Harry's Take

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Page 4 of e-letter revised February 27, 2024, to correct misstated 2021 Bitcoin high to "around $68,700."

Reader Mailbag: Questions and Harry's Answers on Cryptos, Currencies, and Gold

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: How is cryptocurrency going to do during the crash? Do you think it would be a good time to invest in this as a safety net to save an IRA account?

A: Bitcoin and cryptocurrencies are NOT safe havens like Treasury bonds. Even gold isn't a safe haven unless we get runaway inflation, which is not at all likely in a slowdown ahead with massive tightening. Crypto, biotech, and AI are more the "next big things," i.e., risk assets. Hence, they will bubble big and then crash big. And we're at the point where a crash is most likely (as a result of their early stage baby bubbles) before the next bull run in risk assets from around 2025 into 2037.

Q: I was thinking of investing in an index fund for India, given their demographic trends and the manufacturing trends probably moving from China, possibly to India. This would be a long-term investment. Am I way too early, given India's lack of infrastructure, or do you think it's a good idea? This would be in the international index part of my portfolio.

A: No, it's a great idea. It's just too early, because we are likely to get a final global stock crash first. Once that happens, likely between now and 2025, it would be a great time to buy a good India fund; it would be like buying a China fund in late 1982.

Q: You have mentioned many times recently that when things crash, many things would go down but you expect the U.S. dollar, TLT, and other U.S. Treasures to go up. I own TLTs and thought it wouldn't hurt to get some money into the U.S. dollar. But I don't see an easy way to buy the dollar similar to buying TLT, ZROZ, etc. Is there an easy way to put some money into the U.S. dollar that isn't a future that might expire on you so you'd have to rebuy or end up out of it over the next, say, three to six months? I'd rather get a position and just wait during this next three to nine months, because something has to give, sooner or later. I can't believe this will drag on for another two years before there is a crash.

A: Invesco DB US Dollar Index Trust (UUP) is a U.S. dollar fund you can buy. However, TLT is a stronger play on deflation. Adding UUP will give you some diversification, but it will tend to bring down your returns a bit if we go into a deflationary crash.

Q: What if all of this tremendous Fed and fiscal-based stimulus has indeed irreparably corrupted the normal cycles and trends you cover, to the extent that there are no clear signals anymore? It seems your prognostications just keep getting pushed further down the road, which leads to diminishing confidence on our end that you are truly on top of this unprecedented financial time in our country's history. Not to blame you, necessarily, but unless we adjust our thinking to the new paradigm of extreme government intervention, then we are doomed to just keep kicking the can down the road until eventually something breaks.

Meanwhile, so many people who have been listening and following advice based on old, previously non-distorted rules and cycles slowly bleed to death financially with misallocation of investments based on your direction and advice, waiting for the eventual disaster that comes way too late, after several bull runs in both equities and bonds, which wipe them out on the way to our eventual Armageddon… or stagnation, like Japan for the last 30 years.

All this financial chicanery is hard to keep ahead of, but at some point, we all need to get out of the normalcy biases that things *should* follow a set pattern that has indeed been tremendously corrupted or we may be doomed to financial ruin even though we are on the “correct” road.

A: Yes, $27 trillion in combined fiscal and monetary stimulus since 2008 has totally trumped the natural cycles, which were mostly negative between 2008 and 2022-2023 (like in 1930-1942), as I forecast back in the mid-1980s. The next natural generational boom should go from 2024 into late 2037, but we have more debt in all sectors and more zombie companies than ever. Not cleaning out the old will weigh on this next boom, likely heavily.

Either the current slowdown will turn into a more serious financial asset crash and deep recession into 2024-2025 or we will limp into the Millennial boom. The crash and financial asset reset are what the economy would choose. Hence, we have a war between the free markets, which have made us 10X richer since 1900, and the central banks, which want to avoid a recession at all costs. I’m rooting for the free markets, obviously!

If we finally have a nasty crash and debt shakeout into 2025 or so, we will have a strong recovery and stock rally into 2037. If not, we’ll have a compromised boom that’s much harder to gauge, adapt to, and profit from.

Q: I watched a video about GDP that said GDP per capita is more important than GDP in a country with waning demographics. The guy says Japan's poor demographics are a poor indicator of forecasting a country's standard of living. It sounds like he is treading on your field of expertise. I’m very interested in your thoughts.

A: Maturing countries (from Japan to Italy) can have both slowing demographic growth and a high standard of living. It just means their overall growth will continue to slow or go negative. It is, after all, affluence that drives down the birth rate: with affluence, households want to have fewer kids and educate them better. Japan and South Korea are leading the trend of slowly dying countries. Greece is the worst example, with demographic shrinkage and a rapidly falling standard of living. The U.S. and

U.K. are examples of countries that will move more sideways in the coming decades.

Q: With a BTC halving in April cutting supply and ETF and institutional demand increasing, why are you predicting BTC will decline to as low as $3,250 by the end of 2024?

A: This is up in the air, as Bitcoin recently made an important break above resistance around $48,000 to near $57,000. Normally, the crash after the late 2021 high would have been deeper, but it looks more likely have bottomed at $15,599 in late 2022. And we have a bigger pattern now. The 2021 top forms a fifth-wave top of a larger, early stage-one wave over 12 years, with the third-wave top in 2017 and first-wave top in 2013. Hence, this recent crash forms a larger second wave down into late 2022, which now could have bottomed. If a new low is yet to come, it should happen by late 2024, but it is more likely we may just retest $15,599, if stocks and Bitcoin crash into 2024 to early 2025 or so. If not, Bitcoin could just march up to a new all-time high into late 2025 rather than making a new low or retesting $15,599 or going lower first. That new high could be in the $140K to $150K range, instead of merely retesting the 2021 high around $68,700. Bitcoin continues to be my leading indicator for stocks, and I will be updating trends on it ahead. This surprising new high has created a wider variety of scenarios for now.

Stocks also look ready to crash again after the 2022 crash and big 2023 rebound into early 2024, with some major divergences, especially with the Russell 2000 small cap stocks. That would be consistent with a pullback in Bitcoin in 2024 followed by a rally toward the old high or, more likely, new highs into late 2025, as covered above. I obviously will be commenting on this ahead… but it doesn't get much more confusing than this near term.

Q: Do you believe there should be any central banking and central money creation, or should money be all independent and should money supply just be random or digitally increasing like Bitcoin? This reality and application seem to be running the cyclical show. Gold might be back somehow soon, but it's not a perfect money supply, either.

A: The money supply should NOT be manipulated to stimulate the economy, except temporarily in short-term extreme circumstances, as the tendency is always to overstimulate. I think one round of a trillion dollars would have been appropriate in 2009 to keep the recession from getting out of hand, but that's it. Let the economy sort things out and restructure bad debts on its own.

The best government stimulus actually would be to reward banks who write down bad loans, with the government perhaps taking something like 30% of the hit. That would accelerate debt restructuring rather than preventing it. The money supply ultimately should be independent and grow naturally with transactions, like Bitcoin. I see Bitcoin becoming the new digital gold standard as its value increases enough that it could replace the old gold standard, likely by 2037-2040. A major crash ahead should demonstrate that we need a standard again and money printing should be for emergencies, not as an ongoing stimulus policy to force the economy to grow to meet the government's needs. (The present stimulus has now been going on 15 years.) Free market economics was founded on the principle of the "invisible hand," the idea that the markets are better at guiding the economy than from-the-top-down government policies.

Q: I think I am hearing a recent change in your thoughts. Please correct me if I am wrong. Are you saying that the markets could take until 2025 to crash? A few months ago, you indicated that if we did not see the market start to turn downward by mid-year, you might need to readjust your thinking. Are you saying the markets could continue to go up or sideways until 2025? If this happens, would TLT stay flat or do you think it will start to move slowly upward?

A: That is only the alternative scenario if the central banks can hold off a crash in the coming months, which is unlikely after the extreme tightening. The truth is that we won't know until around early 2025 how hard the tightening from March 2022 through July 2023 and still holding will hit. My preferred (and the most likely) scenario is that we will get a big third wave down in 2024 that ends up being the second largest one-year crash in history and at least retests the March 2020 COVID lows. After that, the economy would bottom with a fifth wave down into 2025. Bitcoin is still the best short-term leading indicator, and it has been heading up recently; that

says stocks aren't ready to crash again yet. If Bitcoin does reverse sharply (after its recent, surprising move toward $57,000), then we can expect stocks to follow, which could lead things rapidly back to the 2020 COVID lows, down near 60% for stocks. Such an occurrence should cause consumers and investors to lose faith in the Fed and central banks.

I see two scenarios now. The first is a long trading range between 16,000 and 10,000 on the Nasdaq, perhaps all the way into the Millennial boom peak in 2037. The second is a break below 10,000 and a deeper, third-wave crash into late 2024 or early 2025, along with a crash of 80%+ in stocks, ultimately into 2025. That makes 2024 the key year for the economy. I'll have more on that in the March 2024 issue of the *HS Dent Forecast*.

Q: Since we've hit a new all-time high, could that mean that the two-year-old January peak has been superseded and we're now expecting the *real* wave one to begin when this blowoff ends?

A: Good question. I see the fact that only a few of the largest-cap indices have made new highs instead creates a divergence that suggests a long-term top. It would take a rally of 22%+ for the Russell 2000 to erase this major divergence, and that is not likely. At this point, most indices will be falling from that late 2021 top. The few that made slight new highs may have three wave declines instead of five or could just have a slightly different five-wave pattern.

This will change if more indices hit new highs ahead and the actual long-term top ends up being early 2024 instead of late 2021. With 525 bps in tightening still to hit into early 2025, such new highs on the Russell 2000 seem very unlikely.

Q: Please comment on the jobs report that came out February 2, 2024, and the S&P 500 hitting a new record, along with huge increases in some tech stocks, principally Meta. Are we in a situation where this market is just going to continue with these increases, even though interest rates are at their highest in many years? Is some of the buying in the stock market on margin or is it all in cash?

A: I don't understand it, either. This economy and stocks have been stretched way beyond where they should be, but that does create momentum that keeps investors and businesses bullish until something goes wrong. The one thing investors globally are convinced of is that the central banks will fight a recession at all costs. It's just a question of whether the economy gets ahead of them while they are in tightening mode in reaction to their own overstimulus in the wake of COVID. This could lead to enough downside momentum to turn business and consumer sentiment negative, and the central banks could fail to keep the downturn under control.

Also, a lot of businesses don't feel the higher rates until they have to roll over their debts. The clearest thing is that we won't feel the fuller impact of this massive, 525-bps tightening until late 2024 to early 2025 (due to a one- to 1.5-year lag on the full results of that tightening). Hence, I recommend being in long-term Treasury bonds or cash until that happens or until economic and market trends become clearer. Never before have central banks and governments so muddied the water on markets. We basically have thrown free market capitalism out the window with this new policy of treating recessions as the ultimate enemy instead of the natural cleansing process it always has been.

Q: I think I remember at one time you said one of the paths out of the next big downturn could be debt destruction. Do you think this would also apply to U.S. Treasury bonds? If my memory is accurate, how would that affect things like TLT?

A: In the worst of a downturn, Treasury bonds become the safe haven and even gold fails, as in the second half of 2008. If the government can print money to stimulate the economy, they can print to pay their bonds; hence, there's NO default risk unless the world ends. That's why T-bonds are the safe haven. Treasuries went up by nearly 50% in late 2008 and could double into late 2024 to early 2025 or so this time! Waning industrial demand for gold could lead it to fall by 50% or so, still less than stocks and most other commodities.

Harry

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