



# *Harry's Take*

December 6, 2022

## **Clear Sign of Top: Stock Prices Have Outstripped Earnings to the Extreme**

There are now many signs of a top between November 22, 2021, on the Nasdaq and January 4, 2022, on the S&P 500 that will not be exceeded for decades or ever in our lifetimes. For one thing, look at just the bubble trajectory, which is almost identical to the first bubble from 1995 to 2000. How could analysts and experts be saying that this isn't a bubble this time, when they look exactly the same?

The truth is that most experts fear being too negative and even more so fear causing investors to panic and to sell even more when stocks get to extreme valuations, like today. That's an understandable ethic, but it does not serve the smarter investors who want to protect their long-term gains and retirement assets. People like me have the onerous task of having to be the realists when markets get this overvalued and must come back down to reality, most often in a matter of just a few years, like happened in 1929-1932, 1973-1974, and 2000-2002. Avoiding most of such rare and extreme great resets makes a huge difference in your long-term returns and financial assets!

The one thing on which I have focused in my forecasting career since 1988 is to forecast what the fundamental trends are, regardless of whether they are more bullish or more bearish than people hope or think. I actually got more criticism early in my career, because I was forecasting the greatest boom in history when American investors saw a peaking and declining America. They

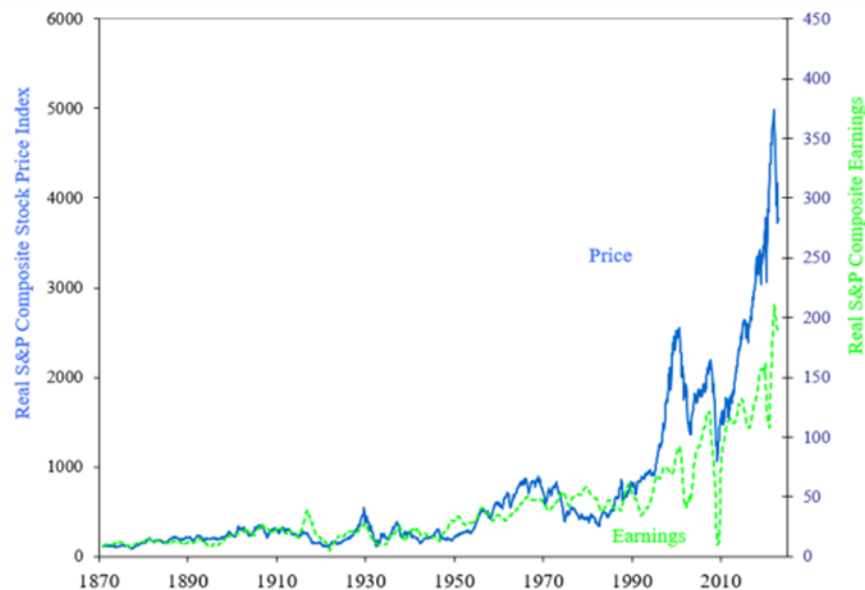
wondered how this could be, with the massive rise of Asia and our increasing loss of world leadership in one industry after the next.

What the experts were missing is a more-focused view of demographics that concentrated not on population growth, but on the peak spending of new generations. Yes, the U.S. had peaked in global leadership and population growth was going to be slower, but we also had the most-affluent and powerful Baby Boom generation in the world to give us that one last hurrah into 2007, followed by a plateau of prosperity with the Millennials into 2037 before we actually start to decline.

You can't be a good forecaster and have a built-in bias toward being bullish or bearish. History is clear that great booms are followed by great busts. But most economists are always finding some reason why this time will be different. That is purely and simply delusion and serves no one.

Here's another chart that clearly says we are in for a major stock crash and economic downturn, not just another correction. And that's on top of the fact that we already have seen a much-larger correction than since the 2000 bubble top: The Russell 2000 has fallen 41%, the Nasdaq 38%, and the S&P 500 28%.

## Real S&P Stock Composite Outstrips Earnings Similar to 2000 Bubble



Source: <http://www.econ.yale.edu/~shiller/data.htm>

[www.hsdent.com](http://www.hsdent.com)

Let me make this simple: The recent top in the broadest S&P composite index for stocks was about 30% higher compared with earnings than at the 1929 and 1968 extreme tops of the past, which occurred on the 39-year Generational Cycle. This bubble was extended past the natural generational top in 2007 to late 2021, due to an unprecedented 13-year stimulus spree meant to fight off a depression at all costs. But that is finally over with the forced Fed tightening. Only the first tech bubble top in 2000 was higher, at 50% greater than such past tops. You wouldn't expect this bubble to be as extreme after the 78% Nasdaq and 57% S&P 500 crash from 2000 to 2002 brought such a big dose of reality.

But now that tightening has ended the "long party" for good, don't expect anything other than a bigger crash than we had from 2000 to 2002 to get us back to reality, given that central banks cut the last crash short with massive and long-term stimulus, which then ballooned beyond imagination with the short-term COVID crisis.

My ultimate hope is that this crash will be as extreme as I am forecasting (86% on the S&P 500, 92% on the Nasdaq) and will cause us never to think we

can just avoid a necessary recession and debt detox by printing unlimited amounts of money out of thin air. How else will we learn, after such a ridiculous stimulus fantasy? This should have been obvious from the beginning.

Harry

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