Harry’s Take

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Reader Mailbag: Questions and Harry’s Answers on Real Estate and Weathering the Crash

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: In your June 28 Rant, you mentioned that you would be advising us in 2025 and 2026. I thought the time to buy stocks and real estate investment trusts (REITs) would be after the crash in late 2024. Were you saying that we will probably be waiting until 2025 or 2026 for the largest part of the crash? On another subject: Should I keep my TLT and ZROZ? Do you still feel they will go up in this coming crash?

A: Yes, keep TLT and ZROZ. They will do best at the worst of the crash. And yes, a bubble crash of this magnitude should take two to three years, as happened from late 1929 to mid-1932 and early 2000 to late 2002. TLT and ZROZ also are remaining volatile in this early rebound from what I still see as a likely low at 87.78 on TLT. That's natural. I would like to see support at the 90.70 hold, which is being tested on Monday, July 1. This mailbag e-letter will come out after that date, so we will see.

Q: Since I am a Canadian who owns properties, I have been able to see the change in the real estate market. I believe a good part of the problem lies in the fact that right now we don’t have enough apartments and the like in light of the volume of immigrants that have come to Canada in the past few years.

This keeps driving the rents to higher levels and, therefore, the property prices keep escalating. I honestly don't see a change in the near future, as the country can't really build apartments at the rate it should to flatten prices and bring them down. We saw incentive been deployed by the Canadian government, but they limited impact in the short term and mid-term.

A: Let's agree to disagree. There are always countless arguments for why a bubble won't or can't burst "this time." High prices cure high prices, it's just a matter of when—and this bubble has already lasted 4.5 years longer than it should have. The natural scenario, had we not gotten such massive stimulus to counter it, would have been a deeper downturn from 2008 into mid-2010 or so followed by a final crash and deflation from 2020 into 2022-2023 that retested those lows. Hence, I am betting we are very close to a peak, not years away from one. This should become clearer by early next year, after the tightening has time to hit more fully.

As I comment in the July issue of my *HS Dent Forecast* newsletter, housing purchases are planned farther ahead than most other kinds of purchases. Hence, it takes a while for the people already in motion to buy to do that and move on. I think the housing crash will hit more suddenly once we simply exhaust demand, which has been amplified by super-low rates and stimulus. The early 2006 housing peak hit almost two years before the real recession hit at the beginning of 2008 from a similar exhaustion of demand.

Q: For several years now, you have been recommending moving money to U.S. Treasury bonds as a safe haven from the impending stock and real estate crashes. For decades, T-bonds have been considered risk free. However, things are different now. The federal debt has gone exponential and, more importantly, the debt service costs are starting to go exponential. We are borrowing just to make debt payments. Things that go exponential eventually collapse. The politicians don't seem to have any desire to fix things. You have never addressed the possibility of a debt crisis and the fact that U.S. Treasury bonds may no longer be risk free. Do you still consider them risk free?

A: It's true that debt has gone out of control, especially since COVID. But that has occurred around the world, and the U.S. is still the best house in a bad neighborhood. In the last serious crisis in 2008-2009, the dollar and our T-bonds went up, especially in the worst of the crisis in the second half of

2008. I think they will do that again, but more so. Gold held up at first and then tanked briefly in late 2008, so it doesn't work for me as a safe haven. Stick with TLT and T-bonds for now unless there are clearer signs we are not heading into a slowdown and further falls in inflation. I think inflation is just stalling at 3.3% before we fall into deflation in a recession ahead. If you are still concerned, then the only other options are cash or T-bills. Just preserve your money and reinvest after the crash.

Q: I was wondering if your work with demographics predicted the current debacle for long-term care insurance companies, with people living longer and health-care costs escalating. Consumers now are getting a raw deal, with our long-term care premiums going sky high because of poor actuarial planning several years ago. We're either stuck with escalating premiums to keep our current coverage or being forced to reduce our coverage, reduce premiums, or maintain the same premium with reduced coverage! All prior planning has gone out the window because of poor planning by insurance companies. It's wrecking families' financial lives everywhere! Did the demographics work you do have any ability to predict this?

A: I've been talking forever about the aging of our society, the Western world, and China. It was obvious this was going to happen, but no one is reacting. Social Security and retirement have to be pushed out toward age 72+… All retirement needs to be pushed back. But little or nothing is being changed. Who should to retire at age 63-65, do nothing into his or her late 80s or 90s, and be on the federal dole? Average life expectancy statistics are misleading. The older you are, the longer you tend to live. It looks like we're headed for a train wreck!

Q: Many are talking about the Fed pivoting and are saying this will make the markets continue to soar. Is that true? Enough already! Is it possible to give your subscribers a "NOW!" signal for TLT?

A: TLT is a buy already and is better than sitting in cash. It won't show most of its gains until the economy collapses, but then it will be the best on earth. Shorting stocks here will be more lucrative at first but will be riskier if you're early. I think stocks finally are ready to blow. The central banks have put off for 4.5 years what naturally would have been the final crash and depression between 2020 and 2022-2023. The problem is that the Fed

tends to act too late. I think they are going to go into easing just as we formally go into a recession late this year. Consumers are approaching peak stimulus, and the economy is likely to weaken more and suddenly when they exhaust refinancing or trade-up options and start saving some money, for crying out loud. Rate cuts tend to kick in slower than the rate hikes, and I think they will not make that much of a difference at first.

The truth is that we've never seen a scenario like this, where the Fed overstimulates and then tightens, yet it doesn't seem to work that much at first. We'll have to see, but I'm into the onset of spending exhaustion, something we've never quite seen. How else could the "bubble that never ends" end? And again, we can't judge the 525-bp tightening until it more fully hits by January 2025.

Q: Is this the inflection point you've been looking for to preview the correction coming?

A: Yes, Bitcoin has broken downward badly since June 5. Stocks should follow soon, and they likely just peaked. The longer a dam must hold as the water rises, the greater the burst. I think consumer demand, refinancing, and trade-up home buying have hit total saturation!

Q: We are ready to buy a big home in an expensive suburb in bayside Melbourne, Australia. Although we could well go all in over the coming weeks, I've noticed desperation from agents. I'm inclined to wait and see the year out with everything crossed.

A: This definitely should be a good time to wait. Otherwise, you risk buying at the top of the greatest real estate bubble in history in the second-most-overvalued country. Once prices start falling, they should take at least two to three years to near a bottom, but you may find irresistible deals before that. Make sure your credit is good, as it will be harder to get a mortgage in a downturn. Don't risk feeling like the stupidest person on earth because you bought at the very top of the greatest real estate bubble in history. That feeling can be worse than your loss of net worth.

Q: What is meant by "investor purchases"? Is it that purchases of real estate by investors (encouraged by their apparent market gains)?
That doesn't match other descriptions of the real estate market, which seem strong. Clarification would be helpful.

A: It's really simple. For most of history, households bought homes in hopes that their mortgage payments and property taxes were less than the costs of renting and to build long-term equity as the mortgages got paid off and the houses appreciated. Yet in this era, a higher level of private investors and funds has entered the buying market for long-term investment returns, including rents. That just tends to build bigger bubbles in prices, which means the inevitable bursts will be bigger, as these investors are not attached to the homes and will sell faster when things slow down. The slowdown after the minor slowdown after the 1989 peak was very modest. The slowdown from early 2006 into mid-2012 was painful and resulted in a 34% drop in value for the average home, worse than the 26% fall in the Great Depression. The next drop will be closer to double that and will be the most painful in history by far.

Q: How can we have such a staggering national debt yet have short-term Treasury rates of essentially zero?

A: By buying their own bonds with the money they've printed, our government has been pushing down the rates they pay, as well. They've massively intervened in the economy to get it to do what governments want instead of what the free markets and economy need. About once a decade, that's a good, old-fashioned recession, which is essential for the economy to continue to grow with low interest rates instead of falling into a deep recession and debt detox. The key word is "free," which markets have not been since 2008. The problem with using endless stimulus to avoid a recession is that it creates bubbles like this one (the longest and largest bubble in history). All such bubbles burst, and the bigger the bubble, the bigger the burst. Hence, my best assumption is that the crash of a lifetime is ahead of us. It's too late to stop this, so it's best to get out of the way and be in the safest assets, long-term Treasury bonds, on which the government will not default and which will appreciate in the crisis as the safe haven, as in the 2008 crisis. Or, you can simply stay in cash or T-bills until this monster bubble bursts.

Q: I wanted to learn about demographics, i.e., where we are in the U.S. and each country. What do good and bad demographics look like by age? What current reading would you recommend for me to get a sense of where to invest and of what investments may look like in the next ten to 20 years?

A: The demographic impact is simple. People earn and spend more money until a peak around age 46, moving toward age 47 for the Millennials. It was age 44 for the Bob Hope generation, but only after they entered the workforce at age 20 on average (halfway between high school and college graduation). Countries with a large part of their populations in the age range 20-46, especially if the average age is closer to 20, have more potential ahead. Countries like Japan, where the average age is concentrated more in the 50+ range, do not have growth in their future other than minor productivity gains, and such gains are lower in older age ranges. Japan and China actually will shrink in population for decades ahead! My Spending Wave is the simplest summary indicator: bring the Birth Index, which I adjust for immigration (it's a bit complicated), forward by 46-moving-toward-47 years to see when a country's economy will grow or contract longer term. Demographics for the U.S. and Northern Europe will move more sideways in the decades ahead, while those of East Asia and Southern Europe actually will decline substantially. The few net demographic winners in the developed world are Scandinavia and Oz (Australia and New Zealand). Most of the demographic growth will come from the much-larger, lower-income emerging countries, with 7 billion rising toward 10 billion in population.

Q: I totally agree with you about very soon having the crash of a lifetime. Are you concerned that the state will decide to use our money in the banks to bail out the system? This happened in Cyprus in 2012: they took 20% of all bank deposits to help the system!

A: This is a difficult question with no easy answer. A small country can be forced to do that, as it doesn't have the ability to just print money without killing its currency like a larger one. The U.S. government could continue to print money to make good just on the deposits lost when banks failed, but could choose not do so to make up for losses on investment accounts or on real estate held in banks or elsewhere. This is why I advise having the bare

minimum in bank accounts and in safer banks and putting the rest into your own investment accounts, which the government can't rob or would be very unlikely to rob. The risk there will be major losses from the great crash, and that can be avoided by being in Treasury bonds, which should appreciate as the safe haven, or in T-bills and cash, which will just preserve your wealth safely.

Harry

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