Harry's Take

October 31, 2023

Reader Mailbag: Questions and Harry's Answers on Safe Havens, Inflation, and the Crash

Q: Would you mind clarifying or adding to the order in which you see things happening?

A: This is the most conflicted top and crash scenario ever, due to such extreme manipulation by the Fed and central banks. Normally, in a major crash, bonds would react to the downside first, in roughly this order: high-yield corporates, corporate investment grades, and then risk-free Treasury long bonds. Then, stocks would react in this order: small caps more in the first wave, Nasdaq more in the middle wave, and S&P 500 large caps in the final wave.

This time, the long Treasury bonds, the 20-years and 30-years (TLT), continued to rise in yields and fall in value long after stocks peaked in late 2021. The COVID inflation is seen as stubborn and some feel the Fed has not tightened enough after the greatest rate hikes in four decades and after shrinking its balance sheet by about $1 trillion or about 11%. History would say that's a lot!

However, continued high risk-free Treasury rates just put more pressure on the economy and stocks, and the Fed may even raise rates one more time, extending the tightening period that will continue to hit on a lag into at least late 2024.

Someone is wrong here. I think the inflation was strong but also temporary and resulted solely from $5.2T in monetary stimulus over the two years following COVID. I think inflation won't be as stubborn as the tightening hits on a 1 to 1.5-year typical lag… That means inflation may end up wearing off faster ahead and push us instead into a deflationary scenario, historically the worst for the economy and the most cleansing in the long term… It couldn't happen to a nicer group of delusional central banks!

We'll see soon. This will be a great historical case study for economists and politicians in the future. Too bad they don't seem to have a clue now. They just keep serving the new stimulus-addicted economy another stiff drink and hoping for a happy landing. History would suggest that instead we will get the biggest hangover since 1929-1933! The only saving grace is that the Millennial Spending Wave will turn the economy upward again demographically from 2024 into 2037. But the debt overhaul that we have not allowed to happen will weigh on these positive trends. I prefer to let the deflationary crash do its work from now into 2024+.

Q: Do you think the Fed can keep pushing without destroying the economy to the point of no return?

A: They are pushing to the point that we should get a recession and a bigger stock crash than started in 2022. Their own excessive stimulus to deal with COVID brought the short-term surge in inflation that has driven the biggest tightening in four decades. They created their own trap… finally! Now, they have been forced to tighten the most since 1980-1981.

Q: In the 2008 crisis and the years that followed, we had very low inflation, which helped. But now, with wars and high deficits, we face structurally high inflation. In such an environment, are not gold and silver better investments than bonds? I realize in 2008 bonds did better.

A: I do not see structural or longer-term inflation, just a brief surge from the $5.2T in the last two years. Inflation has already fallen to the 3%-4% range, and the Fed will have to keep raising rates if inflation doesn't fall further near term. In a financial crisis like in 2008, long-term Treasury bonds do better. Industrial demand for gold and silver can drop, and when inflation falls, it most impacts gold, which is seen as a hedge against

inflation. T-bonds do well, as the U.S. will pay no matter what. Falling inflation brings yields down, which causes risk-free bonds to appreciate, whereas corporate bonds see rising risk of default, which pushes rates up and values down. Remember that falling yields/rates make existing bonds more valuable, as they have higher yields locked in. Higher rates give investors higher income for new bonds issued but lower value for existing bonds at lower rates. Also, remember that gold bubbled as much or more than everything else and is the last commodity to crash, along with silver to a lesser degree. Gold and silver are holding up in the early stages of this financial crisis and stock crash, as in 2008. I see gold falling to the $900-$1,050 range. I don't recommend buying until it does, and then it's a bet on the rise of India and a boom in the third world.

Q: I'm just wondering if you still see a crash playing out in Australian property? I sold my family home, and then saw you appear on a show on the TV. I then subscribed and delayed upgrading to a new property. I have dollar cost averaging in ZROZ and TLT and, because I wasn't 100% sure (as you have said it's a good idea to own a different currency), GGOV ASX, which seems to be similar to TLT. So far, Australian properties still appear to be at crazy-high valuations, and the government is now helping people get loans with only 2% down and are taking a piece of ownership, on top of the 2000+ people coming into the country each day.

The data I see all look like maximum fear of missing out (FOMO), and I can't make sense of it. Clearly, no one can afford to even make payments on properties, yet the frenzy still seems to continue! So far, I'm down quite a bit on my long-term bond play and feel as though I'm getting left behind (economically). I'm still hoping to see Australian property go back to its 2012 levels, but I'm now starting to struggle with staying the course. So, my question is, do you still see the likelihood of a property crash as being very high in Australia, even with the Australian government trying quantitative easing over the bubble with immigration? The government ownership and mass immigration weren't huge issues when I started getting into TLT. Things are starting to look very shaky now, and I'm starting to see how bad this potential crash could be in the real world. I'm trying to stay levelheaded. Thanks.

A: Real estate finally appears to be starting to flatten or go down. It's definitely not a time to buy now. My view is that the final crash in real estate that should have followed the 2006-2012 crash was due to start in 2020, and it has now been set back to 2023 or 2024 at the latest. Once the crash does start more clearly, real estate will take longer to go down than stocks, and stocks still look to have started falling in 2022, with the next wave down into 2024. The only thing clear is that real estate and stocks had a second and larger bubble after the last crash from 2006 into 2012.

The only clear targets and supports are mid-2012 in real estate and early 2009 in stocks. Until it gets back to those levels, the second and final great bubble burst can hit, and it is only likely to be greater than the last one, where the Nasdaq went down 78% and real estate went down 34% in the U.S. I see real estate going down 50%-55% this time and the Nasdaq going down as much as 93%. So, it's better to be safe than sorry. This is a global bubble and will go down everywhere. You just have to be patient until governments are unable to keep it from bursting… and being forced to tighten so dramatically since early 2022 after stimulating so dramatically has created the perfect storm. If we don't see a more-obvious downturn in stocks and real estate by the end of 2024, I will be forced to reevaluate... but it's not that time yet.

Q: It may have been you who in the past mentioned that the TLT is the safest ETF anyone could possibly buy, and so I'm wondering about the TMF. Is it equally safe? What are the chances of it falling off the edge and disappearing totally, or is this not possible and it is totally safe to buy, in your opinion?

A: TMF is fine, it is just 3X, so it is much more volatile, both up and down. I've used it. I find in reality it plays out more like 2.6X than 3X.

Q: I'm concerned that since ZROZ is leveraged and time erodes it like SQQQ, it may not rally back to $100 when the crash finally starts.

A: ZROZ is not leveraged and does not use futures. It just strips the interest and makes the bonds zero coupon. So, there's no leverage or time premium. But there's more capital appreciation without the interest, as with a zero-coupon Treasury bond. That's why ZROZ moves at about 1.6X. The

disadvantage of ZROZ is that it is lower volume than TLT. If you are not trading high amounts, that should not be a problem.

Q: How low do you expect TLT to descend? I followed your advice and accumulated TLT. At this time, the focus is on increasing rates on the 20-year bonds. I feel like I am driving in reverse.

A: Inflation has fallen substantially from the Fed tightening, but it has stalled temporarily around the 3%-4% level. That has caused TLT to fall further than anticipated before its potential rally of a lifetime. It is struggling to make a new bottom below the previous, solid-looking level of 92. The strongest supports are at 83 and 80.9. It's best to hold unless it breaks convincingly below 80.9. This has been a big surprise, given the strongest tightening in four decades, which should slow the economy a lot and bring lower inflation and very likely a recession. Before the 2007 recession and stock top, TLT rallied and then exploded into the worst of the crisis in late 2008. This time, the markets have reacted more on worries about the strength of inflation. They see inflation as more structural; I don't! The upside is still that we are likely to get the strongest rally ever within a year or a bit more; hence, it's worth staying with this trade, with TLT targets still at 186+... and the potential for a doubling in 2024!

Q: As a forward thinker who tends to agree with you that we are way past due for a correction in the markets, my question is this: Where should we be positioning our resources for entry in late 2024 or early 2025, should the next 12-18 months finally give us the correction you've been expecting over the last few years?

A: There will be the next bull market in stocks from the Millennial Spending Wave into around late 2037. I would particularly favor the Nasdaq due to its global technology positioning. But best should be Asia (excluding Japan funds) and India-leaning funds.

Q: Thanks so much, Harry, for the recent updates regarding the ongoing trends in the U.S. and Chinese stocks markets, with the Chinese stock markets leading the declines. Could you please update us on whether the Hang Seng and the SSE Composite indices are in midst of the final, wave-five bottoming processes and likely to bottom soon?

A: I don’t track the Hang Seng, but for the SSE Comp, it is testing the bottom trend line of its large triangle pattern. If it holds, it will be at the bottom, for now. But I think it is more likely to break 2,900 more conclusively just ahead and be heading toward 1,000, which is consistent with the final global crash I am predicting.

Q: I was wondering what you think of the iShares 25-yr Treasury strip bond ETF, GOVZ, as a supplement to your TLT recommendation? I assume it would have more upside, but it is a newer ETF, so it is hard to know for sure.

A: That fund holds 25-year U.S. Treasury strips that take out the interest, which means you lose the minor income but the underlying capital value will appreciate more. So, this is like TLT but lower in trading volume and higher in returns, more like ZROZ... So, this is fine. I like the higher trading volume for TLT when markets move fast. But remember, this is a safe haven play during a major crisis, and you are not likely to be trading back and forth much, if any. After the worst of the crash, when this soars the most, you can switch to a variety of higher-yielding corporate bonds or to high dividend stocks for the next boom, from around 2025 into 2037 or so.

Harry

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