise when people say to me, "But I have this special stock or company. It won't go down, will it?"

The Dow that crashed 89% in 1929–1932 was made up of the best and largest companies in America, the leading country in the world! And since the best companies go up the most, they also tend to fall the most. I would rather own an undervalued "underdog" here. But I don't want to own anything, unless it's dear for life and I can't re-buy it. It's just two years or so we're talking about. The impact of selling financial assets near all-time, long-term highs and re-buying near long-term lows is MASSIVE! That's why I call it "the sale of a lifetime." You have to sell and have cash to take advantage of such a sale, and those lows will happen fast and never be seen again.

**Q:** Do you have any timeline for the first flush down to SPX 2000 or so?

**A:** That is a tough call for now. Markets are favored during the holiday season. If they continue to bounce tepidly, then the next big wave down could be January into next summer or fall. That should take us to 2,192 or lower on the S&P 500, followed by a final wave down from late 2023 into

mid-2024 or so. It's also possible that the markets could turn back down soon and into the year-end, with that next wave going well into 2023. Either way, the next wave should be as large or larger than the first one into June. It depends on when it accelerates. The seasonal cycle would favor that coming after Christmas, but a down month into Christmas would just be more bearish.

**Q:** I was wondering what your thoughts were on TLT or ZROZ as far as ways of purchasing them. Would it be better to purchase them outright, or would buying long-term call options be a better way? With the options, I would be able to control a lot more of them but would have to worry about time decay. If buying options, how far out would be best, in your opinion?

**A:** ZROZ is already about 1.6X TLT in performance. I would buy ZROZ. Then, if you want more leverage, buy options on the more-liquid TLT.

**Q:** Is it too early to short real estate (i.e., SRS Proshares UltraShort Real Estate)?

**A:** No, real estate seems to be peaking in this time frame, about a year after stocks peaked, so it is a good time to start shorting or selling real estate. Stocks will just fall faster and more. You can also short stocks to offset real estate declines where you won't or can't sell.

**Q:** Based on the premise that they must continue to raise the short-term rates, I sold my TLT and ZROZ, believing that those would go at least another 5% lower, at which time I would rebuy. Did I make a mistake?

**A:** These ETFs clearly seem to be making a major bottom before a major rally. There is no way to know conclusively, but I feel like TLT bottomed at 91.85, so I would not have sold here. Such a major move that could see a near doubling in two years takes some guts and risk. I think this will be the biggest bullish move in T-bonds in history... but you have to take some risk to catch it most fully.

Look for more updates soon.

Harry

Got a question or comment? You can contact us at [info@hsdent.com](mailto:info@hsdent.com).