Harry's Take

September 4, 2023

Reader Mailbag: Questions and Harry's Answers on Bubbles, Bonds, and Bitcoin

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've been a subscriber and disciple for 25+ years. My current setup is 33% in energy, pipelines, and commodities; 33% shorting the markets (You are calling for quite a dip; I am short all markets: PSQ, DOG RWM, SH, SBB); and saving $1,000,000 in cash to go all-in at the appropriate time on ZROZ. However, it looks like I'm in a box. When interest rates are cut, ZROZ gives me the expected gain, but the markets also rise, which costs me money in my short positions. What is going to cause a collapse in stock prices, other than interest-rate reductions or multiple collapses in price/earnings ratios (P/Es)? What's my exit strategy from here?

A: This bubble has been the slowest to burst, even with aggressive tightening by the Fed. I think the markets assume that the Fed will rush to lower rates and stimulate again if the economy gets weak or stocks fall too far. The thing most likely to cause a crash here is simply high valuations, given rising short-term and long-term interest rates due to Fed tightening. The risk-free long-term Treasury rates tend to fall more after the economy starts weakening, but corporate rates stay high or get higher with rising defaults. It's hard for stocks not to fall when loans are much harder to get and more companies are failing or defaulting, and that is already starting to

happen with major developers like Evergrande and Country Garden. It's also hard for the Fed to go directly from tightening to loosening again. The Fed is more likely to pause for a number of months first, giving time for the stock crash to gain momentum. We'll have to see this time, as we've never been in this exact scenario before of central banks keeping zombie companies and a weakening economy going for 14 years by printing money out of thin air. To me, that shows that the economy is a lot weaker under the hood than the central banks and clueless economists think. Once the economy begins to fall, it likely will fail faster as a result of this tightening. The effects of the $5.2 trillion in stimulus we got after COVID have to wear off before the economy really will reflect this, and that should start within the next few months and last into late 2024.

Q: I don't care about Bitcoin. I do care about stocks. In your opinion, where are they headed, 40,000 or 12,000?

A: You don't have to care about Bitcoin to invest in it. I care about Bitcoin, as it tends to lead stocks, although it's not in the stock indices. What's going on with Bitcoin is like what happened with Amazon and the dot-coms in the first tech stock bubble from 1995 to 2000. There are two major targets for stocks: (1) the early 2009 low of 1,180 on the Nasdaq, the best-case scenario, and (2) the early 2020 COVID low around 6,670. The lower target would be more in line with longer-term trends and with getting the markets out of the second great bubble and back to fair value. No bubble in history has not erased itself, and the lower target of 1,180 is more in line with that. Bitcoin is likely to hit its lows and make its sharp declines just ahead of stocks.

Q: It looks like TLT could hit a support level at $91.85 this week and TMF would follow and reverse to the upside. Given that this would be a second hit at that level, I would expect an upside run from that support level all the way to $180 for TLT (and $58 for TMF) at the same time stocks go down in the "crash of a lifetime."

A: Yes, I have a similar outlook: the second bottom could hit between $89 at the lowest and $91.85 (which we have already), followed by the greatest run in history on TLT to around $186, doubling within two years! This will

be the greatest run in history, past or future. So, it's worth holding the positions you are already in.

Q: I see ZROZ is back at the October lows. Are you thinking we will see lower prices? Is ZROZ still a hold, or should we cut our losses and look to re-enter lower down?

A: It's a tough situation we are all dealing with. It is strange that the bond markets are not reflecting a serious slowing in the economy after 525 bps in tightening and maybe another 25 bps ahead. I prefer just to stay with TLT and ZROZ. I think the smart money sees this giant move and is trying to talk everyone out of it. If you jump out, I see the downside as around $89, only 3% below the $91.85 low thus far. But this market could turn around and rally at any point now.

Q: What is the recommendation for all of us who, following your guidance, have held ZROZ and TLT for going on a year and a half? Please, talk us off the ledge. I know that it will take a plunge in the stock market to get the rush to Treasuries and that we are on a year lag from the rising rates showing up in the economy. But da*n, this drop in Treasuries has been more than painful for us loyal followers. Do you have any reassurance for us today, when yields are at an all-time high since 2008? I'm hoping that specific year has significance in foreshadowing this latest drop in a Treasury price reversal.

A: Unfortunately, these T-bonds are the best and only great safe haven play, but they will only appreciate significantly at this point if we go into a slowdown or recession. They are really an alternative to cash. They are not going to beat stocks in a growing economy. You can try to stay in stocks longer and hope you can get out before you lose too much, as stocks and real estate have massive downside potential comparable only to what happened from 1929 to 1932. Most of the first crash in stocks happened in about six months.

If you aren't going to be in stocks, then TLT or long-term Treasuries will beat the hell out of cash and even more so gold when the downturn hits. Governments are fighting this downturn more than at any time in history. They can't do that forever and have now tightened the hardest since 1980. So, it can't be long until we get a downturn, now. The resilience in the

economy after tightening is due only to the extreme stimulus we got into early last year, which is just about to wear off on a lag.

If you look at the greatest investors, they buy value and are willing to wait for the truth to come out. Patience is a necessary virtue. If you are frustrated, imagine how stupid most investors feel when get hit by major crashes like 1929-1932, 1973-1974, 2000-2002, or 2007-2009 and must wait a decade or decades just to get back to even! A few years of such patience will be worthwhile if we get anywhere near the crash that history says is inevitable, at this point. And outside of any boom/bust or demographic cycles, buying stocks at current valuations likely would give returns of -2% per year for the next 12 years. This second bubble in stocks and real estate argues for much worse than that…

And the worst part is this: the longer this bubble goes on, the higher the chance of a major crash like 1929-1932! The biggest sign of dumb money thinking is that the longer a boom goes on, the less likely a major crash will be. History says the opposite!

Q: I read your signal to short Bitcoin on August 17 and thought the best way to do that was to buy BITI and sell off some of my SQQQ and ZROZ. Do you agree that is the best way to short?

A: BITI is the best way to short Bitcoin. It is not leveraged, but Bitcoin already moves faster than the stock market. Because it is triple short, SQQQ will move faster than Bitcoin. SQQQ and BITI are the two shorts I most use. SQQQ moves at near 3X stocks, and BITI tends to move more like 2X stocks. So, SQQQ is the most leveraged play. I like to have both for diversification on the way down.

Q: Do you feel the 30-day T-bills are safe for the next year or more to get 5% on my money? What is better and safer than banks and their dismal interest rates?

A: Yes, T-bills are the safest of anything. The U.S. will not default on them or on longer-term Treasury bonds. So, it's a good way to be in cash, avoid the crash, and get some interest, which is high now, due to the Fed increasing rates. I prefer the 10-year and 30-year Treasury bonds for very substantial

appreciation in the deflationary crisis I think is coming, which should be similar to 2008-2009 but about 50% worse. The 10-year T-bond went up nearly 50% in the second half of 2008. It should appreciate even more this time, by as much as 100%.

Q: Could we get some Bitcoin advice? I pulled all of our money out of Bitcoin and Ether, and it continues to rise. Do you still think Bitcoin is going down to the $3,000-$10,000 levels, or have you changed your mind?

A: Bitcoin is still in a credible fourth-wave bounce, likely has peaked already at just over $31,000, and should be just heading into a fifth and final wave down over the next several months. This situation should be clearer by October. If not, Bitcoin already may have bottomed near $16,000, but that does not look like a long-term bottom to me. Being short here is warranted, but not if we don't see a clear move down by year-end.

Q: How does the latest downgrade by Fitch affect the TLT and ZROZ strategy going forward and the appetite of China and others for U.S. debt? Will this still be a viable strategy when we finally do get a recession?

A: The one thing I am confident of is that TLT, ZROZ, and TMF will surge as the best safe haven plays if we go back into a recession into 2024. T-bonds are still the best haven, even if Fitch downgrades them a little. Inflation is already coming down and will fall even more when the economy finally breaks as a result of 550 bps+ in rate hikes. It is slow to hit only because of the unprecedented, massive $5.2T in money printing over two years into April 2022. That is due to wear off just as the 550 bps+ in tightening hits over the next year plus. T-bonds were the best safe haven in the 2008-2009 recession and crash, and this crash should be worse. Despite having high debt like everyone else, the U.S. has a less extreme problem than most of its trading partners and still considered the "best house in a bad neighborhood." Money has to go somewhere when everything tends to go down, and 2008 proved that outside of cash, it goes mostly to U.S. long-term Treasury bills and bonds, period!

Q: If my memory serves me correctly, you stated TLT could go as high as the mid-$180s. What are your projections for SQQQ?

A: It’s a little harder to project triple-short indices as they don’t always go up by 3X exactly, but my best estimate is that SQQQ will go to or exceed its last high at $67 and gain 250% or more from here to near $19, assuming there is a crash to or near the early 2009 lows, where there is the clearest support. Single-short PSQ should be up over 80%.

Q: I have a question about the expected performance of an investment in TLT and TMF in a scenario where the long-term yield may suddenly spike. Assume that long-term yields suddenly spike to a level where TLT and TMF drop by 50%. What would happen to the value of an investment in these funds after TLT and TMF drop that much while at the same time the U.S. government starts printing trillions of dollars and starts buying back outstanding long-term bonds at cheaper prices? Assume that the initial investment into TLT is made after the spike in yields once the government starts the buyback program.

A: We would need a spike in inflation for T-bond yields to go up and bond values to go down. That is very unlikely, given that the Fed has been tightening at record rates since last March. Inflation is falling fast and should go to nearly zero or negative in a downturn, which means these yields are only likely to go down for the next several months or more. It’s simple: buy these risk-free bonds with longer durations. If interest rates on these bonds go up, the value of your bonds goes down. If rates go down, the value goes up. But I am betting strongly that we are headed toward a major slowdown or recession, as are leading indicators, in which case TLT would go up a lot. If inflation keeps rising inflation and we get a stronger economy, then TLT will go down. With 525 bps or more in tightening, the economy should slow down, or else something really crazy is going on. I'm not willing to bet on crazy. But if you think we could have a big inflation spike, then just stay in cash.

Q: I’m just wondering what your thoughts are on countries (like China, India, etc.) unloading their U.S. Treasuries at some point? Is this a risk to the surge in TLT that you expect?

A: Everyone worries about this, and it's never been a problem. They need our T-bonds to safely park money and have no interest in torpedoing our bonds; hence, they will sell judiciously when they do. U.S. T-bonds are also

the largest, most liquid market in the world. The trend in inflation is the biggest factor by far, and it looks like deflation is coming ahead. Deflation is the best scenario for Treasuries, because in addition to falling rates, you get default risk on other bonds, which just makes T-bonds look better.

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