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

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: For those who want to get back into TLT/ZROZ, what is the likely set of patterns ahead? When the markets turn, will those also go down again? When the Fed finally tightens again, will they go up? We don't seem to have good guideposts for how to play the reentry. That is what I am looking for.

A: The pattern is simple: TLT tends to edge upward (as recently), as it sees the economy slowing toward recession. It goes up faster the more we move into recession, as that means falling inflation and lower long-term, risk-free interest rates (while riskier muni and corporate rates rise with higher default risk). The fireworks start with TLT exploding up when the economy tanks hardest. That's what happened in just a few months in late 2008 last time. That's when you start selling the T-bonds and TLT and look to start buying Bitcoin and then stocks on a few months' lag.

Q: How do we cycle a broken global monetary system driven by fiscal spending that doesn't coordinate with the monetary side at the whim of the changing political parties? Is the decline just inevitable, or is there a ripcord?

A: The crash is the cure. It will eliminate the bubble forever, it will knock out the limping zombie companies, it will force restructuring or elimination of massive amounts of unproductive debts, and it will lower prices further for consumers, especially housing, the costs of which are killing the younger households.

By trying to prevent a recession, central banks are retarding economic progress. It just shows they don't understand free market capitalism. It's not just freedom to innovate for success, it's the quick elimination of failures! Recessions are just as essential as booms. They are like sleeping to waking… and are about the same ratio of time, 30/70.

Q: It seems like the strategy to get back into these bonds needs to change. Many of us listened to the advice to get in early, and then they dropped to the point that we got back out. As you later mentioned, the market doesn't think the Fed has moved strongly enough yet to combat inflation. So, these continued to dive until recently, when it looks like there was a bottom.

Now they have been moving in the same direction as equities for many weeks. What will happen to bonds when the Fed DOES panic and decides to cut rates again? If that temporarily boosts markets, will bonds go down or up? It feels like we are missing the actual mechanics of the pattern here. Clearly, we do not seem to be getting the expected opposition movement right now of stocks down/bonds up and vice-versa.

A: There is simply no precedent for this massive overmanipulation of the markets and the economy. Hence, there is no crystal-clear strategy. It's safest just to be in cash/T-bills, wait for the crash to work out, and then reinvest in normal equities and portfolios.

My view is that the lower low in TLT was just the smart money flushing investors out, creating an even better buy opportunity for the safe havens, Treasury bonds and TLT… And remember, that is just a short-term crash hedge, not a long-term position. At the worst of the crash, likely by late 2024 and maybe into early 2025, it will be time to sell those Treasury bonds and start buying stocks and corporate bonds again. I will put out an alert in the future when I think that is actually about to happen.

Q: Media reports say that we're going into world chaos and disaster converting from dollars to digital currency, yet don't see much from elected officials. So, *they* know and are preparing and *we* aren't! Where will the "safe havens" go?

A: I do not see world chaos from going to digital currencies, it's only natural. There will be some winners and losers along the way. The truth is that we need a more neutral, global system, instead of the crazy, volatile currency exchange rates we've had since the Bretton Woods system in 1944. I do see Bitcoin eventually emerging as the global standard for a new global system of digital currencies. It then literally will become the digital gold and replace the previous gold standard from back in the more material world with one for the new, more-informational/digital world. Bitcoin is more suited and expandable for that.

Gold is growing in supply at about 1% a year, while the global economy is growing 5%+. This will take the next two decades or so to more fully materialize; it's not going to happen overnight! I think Bitcoin could end up worth $500K to $1M, or by my best projection to around $780,000 by 2037-2040. But it could first fall back to its late 2019-2020 lows of $3,250-$4,208 in 2024+ if we get the big downturn and debt crisis I expect. As it grows in value and matures, it also will become less volatile and more acceptable. Thus, in the future, gold will be left more to the people who appreciate it most for jewelry and show of wealth: the Indians, who ultimately will surpass China and perhaps even the U.S. later on to become the largest economy in the world.

Q: Long-term U.S. Treasury bonds: are they really as safe as we have been led to believe, when Congress is oblivious to the facts that their out-of-control spending and growing debt could put the U.S. into a sovereign debt crisis? Yes, more currency and more Treasuries could be created out of thin air, but that comes with the risk of an Argentina-like situation of destroying the value of the monetary system, does it not? Could this be the time when the "everything" bubble you propose finally means "everything," including the popping of the full faith and credit of the U.S. and its phony bond scheme, leaving Treasuries worthless?

A: **Yes, they are, especially in a crisis as in late 2008. I call us the best house in a bad neighborhood. All major countries have historic debt and welfare programs and government deficits. Almost all are in worse shape than us, and we are the most-affluent larger country in the world.**

But the bottom line is that what the U.S. government (and most others) have is the ability to print money. If they can print money or issue endless bonds to pay their nonstop deficits, they can print money to pay the interest and principal on their bonds. Even AAA-rated large corporations can't just print money, and it would be very costly to issue stocks or bonds to pay off their bonds if they were already in financial trouble. The reason Treasury bonds have lower rates than even AAA corporates is that they are considered risk-free: there's no way they won't be paid off.

The bottom line again is the U.S. issues so much debt that they can't ever afford to default on even a few short-term interest payments, as that would cause the interest rate to go up… and we already pay more in interest on our bonds than our entire military budget!

So, don't worry about the U.S. missing bond payments… unless the Martians attack!

Q: The news mentioned that the Indian stock markets continue to power to new highs and that India will be the third-largest economy by 2030. With their growing population and working middle class, will their stock markets be shielded from the impending global stock market crashes?

A: Markets are always forward-looking, and whatever goes up the most tends to go down the most when things crash. This is an everything bubble, and everything will tend to burst. But in the end, India should go down less than more-bubbly emerging markets like China, and it should definitely do better down the road, given its way better demographics. But do not expect Indian stocks to be a safe haven, just a leader in the next boom.

Q: With additional qualitative easing, will your time frame of the coming crisis change? GDP is up to 8.7% due to an increase in spending of 18% over last year. Money is flooding into the markets, devaluing the dollar. What impact does this have on your analysis?

A: The problem with all bubbles is that they go until they blow, regardless of the reasons. There is just this mystical point at which they just get… too extreme. Every bubble will burst, but it's always hard to predict when. Looking at the pattern is the best way, and that is intuitive, and not precise.

People give many reasons for this bubble to keep going. I'm not going to be influenced much by this one. Institutional investors are a big factor in keeping the housing bubble going, but they are the first ones to sell when the momentum slows, as they are not emotionally attached. And that could shift any time now. Stocks look like they are in the process of a double top in this time frame, with major divergences like the small cap Russell 2000 not following. That is a sign of a major top.

Q: All of our wealth is in a 401k... which has limited options. Do you discuss this anywhere? Like what 401k options might survive?

A: There are two options: (1) the longest-term A+ rated corporate and/or Treasury bonds (or bond funds, if those are not available and (2) T-bills or money market funds. The difference is that the safest ones, long-term corporate bonds and long-term Treasuries, will appreciate during the crisis, in addition to paying interest.

Q: What are the odds of a failed T-bill auction? And what happens to the dealers? Will the Fed print money to keep them solvent? And if that scenario occurs, wouldn't there be an international banking crisis going on at the same time?

A: I don't see a big chance of the T-bill auction failing significantly. We're still the largest and most-liquid market and the best house in a bad neighborhood that also includes Europe, Japan, and China… China is the worst, and they are showing economic stress first, as they should. Remember that as in late 2008, U.S. Treasury bonds were the safe haven, not gold. The longest-term ones will appreciate the most.

Q: When the long-predicted crash arrives, are there anticipated corollary stock impacts (e.g., oil or gold moving up or down)?

A: The typical scenario is that Treasury bonds will start to rise first (TLT likely bottomed in mid-October) and peak near the worst of the downturn, and then stocks will start crashing (now or very early next year) and bottom after bonds peak and just before the recession ends. Gold will still tend to trickle up in the early stages of the recession (likely into mid-2024 or so) and then crash about 50% into the worst of it (like late 2008), and oil will go down pretty much parallel with stocks and recover similarly—but oil can be more irregular, depending on events in the Middle East, etc.

Q: With the Christmas rally currently in play and SQQQ coming down some more, what is your outlook on buying SQQQ in preparation for market turndown?

A: This is coming down to the wire. SQQQ looks like it is near a bottom, as stocks are increasingly closing in on the highs from early 2020, with the QQQ already at slight new highs. I think it makes sense to phase into this between now and late January. That's the likely window for this long-term top. Put a minority in now and more if the first week of January is flat-to-down. If January looks to be down later in the month, then look to put the rest in by month's end. Conversely, I would be more cautious and wait to see if January is stronger and the first week is not down. I'd be more cautious still if January ends up.

Q: With 2024 being an election year, the choices notwithstanding, why won't the savants in the incumbent party pull out all of the stops to keep the bubble inflated until after the election?

A: They will. But they've been in a strong tightening mode after being too stimulative after COVID. The Fed will look too rash if they suddenly go back to easing… So, they'll probably wait a bit too long to react, and the downside should have a lot of momentum after the longest period without a real recession (not counting the brief COVID shock) of 14 years now. I think the trap has finally been set for the Fed!

Harry

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