Harry's Take

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Reader Mailbag: Questions and Harry's Answers on Recession, Safe Havens, and Currencies

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 noted some analysts have been saying that this is historically the most anticipated recessionary market and stocks have priced in a recession since 2020. Some even stated there was a series of recessions or rolling recessions being played out. With lots of money still in the markets globally despite the ongoing quantitative tightening, further rate hikes or pivoting and new negative events are unlikely to bring the stock markets prices much lower. Hence, this is not similar to the situations in the 2000-2001 and 2008-2009 stock markets crashes.   May I have your take on these sayings, please?

A: One of the problems with this bubble boom and bust is that this cycle is different in that this bubble was 100% artificial, caused by stimulus. The 1920s and the 1990s bubbles occurred during strong fundamental cycles of demographics and technology, with a little stimulus added. This bubble has resulted totally from artificial stimulus, so some indicators may well react differently. All I know is that most indicators are screaming "Recession ahead!" This economy can't take a recession after this big financial asset bubble without a lot of pain caused by the loss of bloated net worth. I don't see how we won't get a crash and a deep recession or depression here.

The primary difference between recessions and depressions in history IS that depressions follow financial asset bubbles. The bubble is the issue, as more assets disappear faster, suddenly and permanently, in a bubble than when the normal economy just gets overstretched and slows. The bubble burst WILL cause a recession all on its own merely by hurting the top 20% in income, the ones who own 90% of the financial assets, not including their primary residence. The top 20% also do 50% of the spending! All they have to do is stop spending on overvalued real estate, vacations, etc., and we will be in a recession or depression and all financial assets will go down in the end, including gold. Everything will go down except the safe haven, bonds, mainly the U.S. Treasuries, much like happened in 1929-1933. That's the only comparable for this bubble and crash, and that earlier crash was not driven primarily by stimulus, like this one.

There are no direct comps for this totally artificial bubble except the brief and narrow South Sea and Mississippi land bubbles. Those bubbles were very narrow and quick to rise and fall.

Q: Have you taken into account the 18.6-year Real Estate and Banking Cycle? I was present at one of your recent world tour venues, and you presented several excellent cycles, which got me interested in repeating patterns. I've since done more research into cycles and came across Phillip J Anderson's book on the 18.6-year Real Estate and Banking Cycle, which I've just finished reading. The real estate and banking CLOCK is not due to peak until 2025 and the stock market is due to peak in 2026. A new, aggressive bull market should start from March 2023 in both real estate and stocks and end in the above years. I agree that we are headed for the crash of a lifetime and that Civil War farmer with his "sure thing" card has worked out very well in his cycles. As it's all about cycles, can you tell us where we all are in the current Generational, Geopolitical, Innovation, Commodity, and Boom and Bust cycles and how the 18.6-year Real Estate and Banking Cycle fits into all of this?

A: I know Phil and just hung with him for a few hours in Australia last November. I love his work. He's one of the few good cycle guys! His primary cycle is the 18.6-year. It is more a real estate cycle, and it is a good one that I follow. I have a hierarchy of three longer-term and three shorter-term cycles more in line with the great scientific futurists like Milankovich. I

think my approach is more comprehensive. But I recommend Phil and his work, along with Robert Prechter with his Elliott Wave patterns and Stan Harley with his intermediate cycle work.

Q: We seem to continue to move farther away from your Nasdaq target of 10,089 and have broken through the long-term daily upper channel line with what appears to be no direction but up, possibly to new highs. What are your thoughts?

A: The Nasdaq all the way up to 13,186 is a natural two-wave bounce off the first wave down to 10,089. That would just be a retesting of the fourth-wave bounce on the way down, and that also would be close to a 50% retracement, the most typical bounce level. The most likely target now increasingly looks to be 13,186. We've had no signs at all thus far that the high on November 22 for the Nasdaq was not a long-term top. We could even see a 62% retracement, but I think that is less likely.

Q: Harry, as a subscriber, I have a few questions:

1. You've mentioned that you believe the Nasdaq will top out at 13,186. Are you referring to the Nasdaq 100 (currently ~13,100) rather than the Nasdaq Composite (currently ~12,150)?
2. With the market currently in a bull run, do you still expect a downturn if the Nasdaq tops out at 13,186 and, if so, would you recommend shorting at that time (or not) until it reaches your stated support level of 10,055, almost a 25% decline?
3. Do you currently still see a low in the markets from late-2023 to mid-2024?

A: It would be ideal if the Nasdaq (not the Nasdaq 100) reaches 13,186 resistance. (Readers, when I refer to the Nasdaq, I mean the Nasdaq, not the Nasdaq 100, unless I write "Nasdaq 100.") But it may not bounce that high and could be peaking in its bounce now. The markets rarely make it easy.

We still are likely to have seen only the first wave down thus far, at 10,089 on the Nasdaq. The third or next wave down could start any time now, and

it should go down to as low as 6,667, but first that will require a break to new lows below 10,089. Ultimately, I still expect a final low of as low as 1,280 sometime in mid-2024 or a bit later.

You can short some now, and then go full-bore short either if it gets back up to 13,186 or breaks convincingly below 10,088. There's no risk-free way to play this.

Q: Do you think we will get another chance at mid-term and long-term bonds? Interest on Treasuries has fallen so much. I have not gone out long enough timewise to get a long-term steady income. It appears the street has caught onto the game.

A: I think we're nearing a recession fast, so rates should just keep going down toward zero. It's better to buy 10- and 30-year Treasuries now, or else TLT or TMF (3X).

Q: Given Bitcoin's recent rise, do you still think there will be the opportunity to buy at lower price of $11k or less this year?

A: I think we are nearing a high on the Bitcoin bounce and even may have already seen the high near $31,000; after that, Bitcoin will head down again big into late 2023 or early 2024. I see support at $10,000-$11,000 on the way down. That level could be the low, but it's more likely Bitcoin will hit bottom at $3,200-$4,100 between the end of 2023 and mid-2024.

Buying near $10,000 could be a good trade for a healthy bounce, but it's not likely THE low. Amazon is my comp for Bitcoin, and it fell 95% before bottoming... That is where I get my $3,200 or so bottom target.

Q: If we have the downturn of the magnitude you are predicting, it seems to me the federal deficits will balloon out of control. What does that mean with regard to the economy, the dollar, and the government's ability to fund entitlements, Social Security, Medicare, and defense? What is likely to happen then?

A: Fortunately for the U.S. government, when this crisis happens, at least the dollar and its Treasury bonds will hold and appreciate, due to our

safe-haven status, as occurred around late 2008 into the worst of the 2008 crash and downturn. But there will certainly be huge, unprecedented budget deficits from 2023 into at least 2025 that will cause U.S. government debt ratios to go way up and will be exaggerated further by falling GDP.

Yes, this should be a big wake-up call and should lead to some major curbs in runaway government spending. That's the good thing about a crisis... It wakes people up and finally creates meaningful change. This has been an obvious problem for many decades, not just years. Governments should have balanced budgets or surpluses in boom years, and then they can afford deficits in bad years. Now, we run deficits in both good times and bad, and they get much worse in bad times!

Q: Given the fact that Bitcoin and the crypto market have lately "decoupled" from the stock market, correlation is the lowest in a long time and crypto has rallied in response to bank failures and financial turbulence. Do you give any credence to a possibility that Bitcoin has already bottomed? After all, bank failures and financial turmoil *are* the origin story for Bitcoin. Could the market finally be seeing that crypto is the future, which will disrupt and replace traditional finance, Web2, with Web3, and could that transition already be beginning?

A: Unfortunately, I don't see a likely bottom yet. The key in forecasting is to find the most similar analogy to something happening today that happened in the past. The best analogy for the emerging Bitcoin/crypto technology surge is the dot-com bubble within the late 1990s Nasdaq bubble. The dot-coms were the bubbly sector driving the first bubble. Crypto is the bubbly sector driving this second and final bubble, and bubbles always burst. The difference is, outside of a few stocks like Coinbase, crypto is not a big part of the Nasdaq.

Don't confuse the strength of this new sector with its inherent bubbly nature. Crypto is simply the biggest bubble within this second tech bubble. That means it bubbles the most on the way up and crashes the most on the way down, just like Amazon and the dot-coms did in the late 1990s bubble and burst. Amazon and the new Internet Index went down 96% and 95%, respectively, much more than the Nasdaq crash of 78%.

So, I expect the same here. If the Nasdaq goes back to its early 2009 lows, it will crash by 92%, but if Bitcoin goes back to its late 2018, fourth-wave low of $3,216, it will be down more, by 95%+. The truth is that the cryptos leading now, like Bitcoin and Ethereum, will be leaders both on the way up and the way down. Hence, they will be my highest-priority buys at the bottom, likely in 2024... but I'm not about to hold them on the way down! Safe havens they are NOT! That goes to 10- and 30-year Treasury bonds. The biggest delusion among crypto fans is that crypto will be the safe haven. Cryptocurrencies will be the future of global currencies, and the huge early stage bubble proves that to me. But all bubbles burst, period!

Q: I was wondering what you think about the future of the U.S. dollar. With all the buzz going on about the new petrodollar and other countries selling up the U.S. Treasuries like the studies, do you have any doubts about the U.S. dollar or its near future?

A: The U.S. dollar will tend to go up in a financial crisis, as it did into the end of 2008. I would expect it to go up into early to mid-2024 or so this time. That should be a long-term high, and then the dollar is likely to trend more downward longer term as broader Asia rises. We are still the best house in a bad neighborhood of developed countries, with better demographic trends and lower debt ratios than Europe and East Asia. So, Japan and Europe have nothing on us and China has the greatest debt bubble—a bubble that is about to burst. Economists are talking about the yuan in China rising to reserve currency status... There's not a chance in hell that will happen after China proves to be in the most extreme debt bubble in history and after its top-down communist government loses all credibility. Yeah!

Q: I am currently holding TLT bonds purchased recently at $105.00 US. Do you think they are a hold at this stage, or do you think I have purchased too soon and should sell them?

A: I see TLT likely going to $186+ in the next year or two, but it also likely will bounce around between $99 (my last buy signal) and $109.50 before it breaks upward strongly. A break above $110 would strengthen that major upside projection. My view is that you should hold unless it breaks convincingly below $99 but buy more if it breaks convincingly above $110.

Q: I was curious how you are figuring that gold/silver go down with everything else when the rest of the world is de-dollarizing?

A: The last I looked, gold and silver also are affected when demand goes down in a recession, silver relatively more so. The dollar only gets stronger in a financial crisis, as it did dramatically in the second half of 2008. I will worry about de-dollarization after the crisis, as inevitably it will happen. There's no doubt in my mind that the dollar will tend to go down from 2025 forward, after getting overvalued in the crash as the safe haven. But the dollar has been up and most likely will continue to go up even more so during the worst of this crisis ahead into 2024. After that, you could short the dollar and buy gold.

Harry

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