Harry's Take

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Reader Mailbag: Questions and Harry's Answers on Millennials, Rates, Crypto, and More

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 and answers on a few topics and send them to subscribers as part of our reader Mailbag series.

Q: Avi Gilburt has been analyzing stocks and indices using Elliott Wave principles. He has been stating for a number of months that the S&P 500 might still hit an all-time high above the 4,800 level before peaking. Regardless, he has the same view as you that the stock markets will encounter deep, multi-year declines in the coming years. Could you clarify why there is a variation in timelines on the trends of the stock market indices, even though both of you are relying on the Elliott Wave principles?

A: There are two types of trend analysis, fundamental and probabilistic. Fundamental trends are things like my Spending Wave, which is based on when a new generation will move collectively into peak spending on a 46-year lag. That is a fundamental trend and thus should happen—and on a fixed timeline, unless another trend trumps it. Technical analysis is probabilistic, like the Elliott Wave. That is a pattern that is not fixed and can morph and look different as it progresses. It is not fixed in time or only looks that way after it has fully occurred, but there is a pattern to it, which likely leads to one or a few scenarios, at any point. My Spending Wave does not change over time unless I find that the peak is later, like age 47 instead of 46, and then that is a minor change. My Elliott Wave and technical

analyses change constantly as the pattern unfolds. No one can always be right about technical analysis or shorter-term forecasting. The best forecasts are about 60% to 70%, and that's why you have to be willing to change your view when the patterns unfold differently than you thought.

I will show in the December *HS Dent Forecast* newsletter why the best cycles suggest that we should have seen in late 2022 the major low I am now expecting in the latter half of 2024. The $19T in fiscal stimulus we have had since 2008 and the $8T in monetary stimulus ($27T total) have caused that shift forward of about two years, which is rare for such a fundamental trend. But central banks have made massive efforts to keep this bubble from bursting. That will fail at some point, likely soon now. I think the central banks will find that playing God in this manner backfires on them! This should start to show in 2024.

Q: I still hear people say the Millennials are a bigger generation than the Baby Boomers, but I know you repeatedly say otherwise. What's the simplest way to explain that to someone?

A: A lot of people are confused about this. The truth is that the Millennial generation is larger in numbers, more due to starting from higher births in the first place and spanning over a longer time. But for me, the more important measure is this: Will they take the overall economy and need for housing and my overall Spending Wave to higher levels? The answer to that is NO! Birth and immigration levels have not reached new heights for the Millennials, they have just reached the same peak levels as the Boomers. The birth chart is the best leading indicator of everything, and Millennial births have gone only to peak Boomer levels. Also, sentiment against immigrants is only growing over time. In the case of housing, we will not need more homes to accommodate the Millennials in their peak family cycle from 2037 forward. The dying of the Boomers, a larger wave of births and immigrants in a shorter time span, will provide enough homes as Boomer deaths peak around 2042. The only additional homes needed ahead will be in new areas that are growing in attractiveness over older, maturing ones, which largely will be in the West and Southeast.

Until the Millennials, every generation had taken us to new heights in births and immigration. The Millennials have plateaued rather than going to new

heights, and after that generation, the U.S. will join the ranks of the other slowly dying countries, like those in East Asia and Southern Europe. Japan started this aging trend, but the whole developed world will follow, with only minor exceptions like Australia, and that is not likely to last forever, either. Affluence is what eventually kills growth, as affluent people have fewer kids so they can raise and educate them better. Asians just lean even more into cutting back births as they grow more affluent. Asia increasingly is the future of global growth, now that Europe has peaked demographically and North America currently is peaking. I have said for a long time that Japan was the first developed country to age and mature; all others ultimately will follow. Australia has the best demographic trends, as it attracts a higher percentage of immigrants than the U.S. and Europe, and those immigrants tend to be more educated.

Q: I have written to you a number of times. One of my questions even made a newsletter. Thank you for sharing. I have been in the mortgage business for 25 years and have seen a lot over that period. I am reading your predictions and having a hard time digesting them. I would love to hear back from you.

To me, it seems the charts don't communicate the differences from 2008 to now, mostly involving inventory. During the financial crisis, there were too many homes. Builders overbuilt. The birth rate in 1973 dropped for the first time in a long time, stayed flat, and then started back up again. From 2003-2007, builders kept building at breakneck speeds, but they were building homes faster than new households were forming. From the data I have seen, builders have been behind on new builds since 2009, in terms of keeping up with new household formations.

In 2025, we are supposed to see the biggest group of new home buyers as the Millennials hit age 33 (average first-time buyer age). I agree that we are due for a financial cleanse. If the market collapses and rates go back to the 5% range, we are not going to see all of the foreclosures we did unless there is an employment collapse, too. I get your take on the charts, but the data today are very different from 2008, from a supply and demand aspect, even if you take institutional investors liquidating homes. Are there any numbers on how much they actually own? If the market drops 50% like you say, it will be a race to pick up as many houses as possible, because hedge funds know the biggest group of buyers are set to hit the market in the next 24 months…

I think certain markets are going to feel some real pain. I am not as pessimistic as you are, though. Thank you for all your information. This has been one of the most interesting markets as a loan originator that I have seen. It has been a lot of fun to see the people I listen to on the market lean on people like Lacy Hunt.

A: This is a complex question and issue. The broader context is simpler. We've been headed into a major, long-term bubble burst like 1929-1932, except this time we've had a major real estate bubble along with stocks. There are a lot of reasons the economy bubbled this time vs. last, but the end result is that housing is now much higher priced and more overvalued than in the first bubble that peaked in early 2006. The bigger the crash, the bigger the bust. Builders did overbuild more the first time, but this time buyers have overbought and overpaid far past their normal buying needs.

A totally unprecedented $8T monetary stimulus plan accompanied by $19T in fiscal deficits since 2008 (I'll have more on this in the December *HS Dent Forecast*) blew us out of the first bubble crash and created a second larger, longer stock and real estate bubble. Of course, there is less inventory this time, after builders got their a handed to them… But we never allowed the economy to cleanse fully from that bubble, and now we have bigger bubbles. Households have gotten rich off this bubble again and have spent and borrowed more at a time when they would not have naturally.**

So, the greater context is this: If the economy fails again, it will end up doing what it should have from 2008 into 2010, and that will look more like 1930-1933: a depression, not a deep recession. And the new swarm of institutional buyers is part of the bigger problem now. They will be more inclined to sell and minimize their losses, as they are not attached to their homes. And that 50% crash, vs. the 34% last time, is simply if it goes back to the last major low in 2012. A chartist would pick that fall even if they had no idea what the chart was!

Q: I have been listening to you for a very long time and appreciate a lot of what you have to say. On Bitcoin, you have it completely wrong. The world is going to adopt a new asset class, and this new asset is a hedge against endless

money printing by governments around the world. We are about to witness something very special.

A: I agree totally. It's just not going to happen tomorrow morning. The massive crash of this unprecedented debt and financial asset bubble will give Bitcoin more credibility at some point, but only after its "bubble of bubbles" crashes along with it—and the most, as occurred with the dot-coms in the last tech bubble into 2000. Find me a bigger bubble than in Bitcoin, which went from $3,250 to near $69,000 into late 2021. If we Bitcoin does not go much lower, to $3k to $4k by the end of 2024, then I will be wrong about that. All I am doing is tracking Bitcoin and crypto as the new version of the dot-com revolution we had from the latter 1990s into late 2021. Amazon went from $6 to $136 in that bubble, and then crashed to $6, down 96%. If I am right and Bitcoin does something similar, first crashing to $3,250-$4,100 support levels (down a similar 94%-95%), then I may be the only one forecasting that. Then, I see Bitcoin going to as high as $780,000+ by 2037-2040. I don't know too many people more bullish than that. The problem with the leaders of new, emerging industries like this is that they do see the upside but DO NOT see the deadly downside and volatility... History is CRYSTAL clear on that. Ninety percent of auto companies disappeared, and so will many crypto companies. But some of them will just be absorbed into the more-successful survivors.

The best forecasters are only right about 60% to 70% of the time in shorter-term forecasts, so I have to accept that in what I do. I haven't been completely wrong about too many things, and not for long, if so.

Q: You mentioned in these next two next large downturns coming up that it is best to be short. To me, that means not being in stocks. I don't short or really know how to short stocks, so what is my play when everything goes down to the 2020 lows? Do I buy stocks or ETFs and just wait for them to slowly crawl back up? Am I missing something here?

A: This is likely the beginning of the biggest crash of our lifetimes. I'm not looking for a bottom until the second half of 2024 or possibly later than that. I see the S&P 500 being down as much as 86% from its all-time highs and the Nasdaq down 92%+. So, get out and stay out until then. Yes, for most investors the best thing to do is buy long-term Treasury bonds or TLT,

as that was the best hedge in the 2008 crash, not gold. Or, you can simply move to cash and then reinvest when we see a major crash. The difference is that the 10- and 30-year Treasuries are the safest long-term bonds and investment in the world and you make large gains in the crash, as they end up being the safe haven. Remember, this is an "everything bubble" and will end in an everything crash... including gold, at some point. As in 2008, Treasury bonds were the only investment that went up near 50% in the second half of 2008, when even gold finally tanked 40%.

Q: What will happen if the Fed pivots? Will the markets soar again?

A: Markets will tend to rally if the pivot comes sooner than expected, like January or so, instead of the expected March or a bit later. It's one thing to stop raising rates, like they are doing now. It's another thing to reverse quickly from aggressive tightening back to stimulating again. That is not as likely and looks more reckless.

What is more likely is that they will stop raising, stay put into early next year, and then start lowering rates again when the economy weakens by more than a soft-landing scenario of "slower growth but not recession"… That is more of a pipe dream; it rarely happens.

I think the economy will slow faster than anticipated when the COVID stimulus wears off… and that likely will be sooner rather than later. Then, the Fed will be behind the curve on stimulating again. Here is where the Fed could finally look like they've lost control… which a good thing, longer term. But near term, it means a recession that is now very likely to look like a depression (more like 1930-1933) when all these bubbles burst at once. The biggest question is how long this will last. Stocks topped in late 2021 and are likely to bottom by late 2024, but it could be later, after central banks have pushed this everything bubble far higher and longer than the last, more natural bubble.

Q: If the Fed holds rates for several months, would it make sense to sell TLT positions and get back in when they start lowering rates?

A: No. TLT tends to bottom and rise before a recession. It is looking ahead into when a slowdown or recession will hit. I think TLT most likely already

bottomed at $82.45. The biggest attraction for TLT is the deflationary trend in the downturn that causes yields to fall and makes the present higher yield long term bonds more valuable. The longer the duration, the more the appreciation.

Q: So, what should I do with TLT, ZROZ, and TMF?

A: Hold them until the crap hits the fan and the economy is at the worst of its downturn; that's when they'll shine the most as the longest-term safe-haven bonds. TLT could close to double. If so, then sell them. These are NOT to be held into the next boom, just into the crisis, which likely will go into mid- to late 2024 or possibly longer. These safe-haven long-term bonds will peak when there is "blood in the streets," as in late 2008 (last time). And that was just a few months before stocks finally bottomed.

Q: I was under the impression that Bitcoin is rising because there is some speculation about an ETF being created for it. A Bitcoin-specific reason for the bounce would change the historical correlations of Bitcoin with other indicators, which you are using.

A: In my view, this is just a short-term boost. This would be expected to happen at some point with something as big as Bitcoin. In fact, I would see it as a catalyst for the bounce peak in Bitcoin and the second and final stage of the larger crash between late 2021 and 2024.

Q: I love the ZROZ play and own 5,000 shares, with a lot of cash being held once the direction of interest rates becomes known. ZROZ is a pure interest rate play, and it goes UP when interest rates go DOWN.

I am also playing your prediction of the "crash of a lifetime" by shortening several indexes through inverse ETFs. However, the market is UP when interest rates are going DOWN, causing the ETFs to lose value. How do I win on both sides of this transaction? What is going to cause these inverse ETFs to crash without interest rates rising? Will it be (1) a valuation collapse, (2) an earnings collapse, (3) a recession, (4) a war, etc.?

A: In a downturn, stocks generally will go down and safe-haven Treasury bonds will go up in the opposite direction. That's why we are positioned in

long T-bonds like TLT and short stocks like PSQ. They don't always move perfectly opposite in the short term.

When the everything bubble burst, there are few profitable plays, and being short in stocks and long in bonds will give you some diversification. I prefer to be more short in stocks in the first 60% to 70% of the crash and more long in T-bonds in the latter part, as the T-bonds really explode when everything crashes toward the final lows. We're about two-thirds through an expected overall crash from November 2021 into mid- to late 2024, but the expectation of Fed support is holding the markets close to the highs. Hence, I still favor being more short in stocks now (PSQ, etc.) and switching more toward long T-bonds (TLT, etc.) in early to mid-2024.

Q: Do you think we will still get a big dip in Bitcoin with halving coming up next year and potential ETF approvals?

A: This 4-year cycle is unique in that this is now the third such cycle within a larger, 12-year cycle. Normally, the 4-year cycle would have bottomed in late 2022, but this 12-year cycle should have a longer, deeper correction. My preferred scenario is that we've seen an A wave down, are in a B-wave bounce that is nearly over, and will have a final C wave down to as low as the late 2018 low of 3,250 in time for the next four-year surge into late 2025. What is clearest about the four-year cycle is that it ends up making most of its gains in one year, like in 2017 and 2021 or in 2025 to come. It's possible we saw the low at 15,599 in late 2022, but I don't think so. But I will be buying sometime in mid- to late 2024 for that 2025 rebound.

Q: Have you any prediction on the potential fall in Australian house prices and duration of decline?

A: I see U.S. home prices peaking between fourth quarter 2022 and fourth quarter 2023. Last time, it took six years to bottom and turn up again. It's harder to tell this time, but I see this as a long-term top not to be exceeded for decades, if then.

Australia has better long-term trends, but I see this as a global long-term top as well. Hence, Australian home prices likely will come back a bit faster

but still will not see new highs for a long time. I don't think U.S. and European housing prices will hit new highs again in our lifetimes!

Q: Wall Street and its pundits have been fighting the Fed every step of the way, and as a result their stock price-to-earnings ratios are not factoring in a recession or depression. The market appears to be doing the opposite of what it's trying to accomplish, which is to extinguish the inflation story so rates can resolve themselves lower. However, with equities rallying harder to the upside (with the help of short covering and buybacks) and a heavier weighting given to particular tech stocks, this loosening-inducing action only portends more inflation at some point, which is the opposite of what the Fed wants. How do you see the Fed dealing with this dilemma?

A: The Fed has created this dilemma and is finally a victim of it. They have been running an economy suffering from slowing demographics and record-high debt levels since 2008 on unprecedented money printing, over $8T cumulative, plus record cumulative fiscal deficits since 2008 of $19T. That's $27T total over 16 years, or an average of $1.7T per year of stimulus on average GDP of $19T per year for an average stimulus, or 9% vs. 2.23% average nominal GDP growth… That's a BAD DEAL! We should have been growing much faster, which only proves how they primarily just covered over the "Great Depression of 2008-2023" that I forewarned about all the way back in the late 1980s.

The weight of that will be felt in the Millennial boom from around 2025 into 2037, unless we go through a big debt detox—and that's what I see in 2024-2025. It's long overdue!

Q: I would like more direction. If we are expecting this much upside, what is your confidence and timing of a short-term move up? Should I close my shorts and sit? Should I reverse my position? The point is, if we're going to head in an entirely different direction, could you please provide more information as to what you think the path is so we can try and extricate ourselves from this nightmare?

A: I do think the odds are more than average that we will see a brief, final move up. By selling, you would also be able to lock in a loss for tax purposes in 2023. Then you could get short again if the Russell hits near that 2,000

mark. But this final move should be brief and may not even occur. It's possible that Bitcoin's bounce has finally peaked just over $38,000, and stocks could follow within two weeks. So, I think overall it's too late to jump out and back in, unless you want a tax loss for what you are down to date. But don't dally; 2024 is the year we should see the second stage of this crash, which started in late 2021, emerge, and it should be harder and stronger.

I'm sorry this has been such a difficult topping process. I'm calling this the bubble that just keeps going. But it's clear that this second and totally artificial bubble has not burst yet—and bubbles always burst. Hence, 2024 is very likely to be the worst year for stocks. If not, then all predictability and cycles are gone until this bubble finally does break and the central banks lose credibility and stop manipulating the free-market system, which obviously is no longer free!

Q: For years, TLT has been pitched as a good safe haven and I have wanted to play it safe. During this time, I've gone down around 50%. Is TLT still something safe? Looking at today's political situation and the direction our dollar is going, is getting more TLT a good idea or not?

A: TLT has done poorly because the massive stimulus over COVID stoked inflation to 9.1%. That forced tightening. Inflation has fallen to around 4% and should keep falling. That will benefit TLT, which I think has already bottomed at $82.45. These are among the safest bonds in the world, and the U.S. will not and cannot default on them. If they can print money to stimulate the economy, they can print money to pay their bonds. The likely scenario is that 550 bps in tightening will cause a recession next year, and that's when TLT will soar, as it did in 2008. It's unfortunate that events have gone his far, but the Fed is trapped now and has to slow the economy further. Look back at 2008. TLT will edge up like now in a recession scenario but really surge when it's at its worst and everything else is down. It is the safe haven… we're just not quite there yet. The U.S. dollar will surge with it, but only into the crisis, again as into late 2008.

Harry

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