Harry's Take

July 25, 2023

Reader Mailbag: Questions and Harry's Answers on Debt, Commodities, and Bonds

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 have been short SQQQ for three months now. How long can we hold them? Do they have an end date?

A: This is a rare occurrence in which we have had a second major bubble in stocks and real estate, although it has been very slow to burst thus far. Every bubble in history has burst, with no exceptions! But this second one since 2009 has been totally artificial: central banks chose to solve one bubble burst by creating another, even bigger bubble. And they will try to fight this burst as well. But they have been forced to tighten so hard already (because of their overreaction in loosening due to the COVID pandemic) that this burst is inevitable over the next year. We're just in the battle of the lags, currently.

We're still experiencing the lag from the strongest two-year stimulus in history, but we soon will experience the strongest tightening as the results of the artificial stimulus simultaneously wear off, as it's not real and the effects always wear off. The only sane strategy is to continue to bet on this bubble bursting.

This is not the time to get back into normal buy-and-hold investing again. That is not likely to come until around late 2024 or so. You either should be neutral in cash or short stocks to gain from the burst. The least-risky bet to gain is simply to buy long-term, safe haven assets, i.e., long-term Treasury bonds through TLT, ZROZ, or TMF (3X). They will continue to be slow to gain at first and then explode upward when the st finally hits the fan, after all the efforts to soften the bubble burst fail (as they did in the second half of 2008). So, you'll have to be patient with the Treasury-bond safe-haven play, but it should reward you greatly in the end.**

I would consider the chance we'd get a soft landing... if there had ever been one before! We took the easy way out, and this next downturn will be worse than in 2008. All central banks did in the wake of the greatest debt bubble in history (into 2007) was to create an even greater one. If that works, then we'll have something bigger to worry about... that there is no God!

Also, there is no end date for SQQQ; it's simply 3X short QQQ, which actually seems to work out to about 2.6X short.

Q: What do you expect for gold and silver metals, not the stock versions, going forward?

A: **I have been expecting gold to rally into the early stages of this downturn, and it still looks like stocks either peaked in late 2021 or are peaking soon. I would sell gold and silver in the current rally, as they likely will make slight new highs in the coming weeks. I do not track them as closely, as I am not recommending them for during this crisis but only for after the crash ahead, which should happen in both metals (especially silver), along with everything else.**

Q: You said 14,200 or little higher was the number. Well, we are through that today, so are you now expecting ATHs (all-time highs)? Or does it have to hold? Usually by the time we get an update, we miss 5% or 10%. Clearly, it has been a mistake following your recommendations on selling at these levels, so I am curious what the guidance is now.

A: Sorry, this is the worst market I have ever faced. I cannot explain why stocks would rally back to near all-time highs after the strongest tightening cycle in four decades. All I know is that the downside seems much greater, especially at this point. It's probably best to remain more neutral until the market gives a clearer signal. A safer bet would be to sit in TLT and expect a slower economy ahead, but with T-bonds now undervalued and stocks overvalued again.

Q: It appears the Fed is stuck with a bond problem. They are going to have to keep selling for the foreseeable future to cover their a**es. This might not make a net sale, since they bought a he** of a lot more to bail out banks. It seems that interest rates might creep up a bit or remain status quo for a long time... Or am I misreading this? If that be the case, it bodes ill for TLT and ZROZ. They could either languish as is or drop even more. I can't figure it out. Also, the idiotic regulations and "green" bulls**t appears to be leading to more inflation, not less.

A: It's very simple for TLT and ZROZ here: If the economy does slow ahead, then risk-free bond rates will fall and both will go up in value. It doesn't have that much to do with other factors that are more incremental. If the economy continues to grow and inflation stops falling, despite a massive 500 bps in Fed fund rates, which are likely to go toward 550 bps, then TLT and ZROZ will go down... It's hard to imagine that scenario at this point. The U.S. can sell Treasury bonds easily even if the economy goes down, as U.S. T-bonds are the safe haven for the world. They will only be a safe haven if the world crashes as in 2008, which would make our bonds worth more vs. higher-risk corporate and other global government bonds.

The last thing I'd worry about is long-term U.S. Treasury bonds going down in value for the next year or two! I would worry much more about stocks or even gold!

Q: What's the difference between a bubble and just hyperinflation? Some people say this is just overinflated real estate prices and a new normal, and I think there is some truth to that. The USD is just times cheaper than it was due to money printing, and it will never be the same. One hundred and twenty years ago, houses cost no more than $10k. Now, they are a million dollars. How does one know if this is a bubble or just inflation?

A: There's a big difference. Hyperinflation is bad for the economy and is followed by collapses that then revert to deflation, like the 1923 collapse in Germany. With hyperinflation, you get very high increases in the cost of living or the Consumer Price Index, which outstrips consumer and business spending and shows there is something very wrong with the economy. Bubbles occur in financial assets (as opposed to consumer prices) and happen most often when economic growth is strong and inflation is very low, like in the Roaring '20s and from 1995 to 2021, recently. Those asset bubbles ultimately burst from their own extreme overvaluation, and that burst is almost always followed by a deeper deflationary depression rather than a recession. The bubble has to be wrung out of the markets, which causes a sudden evaporation or reset of wealth and financial assets (of, say, two to three times GDP from five to six times) and a strong pullback in spending, as consumers feel less wealthy and secure. Many banks and businesses fail from the reset and depression. Banks often lend against asset prices, so they are hit the hardest. If they lend 80%+ against a home or office building, then its value drops 50%. The bank or lender ends up underwater by 30%+, and that loan likely either fails or gets renegotiated down to asset value, etc. Banks take losses until many of them fail.

Both are rare, with financial asset bubbles coming about every 90 years, but hyperinflation is even more rare and has been seen more in pockets like Germany in 1923 or at times in third-world countries (mostly in South America or Africa) that print money to fight wars they lose or go on spending sprees that get out of control because they have some ahole dictator, etc. In the case of Germany, the foreign debts from World War I were exacerbated exponentially by the economic and currency collapse after they lost the war. The currency collapse caused the hyperinflation, as Germany had no choice but to print money quickly to pay off debts, which were rising exponentially in payoff, due to the sharp currency collapse; that caused foreign debt repayments to skyrocket and consumer prices to explode in the short term. There's no way asset prices (which reflect future growth potential) would explode as much with such a bad economy.**

Q: Do you still like TLT and ZROZ? They're killing me.

A: Yes. This will be the single biggest move in Treasury bond history, so don't be surprised when the markets make it hard to capture. So, hold on here or be in cash, which will be much, much less profitable... No pain, no gain! Just look at the nearly 50% upward move in long-term T-bonds in 2008. The upward swing should be a good bit larger this time. You can't expect the markets to make this one easy, and the Fed is fighting this deflationary downturn, which absolutely is needed to rebalance the economy and markets. But it will lose this battle in the end and likely soon, at this point. I still have a target of 186 or so on TLT in the next one or two years, and it was trading at 100 recently. Note that this will be the biggest single move in Treasury bond history. The markets will fake you out on this ten times over. That's what they do! My last buy signal was 97, and we're still above that. This is worth waiting a year or two for and taking some downside risk. I am sorry for the pain... but again, no pain, no gain!

Q: What's up with corporate debt of $2T in the next two years? They're not going to get their 4% rollover.

A: Debt is at record levels in all sectors, including corporate, consumer, and government. There is only one way this ends, in a deep downturn and restructuring of debt. It will be painful, but it will be the best thing for the economy long term during an era of demographic slowing for the U.S. and almost all developed countries. The sooner this occurs, the sooner we will see the last great boom in America, which will peak around 2037 with the final Millennial Spending Wave. If we don't restructure this debt, it will compromise the boom. After 2037, the U.S. will go sideways into around 2055 and then down for the rest of the century.

Q: When this bubble begins to burst, will you recommend some real estate investment we might ride down?

A: There's no clear short for real estate like there is for stocks. That's why I either just bet on Treasury bonds (as safe havens that go up in a downturn like in 2008) or short stocks. TLT has 20-year (average) T-bonds and will surge if there is a crisis ahead, which likely will be by 50% to 80%+ in the next one to two years.

Q: I am a multiyear subscriber. I took your advice over two years ago about the crash of a lifetime and put my positions on, shortly following the COVID lows. I am rather aggressive, and as such, took heavy positions in SPXS, giving me maximal upside to the crash, given the enthusiasm and what appeared to be the immediacy, even at that time. I have averaged down dozens of times based upon the certitude, which is always just around the corner, always just another month or two away. I am hundreds of thousands down. Harry, you're a genius, of that I have no doubt, and I am sure you are just as frustrated as I am, but if you start deciding we're drifting into a coma economy and will drift sideways for years like Japan, will you develop a plan to help those of us who have been incredibly loyal over the years to your wisdom, to help us mitigate this situation? I'd at least like to make a round trip on this one. You can call me a fool for being so aggressive, but then again, you're quite convincing and I didn't want to miss my opportunity to purchase property in Puerto Rico so that I could buy you dinner.

There have been many occasions that reversing my positions would have yielded a better final position today, but I haven't wanted to chase the market. I know that timing the market is next to impossible, but are there any other indicators that could help us?

A: What has happened here is unprecedented but also simple. Central banks simply have refused to let stocks and the markets correct a bubble and deleverage it, along with its bad debts and failing companies. This deleveraging is essential to the long-term health of the economy, and the fact that we haven't had it yet shows that economists and central banks don't understand the economy as well as park rangers understand forest fires and their cleansing effect. But all they can do is put off the crisis. The bubbles will continue to build and will crash at some point, and then they will crash even more, so that the markets and economy get back to where they need to be.

We'll either muddle sideways for a long period with no real gains until we clear out these debts slowly, or we'll finally see a crash and recession that clears them out more rapidly, before rallying and growing in a healthy way again. Rapidity is what the markets and economy want, and it would be much more efficient and effective longer term. Those who run the central banks think they are smarter than the markets... Good luck with that, you

academic dirtbags! I recommend staying short at this point until the markets break. If they don't break more clearly by early 2024 and then crash heavily into late 2024, then I will have to reconsider...

I don't see it as likely that we will make it to the end of 2024 without a major crash, and it's most likely to start much sooner, even now. Hence, it's definitely not time to get back in the markets in hopes that this 100% artificial bubble will continue indefinitely. It has a very high downside and a limited upside at this point, as I have commented recently.

This is an unprecedented situation, and it's a tough hand to play. But know one thing for dn near certain: The market is pushing and betting against you and will go up as soon as it flushes you and many more like you out. So, the best path is to hold through the flush! Don't let the market bluff you when it is the one holding a bad hand of unprecedented bubbles and bad debts. History proves there is no worse hand than that one.**

Q: If we don't get the next wave down soon, when will you be able to determine if we are in a sideways pattern in the markets, which could last through 2035? In such a pattern, what happens to long-term bonds?

A: **If we escape a recession and the markets just move sideways without new highs or lower lows than we saw in late 2022, then T-bond rates will not go as low and gradually will go up a bit in the modest stock rally into 2037. We would have a very dead period for stocks and bonds. That would be the worst scenario longer term: no washout of debts, just a weaker economy ahead with still-weak demographic trends.**

Q: I'm very involved in blockchain technology, especially Bitcoin. My expert newsletter go-to and recommendation mentor is Teeka Tiwari, one of the best in this space. Why do I say this? Teeka just posted that the Bitcoin and Ethereum winter is over, with Blackrock more than likely to get approval for an ETF in Bitcoin itself. You have been suggesting that it may go as low as $3,000 when the crash starts. Teeka is usually right, historically, while it has gone from $16,000 to $30,000 in the last few months. The question is, does this change your outlook?

A: If stocks go down, which looks likely just ahead, then Bitcoin should go down with them to a final low and it should continue to crash the most, like Amazon and the dot-coms did into 2002. If this does not happen in the next six months, then Bitcoin has likely bottomed at $15,599. That would not fit with the first tech bubble, after which Amazon and dot-coms crashed 95%. We'll see soon on this one.

Q: Harry, gold seems to be rather stubborn about moving much either up or down. It is $1,920 as I write. This is down 5% or so from highs, but it seems to have found a floor. Do you still feel it will drop below $1,000, with all the scares about digital currencies, international strife, etc.?

A: **Gold tends to hold up as a potential safe haven in the early stages. It will tend to fall substantially only when the s**t hits the fan, as it did in mid- to late 2008... and then it will fall fast. So, I wouldn't expect much movement yet. This is why I prefer the T-bonds, TLT, and TMF (3X) as the safe havens, not gold. They move more early on, but also move the most during the worst of the crisis in a short period. What moves the most early on is inverse stock ETF funds like PSQ (single-short QQQ) or SQQQ (triple short). The disadvantage is that they are more volatile and harder to hold, as bear market rallies (like this first one) can be very strong.**

Q: You recommended SQQQ on March 21 and May 30, 2023, both on Elliott Wave triggers. The SQQQ prices continued to move in one direction, down, and are now at a historical low. With ample liquidities still in the markets and the AI hype, should those already loaded with SQQQ sell all first and await a stronger buy signal, since new hype events continued to occur after Mar 2023 and may continue to surface, to drive the SQQQ prices even lower?

Separately, with the U.S. Treasury issuing short term T-bills after the debt ceiling resolution at least until 2024, what is your take on the short-term impact on TLT and ZROZ?

A: I know this is frustrating, but the central banks are fighting this necessary downturn and debt detox as hard as they can. But they did finally screw up and overstimulate in reaction to COVID, which means they have to overtighten now to fight the 9% artificial inflation they alone created. Stocks should resolve by crashing again once they finish fighting the

inevitable. If you get out of the shorts now, it's likely the crash will resume rapidly without you at first. You will be among the last to give up, and the markets will rapidly reverse to the downside. What you are thinking of doing here is exactly what the smart money and markets want you to do! It's sick, but that's how the markets actually work in the short term. The greedy and highly leveraged smart money is constantly countering the larger herd of investors. When they go long, the smart money shorts, and when they go short or get out, the smart money buys. This market now looks to me to be stretched about as far as it can, given that the fundamentals are not good here. I will warn if it does look like time to get out.

Harry

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