# *Harry's Take*

October 3, 2023

## Reader Mailbag: Questions and Harry's Answers on Bonds, Commodities, and International Investing

**Q:** My investment advisor at a large banking investment department is recommending that I invest in Treasury ladders. How does that differ from TLT and, more importantly, will it have the similar gains as TLT when the market crashes or the economy goes into a recession?

**A: Ladders are a broader way to play a fall in rates. The major move that is coming will most reward the longer-duration T-bonds. That's why I want 30-year and 10-year bonds. TLT holds 20-year (average) bonds, and ZROZ is better, with 25-year (average) bonds. TLT goes up about 1.6 times the 10-years when longer-term rates fall in a slowing economy and/or with falling inflation rates. ZROZ has less liquidity, but that should not be a problem for smaller traders like us. TMF is three times TLT and has very high volume. If you mix TLT 50/50 with TMF, you'll get ZROZ+ returns with high liquidity, or you can go with TMF and get triple returns. The volatility of that will make it harder to hold if and when it goes against you.**

**Another strategy is to start with more TLT than TMF and switch more into TMF as the economy slows. The biggest surge by far tends to come at the worst of the crisis, like in late 2008. It is likely to come between mid- and late 2024 this time.**

**Q:** I have been confused about what you have been saying about stimulus spending, specifically that $5T was spent during two years of COVID. I never heard that report. When I looked it up, it said $4.5T was spent on stimulus checks and money to households and businesses. But aren't you talking about a different stimulus? You said it's money from the central banks to keep the stock market from crashing. I remember that debate in 2009 but have not heard it since then. Are these the same things? Is it that spending to boost personal spending and businesses also boosts the stock market? I couldn't find out anything about money going to the stock market. That was not reported and I don't know how that would work. I'm not sure what you are talking about.

**A: Yes, there were two sources of stimulus: monetary stimulus, as the Fed "printed" money by expanding its balance sheet, and fiscal stimulus through federal spending programs and deficits. The most recent monetary injection was $5.2T in early 2020 through early 2022. It is estimated that fiscal spending increases, both recent and future, should come to around $5T, but not all that money has been spent yet. The fiscal stimulus is more direct. It causes spending that directly impacts consumers and creates growth and jobs. Money printing makes funds more available for lending, leading to investments that stimulate spending on capital goods, which impacts businesses more first and then workers and consumers indirectly.**

**Q:** With all the scare about BRICS+ starting a new trade dollar and with all the hype about central banks and nations going on a gold-buying spree, do you think you might change your opinion on the future activities of precious metals?

**A: I have said for a long time now that gold should rise modestly into the early stages of the slowdown as a (wrongheaded) safe-haven play. Gold could still appreciate a bit more, toward $2,200-$2,300, but then it should fall back toward $1,000 in the crash, as deflation is the opposite of gold's inflation-hedge play. So, gold will have a limited upside and large downside in the next year or two. If you think gold will be the safe-haven play, look back at the 2008-2009 crash to see how it fell around 45% in the second half of 2008, right at the worst of the crisis.**

**Q:** I have a few questions.

1. I may be off on this, but aren't the historical cycles on which your analysis rests simply no longer reliable? None of the cycles you describe occurred in circumstances like those we now are enduring.
2. How predictable could these cycles still be, given the extreme economic distortions that have been generated since 2008?
3. How can an "all things" bubble reasonably be expected to burst on any predictable timeline, in view of (A) the unprecedented accumulation of debt worldwide, (B) ever-accelerating rates of interest thereon, and (C) ongoing government stupidity and the irreversible inflation it is generating?

**A: Yes, these cycles have been rolled over by unprecedented and extended stimulus. But they are fundamental and still active beneath, and they are still useful for understanding and as a point of reference. The 14 years of stimulus clearly averted what would have been a great depression between 2008 and 2023. But it will hamper growth and market returns in the next demographic boom from 2024 to 2037. If we didn't know the Millennial Boom Wave was coming, I would be forecasting a deeper downturn ahead. Now the boom will be more muted, instead… Of course, the underlying trends matter, and ultimately, we will return to them after the stimulus game washes out of the economy and markets.**

**Q:** I am interested in an ETF to take advantage of the possible China short.

**A: The only ETF with substantial assets ($261 million) and decent daily volume (five million shares) is YANG, the FTSE China Bear 3X ETF. It is 3x, so buy accordingly.**

**Q:** What is your analysis of BlackRock, State Street, and Vanguard owning such a large portion of the S&P 500? Also, I have read that they are purchasing single-family homes and are on track to own 50%+ by 2030.

**A: It is just a sign of a bubble peaking in stocks and housing when leveraged money steps in big time. The markets should crash after this and restore overinvestment by killing excess capital from a bubble in everything. Then we will see what things are really worth… and it will be a lot less!**

**Q:** I have followed your recommendations for several years. Like many of your subscribers, my accounts are significantly under water. To say the least, my patience is growing thin. Are you also feeling this, or are you invested differently? Are you hedged against these recommendations in a way that you can share?

**A: There has never been a bubble that didn't burst, and typically by 80%+. What I am doing is shorting through leveraged ETFs like SQQQ and taking positions on rallies, like happened into early July, but getting out if they don't follow through to the downside or keep edging upward instead. I keep losses low and wait for the market to ring out the still-bullish sentiment, and then look to make major gains on the expected third wave down that should follow through soon. If another serious crash does not come into play by year-end, I will have to reevaluate the downside scenario. That could mean a long, boring sideways market, between 16,212 and 10,088 on the Nasdaq, for 14 years into the next demographic peak. That would not be a typical pattern after a bubble of this magnitude, so I don't think it is the likely scenario… but the markets are perverted more than at any time in history, so I can't rule that out.**

**This is the most frustrating market I have ever seen! A major crash is the only thing that can shock it back into reality, and then it will become more predictable and should more follow normal cycles.**

**Q:** Is this stock market correction occurring this year?

**A: In a normal economy, this recession should have started by early 2020. The 14 years of stimulus pushed things back by about two years. I now think stocks initially peaked in late 2021 and the first crash rebound very likely peaked in early July, which means the recession should start late this year or very early next year. Stocks should fall a lot lower, if that's the case, by as much as 85% on the S&P 500 and 92% on the Nasdaq from late 2021 highs.**

**Q:** I have been an investor in Vietnamese equities since the stock market was initiated there in 2000. I was originally attracted to the young, educated, high-literacy-rate population as a reason the country would experience high GDP per capita in the future.

As you are aware, it has been quite lucrative to be in that space over this time period. In my analysis, I believe that the next five years will be quite lucrative also, given the demographics and other factors, such as the shift from higher-cost countries of production as well as better, more-reliable infrastructure. I am very interested to hear your view of Vietnam as an investment destination and its medium-term future.

**A: My focus internationally after this crash into 2024+ will be on Southeast Asia and India. That clearly favors Vietnam, and I like it over Thailand and Cambodia. But all stock markets are likely to crash in the global downturn that has started in China. I would wait until well into 2024, when it looks like this crash will be closer to bottoming, before investing anywhere, including Vietnam**.

**Q:** I just have a hard time understanding why a person should not simply buy 20- or 30-year Treasuries now or sometime in the very near future rather than TLT or similar.

**A: There's no problem with buying 10- or 30-year Treasury bonds directly. It's just a little harder: you have to take possession, etc. It's easier to buy an ETF like TLT that you can buy or sell in a few seconds. Just realize that this is not a long-term buy, it's meant to be held during the crash as a safe-haven play, into mid- to late 2024 or so.**

Harry

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