Harry's Take

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Reader Mailbag: Questions and Harry's Answers on Real Estate, Gold and Financial Markets

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: You wrote in your book that China could be one of the catalysts that bursts this bubble. When that elephant falls from the sky do you recommend getting into YANG?

A: China is already leading this bubble burst and our stimulus here does not deal with that. China is having to stimulate now to fend off its growing loan failures, and this is just the beginning of that. The way I see it is that China continues to trigger the global slowdown, while we now switch back from tightening to stimulating again. But again, we can't stop the inevitable breakdown of Chinese real estate which will decimate its economy and export a debt and deflation crisis around the world. Every major country has a debt problem, and governments are the least of it. Consumer, corporate and financial sector debt are 70% or more of the debt. China is the worst with 22% empty houses. They didn't just print money, they printed condos. They won't ever have to build infrastructure again to accommodate the final 15% to 20% rural households that move into cities. How will they grow again, even after barely surviving the biggest debt and real estate crisis in history? The real point is: How can we expect to prevent a downturn if China keeps failing, and it will!

Q: I have just seen a warning about most BDCs that will likely have their dividends cut (from Bryan Perry). Since I am mostly invested in extreme income (bond-like stocks), I have just put in stop limits of 20 to 33 percent down on that category. Plenty of offsetting securities here but not enough to balance out real carnage a la 2000, 2008, and 2020. These are short ETFs, gold, silver, crypto, 30 yr. Zeros.
A: This downturn and debt restructuring has been put off now for over 4 years, after the first crash in 2008 was cut in half and not allowed to restructure much of the debt bubble, and now we have way more 15 years later. It's hard to tell how and exactly when the system breaks, but my view is this crisis is about 1.6X the magnitude of the last one and that saw real estate down 34% on average and stocks 58%. So, how about a 60%+ real estate crash and a 90%+ stock crash. Avoid and survive that by getting out or hedging now, and you can buy almost any financial asset at the bargain of a lifetime a few years from now. If this doesn't start happening by early 2025, I am going to just suggest going neutral instead of short stocks... in cash or long TLT and long-term 10- and 30-year Treasury bonds, 30-year best.

Q: 10 Year rate keeps rising? Any thoughts you can share. Clearly rates are pricing risk costs higher as things degenerate?
A: The Fed has so perverted the economy that it gets harder to predict short term. 525bps rate hike and $1.9 Balance Sheet shrinkage has got to hit this economy more than this. On a 1.5-year lag, it should hit more fully by the end of January next year. I'm waiting until then to judge. Until then assume a slower economy, falling stocks and rising T bonds, or just be in cash until trends do become more clear. Don't stay in stocks unless you have a quick trigger when they start to crash again.

Q: I was wanting to get your opinion on what you think rural land in Australia will do when the financial crisis hits. I am talking about large scale properties, not hobby farms.
A: Everything I look at back 250 years suggests this should be the largest and broadest real estate crash in modern history. Multifamily should fall the least as more people will have to rent. High end urban commercial and residential, will fall the most. And many think that farmland will hold up more like multifamily. But my view is that it's the land that bubbles, as the

structures have clearer replacement costs that will go down somewhat in a major downturn, but not as much. And food prices will fall and hurt profits of farmers and miners, etc. Hence, I think raw land has more downside than most presume - 50%+, and I would lean towards selling now, and looking to rebuy a few years or so down the road, especially in Australia that has more potential in the decades ahead than most developed countries due to its high and continued immigration with higher-income Asians. The best way to make money is to be farming land that becomes much higher-priced urban development land soon from the urban sprawl. I would still wait now to buy that after a major crash in the years ahead.

Q: Can you please elaborate on your comments about how stark western countries' outlook will be, "with the exception of 5 smaller countries," - including Finland, where my wife is from and we still own property?
A: Scandinavia and Oz have the 5 countries where the 46-year lag Spending Wave continues to rise decades ahead - from high immigration rates, and/or birth rates. The U.S. moves sideways into 2037 and then down. Southern Europe and East Asia both move down dramatically. North Europe is more like the U.S., sideways, then down. But the real estate bubble is the longest, broadest and most extreme in modern history, so nowhere to hide except affordable apartment buildings.

Q: What % of the portfolio should be in physical gold or gold coins?
A: I do not recommend gold in the bubble burst I expect. Gold has bubbled similar to stocks. I recommend long term Treasury bonds, especially 30-year, but just to hold during 2-3 year bubble burst, not into the next boom. Then you can buy stocks or gold again. Gold will benefit most from the rise of India, who spend a high percent on gold jewelry, but only after a bubble in everything bursts first, including gold back down to as low as $1,100.

Q: When should people in California start buying a house 2025 or 2026? When do you expect the prices will go down?
A: The last housing crash took 6 years to bottom into 2012, but most of the damage hit by late 2008. I would wait until at least mid-2027, if it starts by early 2025., and it may pay to wait longer. It could be until 2029 or so before the smoke clears. We'll have to see.

Q: Can you give us an update? TLT is drowning.
A: Simple here. This is the biggest potential move in history in TLT. Markets are not going to make it easy or obvious. Governments fighting an inevitable bubble burst with an unprecedented 15.5 year bubble. No risk, no return.
This is the only proven big winner in a deflationary crash like 1929-32 or 2007-2008. You can get out and wait until there's more obvious signs of a recession, and miss a good bit of the gains if it does happen, or just be in cash and avoid the losses of an inevitable bubble burst.
The last big move in TLT was 50% up between 11/2017 and 4/2020, in 17 months. This one could be more like 100% in around 2 years... I say it's worth waiting on!

Q: I am wondering if you could comment on the position of Paul Tudor Jones, as highlighted in a recent CNBC interview (link at the end of this message)

He is specifically avoiding treasuries, especially longer-dated ones, and talks of even shorting this market. As I understand it, this position would be in anticipation of a debt crisis where investors would flee treasuries instead of buying them as a safe haven due to a potential "existential crisis" for the United States. It seems by talking about the U.S. on its way to being "broke" (I agree), massive debt-to-GDP, he supposes that bonds will sell off with equities due to our debt burden. This potentially makes a lot of sense, since servicing U.S. debt is now becoming exponentially harder, with debt service surpassing even defense spending. He says the only solution is to "inflate" our way out of the problem, this I don't quite understand as the market will determine rates as always, not the FOMC. Regardless, is his supposition correct that our current situation could potentially cause a stock AND bond market crash, sending TLT/TMF/ZROZ plunging with the market?

A: Yes, stock and bond crash, except for lowest risk, long-term US T bonds and A-rated corporates. All other bonds will see major default risk... But NOT US Treasuries. Unlike corporate bonds, the US can print money to pay interest and principle - and will to preserve its low-cost financing capacity which goes down further in a deflationary crash like 2007-09, but much greater.

US T bonds lose value if we keep crawling along with low to moderately rising inflation. It will take a recession to wake up T bonds towards my $186+ TLT projection. The markets are not smelling that recession quite yet, but things will change fast when they do: all risk assets down, and safe havens like T bonds up. Gold is acting as risk assets like stocks, not the safe haven ultimately when recession sets in. Why recession when markets don't see it yet: The exhaustion of demand after 15.6 years of $27T+ stimulus!!!
If we don't see that by mid-2025, I will have to reconsider.

Harry

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