Harry's Take

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Reader Mailbag: Questions and Harry's Answers on TLT, Bonds, and the Spending Wave

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: I bought ZROZ in December 2022 at $130 per share. I've lost almost half my investment. I feel I can't sell because there's no place to go. I've been thinking lately I should sell ZROZ and buy TLT. It hasn't fallen as far as ZROZ. But primarily, I can take the loss from ZROZ for tax purposes and TLT should go up in a recession as well. I'm just wondering what I should do?

A: I would hold ZROZ, as it will go up about 1.6X TLT when this inevitable trend finally reverses. T-bonds have already gone down a lot—the most ever. We should get the biggest move up in history when we finally have the long-overdue recession and deflation… Don't give up now! The markets are trying to scare everyone out before a move of epic historic proportions. You will feel like the biggest idiot on earth if you sell out now, and you will not be alone. Give it until the end of this year, and then stay with it well into next year once the markets turn. This will be like the move from late 2018 to late 2020, except 2X greater (or more). I still have a target of 186+ on TLT, likely by the end of 2025. In 2020, we got a short recession; the coming one will be deeper and longer… And again, we've gone the longest time without a recession EVER! It's exactly NOT the time to sell ZROZ.

Q: I'm all in on your current recommendations to short the market and go long in ZROZ or TLT. Jamie Dimon and others talk of 8% interest rates; that much of a move would be unbelievably painful, as the Treasury investment values would tumble to a fraction of what was paid when you recommended these assets. What are your thoughts? The stock play should be profitable with higher interest rates, but the ZROZ losses will consume all those profits and more! Should I accept my current losses in ZROZ and go to the sidelines until a trend is established in the future?

A: This is a rare case in which the bond markets don't think the largest rate hike in 40 years is enough. I think the equally strong stimulus we just got is taking longer to wear off, and this tightening will be felt pretty soon. Normally, TLT would start to rise in the face of a recession before stocks react to the recession and start to decline. So, this is a tough one. If TLT cannot bounce strongly soon off the 87-88 level, then it could pay to get out and look for a retest of lows or slight new lows to rebuy. I don't understand the markets thinking the Fed will tolerate not coming down to 2% inflation.

Another strategy is to short stocks instead here and move more into TLT as the recession deepens, as the greatest gains are made in the worst of the recession, like in the second half of 2008.

Q: How low do you think TLT will go, given April ISM data? I know this is all coming down, but I wondered what were your thoughts and what your charts tell you about how low TLT can go.

A: This is a tough one, as TLT is primed to make a major move up, as happened in 2019-2020, given that we are the most overdue ever for a recession. But the smart money is going to fake us out otherwise as long as they can. In the short term, it's a cruel world because of the smart money, and artificially low rates just allow the smart money to borrow more, and cheaply, to beat everyone else up with, which is another reason I want to see market-based rates again. I do think 82.42 was a major bottom, but TLT could retest 87.

Just remember that another recession (and again, a recession is the most overdue than at any time in history) should create a new high well over 173, as occurred back in 2020. If so, that will be the greatest short-term bull

market ever, both past and likely future. That's what makes it NOT a layup. The smart money knows this. And pardon my French as I use a four-letter word here: they are EVIL. They don't trade the markets. They trade against the rest of us! As soon as they scare everyone out, they will buy aggressively again. This is precisely why most investors are not good short-term traders and shouldn't be.

Q: I am a long-time member of the suite of Harry Dent's publications (and those of Rodney Johnson and John Del Vecchio), and I am a huge fan. I have several questions.

1. A major premise of your financial modeling is the Spending Wave theory. But we have been waiting an extraordinary amount of time for this epic crash. One reason why we may not see the epic crash—and alternatively experience the plateau that Japan experienced for decades—is that the Spending Wave theory does not apply today because many adults who are past their peak spending age (for example, over age 75) are merely spoiling their kids (who are ages 30-40) and giving them money to spend on large items. This may not be apparent in many parts of the country, but I observe it throughout New York, California, and Florida, among other states. I myself do not have that luxury, nor do I want it. An example is that every time that I make an offer on a house in New York, I am competing with 30- to 40-year-olds who got the money from their 70- to 80-plus-year-old wealthy parents. Doesn't this make relatively less relevant the Spending Wave theory? Has your team analyzed how the passing down of generational wealth to adults from their wealthy parents—thus making those younger adults peak spenders outside of the typical age—render the Spending Wave theory less relevant? Given the extraordinary amassing of wealth among the super wealthy over the past decade or so, it would be logical for them to have enough money to pass down to their children and disrupt the normal operation of the theory, seemingly delaying the epic crash for decades.

2. How are TLT and ZROZ safe investments? The basis of my investments in them seems to vary each week, similar to other ETFs and stocks. Are they safe because as long as we hold TLT and ZROZ, they give out guaranteed dividends that would never cease? Thus, as long as we hold

them for 30 years or so, no matter whether the principal values go down, we would receive enough guaranteed dividends to have them be paid back? I am confused as to how these ETFs are safe investments themselves, despite having volatile values, with the understanding that the underlying assets are safe investments.

3. I am as much of a believer as any value investor in the key concept that "this too will pass." In other words, I believe that all markets (and people who invest in them) behave the same over time and recessions follow booms. Thus, we should experience a recession. But it's been delayed an extraordinary amount of time. And crazily enough, the Elliott Wave patterns that should be indicating an epic crash are starting not to support it because we are experiencing new highs. Could it be that over decades of trying it, with such brilliant minds at play in the Fed, etc., and with them having enough practice, they finally learned how to soften the blow of a due recession? Like all innovative breakthroughs, could we be living in a time that the breakthrough is that the Fed figured out how to soften the blow?

4. The target date for determining whether we will see an epic crash versus the plateau that Japan experienced for decades seems to keep on being pushed back. The final threshold before making this decision should be the typical 12-18 month lag on the economy showing the havoc from the Fed's tightening. You had mentioned that the results from tightening should be experienced by early 2025. Should the deadline to reassess whether we will experience the epic crash really be early 2025? After this lag from the Fed's tightening manifesting in the economy, if that does not do it, there just doesn't seem to be much else to trigger this epic crash. Is there anything that we are missing?

A: Here's a relatively short answer to a long set of questions. The long-term downturn of the Spending Wave after 2007 IS the reason we've gotten $27T in stimulus since 2008. That's over 1.5 times GDP. This has never even remotely happened before. Call that the price of offsetting a 15-year slowdown or Great Depression. So, the Spending Wave is not faulty, it's just that now we must deal with markets and an economy "on crack." We cannot simply follow the Spending Wave when for the first time central banks have figured out they can counter downturns. Now, I have to figure in the

consequences and lags for these policies, which makes forecasting more complex. It's likely we won't see as much of a Millennial boom, because we borrowed from the future through $27T in stimulus to offset the longer downturn that naturally would have happened. The Millennials already don't tend to like Boomers. Now, they are going to have good reason to really hate them. But the fault is that the central bankers have prevented necessary and healthy debt restructuring, which has created massively more debt. That kicks a giant can down the road for the Millennials. The biggest beneficiaries are the Gen Xers, who did not have to raise their families in the "Great Depression of 2008-2023" that should have happened.

The best thing that could happen now is a deep, two-or-so-year crash and debt detox that brings financial assets back down to reality. That would hurt the Boomers the most, as their nest egg for retirement suddenly would be reduced a lot! The Millennials should be jumping up and down after the worst downturn of our lifetimes, if this happens just ahead…

Yes, I am hoping for this scenario, as it would be the quickest and most thorough solution to the greatest debt and financial asset bubble in history. We need a giant flush, and the sooner the better!

Q: I've been invested in TLT since early September. Do you think it will be making gains anytime soon?

A: TLT does not behave like stocks, which generally go up. It holds 20-year-average Treasury bonds that pay interest. They go up in value if interest rates fall, making them more attractive than newly issued bonds at lower rates. They are a safe-haven play if there is a recession, as they won't default if current rates fall due to lower inflation rates in a recession. I recommend buying them because I expect a deep recession in the next 1.5-2 years or so. But you'll have to be patient until the obvious debt detox and recession becomes more obvious. Investors now trust that the Fed can prevent the crash of the greatest bubble ever that they helped create. The Fed is now trapped. They can't afford the risk of a greater bubble, but they more can't afford the consequences if it bursts. They overstimulated in reaction to COVID and were forced to overtighten into July 2023 by the

sudden 9.1% inflation that overstimulation created. The consequences will be felt fully into early 2025. I think those effects will be worse than expected.

Q: I recently watched you on Fox Business; your thoughts on the future of the stock and bond markets were sobering. The equity side of the interview certainly makes sense at the current valuations. I don't understand the TLT suggestion, with rates and prices affecting its net asset value (acting like an equity ETF).

A: TLT normally goes the opposite direction of stocks, and stocks are long overdue to crash after the longest stimulus program in history. TLT could double or more in the next few years when the economy falls into the inevitable recession that has been put off for 15 years. We've gone the longest in history without a recession. This will not and cannot last! Your best strategy overall is to go long TLT and short stocks.

Q: How does TLT work?

A: TLT holds Treasury bonds of longer-term duration (an average of 20 years). These bonds appreciate when interest rates on them fall due to falling inflation and a slowing economy or recession. A major recession has been prevented against natural trends since early 2009, for 15 years now. Once the recession hits, likely before year-end, we should see the greatest bull market in long-term T-bonds ever, past or future, and in a short period, like two years.

Q: You state that we should be in 30-year Treasuries or the TLT. What about CDs? Are they safe?

A: CDs just pay short-term interest, so they don't appreciate if rates fall. CD safety depends on the quality of the company. I'd just choose the safest 30-year and 10-year Treasuries, especially the 30-years, if you want your wealth to appreciate rather than being preserved if we have a crash and downturn just ahead.

Harry

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