Harry's Take

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Reader Mailbag: Questions and Harry's Answers on Bitcoin, TLT and Real Estate

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: Despite having lost quite a bit in ZROZ and missing a lot of the relentless market climb over the past decade, I really appreciate your knowledge and expertise. As a person of modest means, the fear of a major market crash has kept me out of the market, rather than playing the long term, with an S&P fund. At this point with all time market highs, I don't have any intention of getting into an S&P fund, but what really concerns me is the possibility that the market will continue to go sideways for quite a long time, and what to do about that.

The main reason I'm concerned about the market going sideways, as opposed to a major recession, is because it seems like that's what has happened in Japan? It also seems like Japan, and now the U.S., has adopted Modern Money Theory (MMT) and is consequently using inflation/jobs as the main gauge for monetary policy rather than GDP and debt. I know it's still possible for the U.S. and Japan markets to crash, but it seems like MMT is actually working to prevent that, even though the economy itself is not robust. Anyway, would you be willing to talk about the possibility of MMT changing economic cycles, as we know them, which would certainly affect my "crash positioned" portfolio.

A: That is possible except Japan did have a major crash in the early 1990s after their bubble peaked at the end of 1989 that took out the bubble mentality. Even if governments don't allow a major downturn or stock crash, markets are now still very overvalued from the biggest and longest bubble in history since early 2009. Hence, this major bull market has to correct and in a substantial manner, I think back at least to the late 2022 lows and that would be 50%!

My strategy now that markets are so perverted by 16 years of massive stimulus that they have overridden all cycles and logic: I am looking to the next major downturn/correction to see whether we go down more modestly and move more sideways for a long time, or crash sharper than ever and prove that you don't get something for nothing with push-button stimulus.

For example, if stocks were to go down 20% to 30% and then make a new high to follow, then that would say that we are past the "averted depression" and can go ahead as normal again... with the exception that not allowing the economy and markets to fully detox will likely limit our growth in the future.

If we were to correct 50%+ back to the late 2022 lows and not be able to rally anywhere near the present highs in the year or two to follow, then that would suggest that we have more downside and sideways markets ahead for a good while.

The first sign that we are heading a lot lower, longer, would be to have a sharp 40% to 50% crash in 2025 that would be more typical of just the first wave down of a larger bubble burst. Then there would have to be an eventual break below that to show that it is continuing much lower.

For me, I just want a really big crash that brings the markets out of the "plateau of prosperity" halo we are now in, where investors no longer fear a major downturn or consequences for risky monetary and fiscal stimulus. I want to get back to a "real" economy that I and my subscribers can understand. Otherwise, this will likely just end up "a go until we blow" scenario that is very hard to time.

Q: I am retired with two duplexes and Social Security. How will I be affected when the real estate bubble bursts? Will my rents go down along with the property values they offer free and clear?

A: Rents are likely to go down, especially during a likely recession, but not likely as much as prices drop.

This would mean it's a really good time to just sell them and look to rebuy similar properties to rent in future at bargain prices a few years from now. Park your sales profits in 30-year Treasury bonds or TLT etf during the downturn, then sell those at appreciated prices to rebuy real estate again.

Q: When do you think TLT will start to reverse? Everyone thinks inflation and the stock market will head higher. How much lower do you think TLT will go before the wheels come off and people realize they are on the wrong side of the trade?

A: This is really hard to understand. The markets are saying that they don't think the Fed will bring inflation down any further after they have committed fully to the 2% target. The markets also expected a recession by now a year ago. Now they don't see one right when it is more likely. This is the longest the economy has gone without a recession by a long shot. I think that the fact that the Fed tightened so hard and the economy responded so little has the markets stunned... and me too! The real cause of that is the Millennials kicking into their Spending Wave this year - but the markets and Fed don't know that. But even so, I expect the Fed to tighten further if they have to. I guess the markets are waiting for signs of that or signs a recession is starting to form. Or, finally a clearer sign of a recession coming.

I advised investors to consider getting out of TLT and back in later, a while back. At this point it doesn't make sense to get out... this is more when investors should start getting back in - before the Fed surprises with hawkish statements or a further tightening, or we get that first surprising sign of economic weakness.

Q: Last year it was true. So as January goes so goes the year. When do you think this crash may happen?

A: If January ends up down for the month that would increase the chance it has already topped in mid-December and sees its first wave down which

averages 42% in a bubble crash, and is more likely to be on the high side at 50% given the magnitude of this final bubble. This first crash, if it is, should last at least into June and likely into October or November. But there should be two waves after that, likely into early to mid-2027, before it's time to buy long term again.

Q: Lifetime subscriber for many years and crypto investor since 2017, respectfully disagrees that BTC will crash in this 4th yr boom cycle. Especially with Trump guaranteeing the SEC changes ahead. Gensler is gone and just yesterday they established the crypto task force to establish pro crypto regulations. Trump stated that the US will purchase 1 million BTC over next 5 yrs as a reserve stockpile to challenge gold. Much more as well...and I'm sure you are aware as you have your own crypto expert. Just possible the 37 trillion printed since Covid will continue to prolong this historic rise for another year. Also, 2026 will be the crash year historically and maybe then we'll get BTC to lead the sell-off and again.

A: One thing I have learned: Once things get too obvious they tend to change. Your confidence in this cycle now and Michael Terpin's new book on the 4-year cycle means it may be getting too obvious. In this case I think that these first three 4-year cycles are combining to make a larger 12-year 1-wave cycle within a larger 28- to 30-year+ cycle like the Internet from 1993 to 2021/24. Within that, the 2-wave down could take 2 years from late 2024 into late 2026 and still bottom on the 4-year cycle in late 2026. That would also fit cycle-wise. We'll see. A break to new highs in the months ahead would suggest the 4-year top is still in place with a target of about $150,000 in late 2025. Then a crash into late 2026. If we can see a stronger rally forming soon, and a new high to follow anytime this year, then the normal 4-year top should be the outcome. I would not bet on that yet, and a continued fall that is already in place would argue more for the early top this time!

Harry

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