Harry's Take

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Reader Mailbag: Questions and Harry's Answers on Currencies, Bonds, and Stocks

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 just wanted to know if you were going to post a new forecast for cryptocoins bottoming out. I believe you forecasted that Bitcoin would bottom out at $3,177 by late January 2023 at the latest. Just wondering if anything has changed on this.

A: My friend Michael Terpin here in Puerto Rico is one of the most prominent crypto experts, involved at all levels. He thinks the bottom is coming around $10,000–$11,000. I still think it is all the way back to the low after the previous 2017 top in late 2018 around $3,177–$3,250, now around the end of 2023 or a bit later. The 2017 top would be a third-wave peak, and that late-2018 low would be a fourth-wave bottom. The crash off of the fifth wave that peaked in late 2021 would best be targeted back to that fourth-wave low of $3,177–$3,250 or so. That is much lower than anyone is thinking, which just shows how big a bubble that fifth wave was.

I just like looking at the chart as if you didn't know what it is: a clear fourth-wave low and fifth-wave top, and the crash should target toward that fourth wave low—even though that does not have to happen. There will be buying near $10,000, at least at first. Hence, I would expect it to

bounce off there, initially. But I expect it to break down one more time to $3,200–$4,000 to really give an all-out major buy signal—the buy of a lifetime, if that happens. That's where I would be looking to buy if it does break that $10,000 support level, which I think is likely. The Amazon bubble burst of 95% from 2000 into 2001 is the best comparison I can find to Bitcoin today: massive bubble, massive burst! If that does not occur by the time stocks look to be bottoming, which I presently expect to happen between late 2023 and mid-2024, then I would buy anyway, especially if it is at that $10,000–$11,000 next support or lower.

Q: It looks like Japan is getting into trouble and might try to sell U.S. bonds. Where will they find a buyer? It also looks like the idiot politicians are going to bust the budget again and we will end up with a trillion+ Q (quantitative easing) deficit. If this happens, isn't it foregone that interest rates will climb? What would happen to ZROZ and TLT? Do you look for them to test their recent lows?

A: The slowing of the economy and fall in inflation rates will cause risk-free U.S. Treasury bond rates to fall and, hence, the price of present bonds to rise. Interest rates on corporate and most other bonds will rise due to default risk from growing recession or depression. The best thing to do now is to buy 30- and 10-year U.S. Treasury bonds. Near the bottom of the recession, buy stocks again or higher-yielding corporate bonds, as default risk will fall again. My target for TLT is 186 to 196, not back down to its lows. But try ZROZ if you want more leverage if TLT hits that target.

Q: I would like to know, what are your thoughts on the Dow Jones for next year?

A: I see the biggest one-year crash since 2008, 2001, or 1973. I see at a minimum retesting the early 2020 COVID lows in the major stock indices: 6,667 on the Nasdaq. By mid-2024 I see the S&P down as much as 86% from the top and the Nasdaq 92%.

Q: Assuming TLT were to hit your 196 mark, can we approximate where that would place TMF? I looked back, and on March 9, 2020, they were at 172 and 56, respectively, but I don't know if that movement stays constant. You also

recently addressed a 3X leveraged ETF that didn't move exactly 3X. Wondering if that phenomenon comes into play in this scenario as well?

A: That's harder to do, as TMF seems to move more about 2.5X instead of 3X. It does tend to track the upside closer to 3X than the downside. So, it tends to be a good tradeoff. I just say buy TMF if you want more leverage when TLT hits the 186–196 target range.

Q: I have been a subscriber for years and follow your advice very closely. Having a degree in mathematics has helped me not only with my trading but also to understand your use of cycles, patterns, etc. to forecast future events. Would you be so kind as to give your opinion as to what event or events it will take to "break" this market. Every time it looks like the markets are turning down, there seems to be some "magic" that turns it right back around again.

A: **There is no magic. This is the longest broad bull market in history: it has run from late 1982 through late 2021. It would have peaked in late 2007 with the Baby Boom Spending Wave peak, but 13 years of escalating stimulus created massive new highs in stocks, the assets that benefit the most from such money printing, and all of that new money goes directly into the investment markets when governments buy Treasury bonds with it. The Fed loosened so much over COVID that it has had to tighten now after the 9.1% inflationary spike. We've already seen a top from my view with that 34% first crash in the Nasdaq—that was the telltale first sign to me. Past bubbles have had first crashes of 28% to 50%, or 41% on average. It will take a while for investors to get that that was a major high and we're in a major crash. I think a convincing break to new lows, especially below 10,088 on the Nasdaq, will be the next thing that shakes confidence. Until then, traders and investors will tend to continue to buy the dips and minimize the downturn. Such a break could lead to stocks down 50% to 60% in a matter of months.... Then people will know that something is wrong and the stimulus game is failing. Then the "magic" and the faith in the Fed will die quickly.**

Q: Many financial advisers are now recommending energy shares, especially oil and gas, as good buys at the moment. Do you see their share prices continuing to rise, in spite of your scenario for the markets over the coming year?

A: I don't agree. Energy stocks are sensitive to the economy, and I see the biggest recession coming since 1981–1982. It is NOT the time to buy energy stocks, although they can surge near term due to their own supply limitations!

Q: Do you see a steep price decline in California home prices even though inventory is still tight?

A: Yes. That market may be the last to start falling, but it will follow other markets, and it will be demand that falls, as speculation has been the major source of demand since the Boomers peaked in their Spending Wave. The weakening economy will cure high prices fast. The Millennials will start driving up fundamental demand again after 2024.

Q: Last year, European stocks indexes outperformed U.S. stock indexes. Do you see that for this year (2023)?

A: You can short European stock indices as well. However, the U.S. ones were a bit bubblier, and I see an 86% downside to early 2009 lows on the S&P 500 and a 92% downside on the Nasdaq but more like 78%–80% down on the DAX. Hence, I prefer shorting the U.S. indices. But make no mistake, European stocks will follow the U.S. down, and hard.

Q: In a future update to your readers, will you please give us your insights regarding the information value of the quarterly Q Ratio and Market Valuation report? For example, good, bad, not worth the time, etc.?

A: The Q Ratio is an indicator that basically compares the market value of stocks to their more tangible book value. The recent top at 1.74 is the most overvalued ever, and even after falling to 1.24, it is still above past overvaluations from before the super-bubble era, starting with the first tech bubble into 2000. Hence, stocks still have a long way to go to get back to the bottom range between 0.28 and 0.32, and they could go a bit lower than that in this final "crash to end major crashes" for a long time.

Q: Could you help clarify what will likely happen if by mid-2023, upon signs of recessions, the U.S. Fed and global central banks quickly revert to

quantitative easing doubly hard and reduce rates just like in 2020, in attempts to prop up liquidities again, in hopes the next generations like the U.S. Millennials would start spending again?

A: The problem the Fed has in a situation like this is that it needs to appear rational. To reverse and stimulate again will look rash if the central bank does it too quickly after tightening. So, I think it would be mid-2023 before that could happen, as you are presuming here. The problem is that this potential third wave down that looks to have started could have stocks down 50%–60% by then. That will change investors' perceptions on "buying the dips" and make it appear as if the Fed has lost control, which will hurt its credibility… The Fed overstimulated after COVID, then overtightened when it caused 9.1% inflation suddenly, and when stocks fall further, it will stimulate strongly again. My view is that this finally will cause a lack of confidence and credibility so that investors won't actually buy the notion that the Fed can keep this bubble going anymore. Then investors will get cautious in spending and buying stocks, and the whole thing will fall apart. Any artificial stimulus will lead to diminishing returns, which will create unsustainability at some point.

Q: You regularly talk about Elliot Wave Theory, and it is clear that you are a believer, with comments about us now being in a second-wave retracement before the powerful third wave starts, which matches what Elliot Wave International says. However, they also say that we have not yet seen a peak in Treasury bond yields and we should expect to see higher yields (and lower prices) than the extremes a few months ago. I was therefore wondering why you agree with them about equity prices but disagree about Treasury prices/yields and believe that it is still worth buying the long-dated Treasury funds?

A: I don't know their logic, but I presume that they are expecting an inflationary spike still ahead and/or default risk in U.S. Treasuries, and I don't. The default risk comes in the corporate bonds. I think inflation has peaked at 9.1% and is heading down. Tightening only works against inflation and economic growth. Once a recession is clear—and it is still only given a 68% chance today—T-bond yields will fall and T-bonds will go up in value. So, this is just a difference in opinion. You should ask them why they see an inflationary spike coming when the Fed is tightening and directly

trying to slow the economy and as inflation has been backing off since tightening. Corporate bonds can spike due to default risk into a recession, but Treasury bonds should be seen increasingly as a safe haven in a downturn scenario, as they should increase in value and fall in yields as they did into 2008.

Q: I'm wondering if it is too late to continue to allocate additional funds into Treasuries to capture the gains you've projected. Do you think there's still enough room to run in the price appreciation for new funds to be allocated to Treasuries, or do you think it's too late?

A: It's definitely not too late, as I project $186+ on TLT.

Q: I have been blessed after a little false start at ~$100 to get a few positions on ZROZ after the October lows and am in profit. Unfortunately, the AUD has rallied (or the USD has weakened) over a similar period, and thus, my net position is at break-even or small loss, depending on when I was blessed to get in. I guess my question and concern are what is going on with the U.S. dollar? If it continues to weaken even if bonds rally, I fear it's going to be pointless, as the exchange losses are equal to or greater than position profits.

A: It is more complicated from Australia, but the USD should ultimately rally into the worst of the recession, as it did in 2008. So, it should eventually work in your favor. It's harder to forecast what the USD will do near term; it looks like it could go either way, with a bias up.

Q: I have seen an increasing number of articles regarding countries willing to trade oil using currencies other than the dollar. If oil starts trading with currencies other than the USD, what do you think the effects will be on our stock market, 401ks, IRAs, etc.?

A: I don't see a major impact from movements away from the dollar unless it becomes major. Being a reserve currency has its disadvantages as well. It tends to keep our dollar higher than it would be otherwise, and that hurts our exports. Fortunately for us, exports are more like 10%–11% for our economy, so the impact is not as great. Our economy is the largest and most diversified in the world and has less exports as a percentage of GDP, so it has less impact because of that, as well.

Q: As you have mentioned prior, China's population is in decline for various reasons. China peacefully took over Hong Kong, which increased population. Do you see China taking countries with force to increase population to maintain its world power? Taiwan is a possibility. They are putting countries in debt with Belt and Road lending; could they take over these countries due to defaults on loans?

A: China would love to take over Taiwan. It would just be very hard, as Taiwan is more affluent than China and has the support of the U.S. and other powerful western countries. China is going to be dealing with its own collapse, which will lead the downturn that appears to be in progress finally. Taking over much-poorer countries in Africa is likely to backfire big time. This would be a good strategy if China could pull it off, but I don't think they can.

Q: When would be the best time to convert Canadian dollars to USD to invest in during the market crash?

A: The U.S. dollar is likely to appreciate as the crash gets worse, as it did into 2008. Hence, it's better to convert now and/or buy U.S.-based securities to play the downturn, like ZROZ, TLT, PSQ, SQQQ, etc. When you sell, they should be higher if we have a crash, and the U.S. dollar should be higher as well. Then you can invest in markets outside of the U.S., like India and Southeast Asia, or even Canada at the bottom, so you don't get hit by the inevitable decline of the U.S. dollar if it rallies like it did in late 2008.

Harry

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