Harry's Take

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Reader Mailbag: Questions and Harry's Answers on the Markets, TLT and China

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: With the Fed sticking to their guns and doing nothing, and the long yields on the rise like no end in sight, do you have a new bottom for TLT that sounds the sell alarm?

I also saw that the Treasury may try to get the Capital Rule on US Bonds eased. Would this help reduce yields and see TLT head back up?

A: My inclination on TLT at this point is to see if it holds 82-83 where there is the strongest support. It should at least attempt to try to bounce from here soon.

But bigger picture: When the markets do finally start worrying about a recession again, I think stocks will respond stronger, so I would rather be short stocks (PSQ, or SQQQ triple short with lower allocation) and after the first crash in stocks which should be 40%-50%, I would then switch more to TLT as it does best when the crisis is at its worst. So, you could sell TLT here around 86 recently and buy 1/3 allocation to SQQQ or buy a full allocation of PSQ.

Sorry this has been so difficult. They have pushed the biggest bubble out 5.5 years beyond the 90-year Super Bubble Cycle. This should be crazy on the downside when a 16-year+ bubble bursts.

Q: Can you comment further on the Haver chart: does it strongly indicate the timing of the market collapse?

A: This is just another indicator suggesting a correction ahead. It is not definitive enough today, but it is high enough to warn, and an actual slowdown will only tend to make it go higher yet before it peaks, and that will just make it a stronger warning.

Q: I have been following two junior Canadian companies for a while now, if there is a market crash, when would be the best time to buy in.

A: Stock markets globally and in North America have been stretched 3-4X their valuations without this nonstop and massive stimulus program. There is no good time to buy in until there is a major crash to eradicate this 16-year bubble since March 2009. And such a crash would take 2.5 to 3 years even if it finally started on February 19 for the S&P 500.

Q: I bought TLT at 118 and much more at 92. I do believe there is a market correction coming, but what happened in April has me a bit spooked. It went the wrong way!

Now I am worried that Ray Dalio might be right and that a crash at this point in the US decline might destroy our financial system and devalue the dollar completely. Mightn't treasuries lose all value in this case?

A: The 2008 financial crisis was the worst overall crash and recession since the 1930s with Treasury bonds and the US dollar coming out best, better than gold in the end.

I see this as the 5-year+ delayed finale that should be roughly 1.5X in unemployment and stock crash. The US Treasuries and dollar are still the best house in a bad neighborhood, and currencies don't have costs or replacement values. They trade relative to each other.

Until proven otherwise, The US should continue to be the safer haven while almost all financial assets, except the highest quality like T bonds, see a one-time deflation to pre-bubble valuations. Europe and East Asia, our main competitors in the developed world only have worse demographics ahead and higher debt ratios now.

Q: Thoughts on SGOV?

A: SGOV is T-bills 3 months or less. Hence, use like cash allocation for reducing risk when stocks and other investments are overvalued and risky. You can also buy T-bills direct or conservative money market funds. I like TLT and long duration Treasury bonds as they appreciate if there is a slowdown and/or deflationary crash.

Q: Shouldn't we be buying calls on SQQQ, not puts, since it is an inverse ETF?

A: Yes, you either buy SQQQ or calls on it, not puts. You would buy a put on QQQ (long) or SQQQ to be short.

Q: Just curious to know if you think Trump is attempting to trip the Chinese economy. China and US seem to be a house of cards at the moment waiting to come tumbling down. With massive tariffs on Chinese goods, if Chinese factories become idle or even reduce output by 10%, unemployment could go up sharply in China. Is he trying to make the Chinese economy go into a sharp downturn? The US would probably have a sharp downturn within a day or two. At least then Trump has somebody to blame. What do you think?

A: My view here is that few countries or leaders realize how over-stimulated the economy and stock markets are after 16 years of $27 trillion in stimulus in the U.S. alone. The markets are way overvalued and the economy way stronger than it would have been without this massive and unprecedented stimulus. Trump is trying to blame China for cutting prices to gain global market share, whereas that is a common practice in businesses to gain share and reap the benefits with higher volume and lower costs longer term. I don't think anyone sees that this is now the longest, and worst most artificial bubble in history that is just looking for a pin to burst it.

Biggest loser when this bubble bursts is China as it has the greatest real estate bubble ever and real estate is leveraged by debt much more than stock investments. The U.S. is second as we have now seen a second bubble much longer and higher than the first one that burst in 2006-12 in real estate and late 2007 to early 2009 in stocks... and that bubble burst was halted early by the $27 trillion in federal deficits and money printing since 2008.

None of us can change this "misperception of current reality." We can only get out of the way by moving into the safest bonds, like long-term U.S. Treasuries and cutting back on our costs and re-focusing our strategies where we are strongest in businesses. This is a "survival of the fittest" test after the greatest and most-over-stimulated boom in history from late 1982 into early 2025... and that is the driver of all evolution to the better and best! The challenges like now, are even more important than the successes in the booms, for forcing us to innovate ever-more. We complex and highest beings today did not get there without major challenges which in turn create major innovations. Hence, our failures (like recessions) are more key to that than our successes. The fact that the Fed wants to eliminate recessions only shows that they don't have a clue what actually drives our economic and evolutionary growth. Easy straight-line growth is for "wimps."

And yes, if China goes down for any reason, the US and world will follow it down. So, not a good strategy to deliberately poke China too hard.

Harry

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