



Harry's Take

February 18, 2025

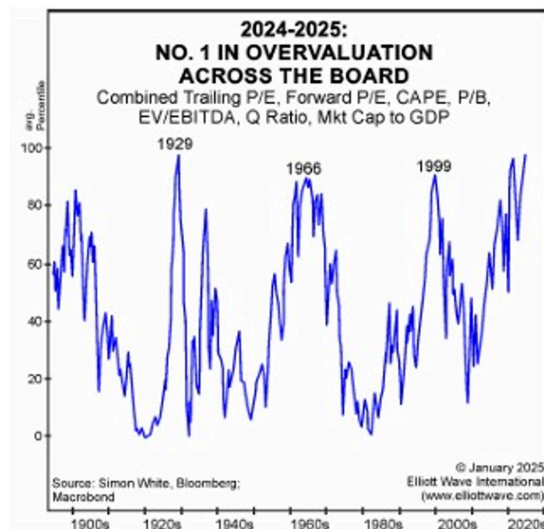
Stocks Now as Overvalued as 1929, Greater Than 1966 or 2000

Investors always get increasingly complacent as stocks keep rising over many years and keep getting more bubbly. In fact, we are in an era when bubbles should be expected: the infamous 90-year cycle. Major bubbles formed into 1835, 1929 and now early 2025. These super bubbles come on average around 90 years apart. And that is two 45-year technology innovation cycles.

Every other 45-year innovation cycle is bubbly just as every other 39-year generation cycle brings both a generation that fosters radical innovations and larger booms, like: the Henry Ford generation with electricity, combustion engines and telephones - and the Roaring 20s bubble; and the Baby Boom generation with microcomputers, iPhones, operating software, and the Internet - and the extended 1995 - 2024 bubble.

In 1929 the 45- and 39- year cycles were more aligned. Not now. The 39-year peaked in late 2007 and the 45-year should have peaked around late 2019.

A Wide Group of Overvaluation Indicators Are Now Near 1929 Levels



Source: <https://www.elliottwave.com/>

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This chart shows that we get overvaluation cycles every 40 – 60 years or so just when most investors feel like the boom will reach a “permanent plateau,” as leading economist in 1929 Irving Fisher famously quoted right before the greatest stock crash in modern history. But note that a combined group of key valuations now are at the same level as 1929, a step greater than in 1966 and the first tech bubble that peaked in early March 2000 (late 1999 in this chart). These indicators include: Trailing P/E, Forward P/E, Shiller CAPE, Price to Book, EV/EBITDA, Q Ratio and Market Cap to GDP.

Back in the 1965-68 peak only the Nifty Fifty stocks exhibited bubbly behavior. Now it’s more widespread, yet still dominated by the Magnificent 7 tech stocks. Back in 1929 the high-tech sector was the auto and electrical appliance industries (like GE and Westinghouse).

The most important and simple insight here? Depressions follow bubble booms, long recessions like the 1970s, follow normal booms like 1942 – 1968. I am expecting a 3-year depression from 2025 into 2027, and maybe longer. But, as only in this era did central banks and governments create the first totally artificial bubble, we will see how they try to minimize the depression. Or hopefully they can’t, and the free markets can rid us of this bubble era for many decades to come.

Get ready for the crash of our lifetimes that few experts or everyday people see coming.

Harry

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

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