Harry's Take

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Reader Mailbag: Questions and Harry's Answers on the Fed, the Markets and Gold

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: Is Mr. Dent selling all Istocks and hedging short or what? I am heavily into Nvidia and considering selling all then reacquiring.

A: Yes, this is a major sell signal for stocks looking for a major crash like 2000-02 led by tech stocks, and likely a bigger crash than that one (78%) on the Nasdaq. Nvidia is the leading stock in this bubble like Cisco into 2000. So yes, sell, and not for a correction, likely 2-2.7 year crash of 80-95%!

Q: Do you think the crashing of the dollar and the multi trillion dollar debt we have will topple the market? I don't know whether to lock in good gains and wait for a reversal to happen and buy again.

A: Yes, this unprecedented debt build up will cause a global crash in stocks, real estate and risk assets. The only exception will be US Treasury bonds and the US dollar.

This is a broad misconception that the dollar will collapse in a financial crisis. It and US Treasury bonds were the only things that rallied into the worst of the 2008 financial crisis. We become the safe haven in a crisis.

After such a crisis, the US dollar will first return back to pre-crisis levels like now, and then tend to decline long term as Asia continues to rise and challenge our global dominance.

Still, the best way to play the likely imminent crisis is to be short stocks for the first crash which should be 40-50% in just 2-4 months. Then take profits and buy 30-year Treasury bonds or TLT etf that is average 20-year, for the rest of the crisis.

Q: You consider TLT to be the safest place to invest money, since historically it has behaved like a safe haven. However, I think that U.S. public debt, together with the current depreciation of the dollar, has been a huge problem and could negatively impact those who want to invest in these assets. What's your opinion?

A: Everyone is in debt. But the US is a bit less in general. I consider the next financial crisis to be 1.5X the 2008 crisis. Our dollar and Treasury bonds ended up the safe haven even over gold at the worst in late 2008. I see that happening again… Best house in a bad neighborhood.

Best play for "Crash of Our Lifetime": simple short stocks for first crash, then shift to 30-year US Treasury bonds or TLT until height of crisis.

A more conservative investor can just be in T bonds or TLT for the whole scenario. You will collect 4.5-5.0% interest and see big gains mostly towards the end of the crisis.

Q: People who have been consistently correct over time have all said this is going much higher and will make the dot-com bubble look like kid's play. In other words, you think it is a bubble right now, you ain't seen nothing yet. They say yes, it is a bubble, but the market is rigged and labeled as too big to fail, with the Fed willing to do whatever it takes to bail it out if necessary. With inflation, if you are not invested, you will get left behind, they say. Also, the attached chart shows 100 percent that the market was higher a year later after the Fed cut rates at all-time highs. In other words, in the entire history, it was always up a year later. If that is the case, how can it burst before 2026.

There could be a crash, we sure could use one, but everyone would pile back in and buy the dip. I would be one of them since I am sitting on cash at the moment, and I am sure that with the Fed printing if that happened, markets would go right back up. When we get to the big one, like a 1929, then it might not, but back then, I do not think we had the Fed bailing us out every time. With so many 401ks and so many people invested now, it will be propped up. Back in those days, there was no online trading, and today, so many more people are investing, and there is so much money that has been printed and flowing into the system. Is it even possible to have another 1929 crash? I guess everyone would have to pull money out of the market, but so many people are trained to stay in no matter what because it always goes back up, just hold. So many will not budge and will just add more the more it goes down. Interesting times.

A: I've never seen a market harder to read than this one. No past rules are as reliable when the market is this manipulated for so long.

My view is that this whole bull run since March 2009 is a bubble as there was no fundamental backing for it other than massive stimulus. But even in that unprecedented 16.5- year bubble, the last 5.5 years since the COVID overreaction in early 2020 has been double-bubbly… so that's the real bubble. And no past bubble has lasted longer than 5.5 years (late 1994 into early 2000).

If we get through the year-end without a crash starting, and have a strong January, then I will consider getting back on board, but still cautiously.

Remember: most people in an obvious bubble don't see it because they are "high" on the bubble and lose normal judgement… like drunk people! The bubble cheerleaders always find a reason it can continue, like what you presented.

So, we'll see. I don't rule out anything. But also recall: the first wave down in late 1929 at this time of year was -47% in just 2.3 months!!!

That's why I wait and stay out here.

Q: At the moment, the market is pricing in three consecutive rate cuts from the Fed, which has been a clear supporting factor for gold. Do you think the Fed can actually deliver on these three cuts in line with market expectations?

A: They can do what they want. Problem is they are almost always too little, too late… and the first cut will likely be 25bps… a nothing burger… and such policy takes 1-1.5 years to hit fully.

Q: I get your point on the Fed moves being too little, too late. But honestly, we're really struggling to explain this gold rally. Given the modest cuts and long lags, how do you see this strength making sense?

A: Inflation is edging back up to 2.9% and the Fed is going to resume reducing interest rates which are expansionary and inflationary. The Fed's in a bind here as inflation is not going back to their target of 2%, but the economy is showing signs of slowing again.

Q: If the market drops 45% and then bounces up and heads back down there are no guarantees that it will go down 87%.

I'm thinking do I start buying 15%, perhaps at 65% down and 15% at 70% and 15 at 75% 15 at 80%? Or something like that?

Is catching the bottom easier than catching the top which we / you have been wrong on calling this top. Is catching the bottom a more easy thing to do or will it be as frustrating?

A: Catching the bottom may be harder this time as governments will try to fight it, unlike the 2008 crisis which they only did aggressively in early 2009.

It's most important to dodge the crash, especially the biggest hit of 40%-50% that tends to come in the first few months. And if you wait to get out or short, you will likely miss most of it as that first crash comes hard and fast… Why? The smart money are evil they don't trade the value of the markets. They trade against You!

We'll have to wait and see how tricky the bottom is. Best time to buy is whenever the Nasdaq gets down 90%+. If the Fed still has the credibility to flood with money printing, then it may not get that low.

But after a major crash, stocks will be a much better bargain than in our lifetimes. If it isn't going to get down 90%+, it may be better to wait for stocks to put in what looks like a credible low, then let it bounce strong

enough to validate that, then buy on the first strong pullback off that first rally, and if that first rally has strong volume behind it.

You do want to sell T bonds or TLT a bit before stocks look to have bottomed, when they finally spike dramatically, and if TLT makes a substantial new high over 2020 high around 170. My target is 186+.

Q: In India all the astrologers are predicting gold in 2026 and 2027 can touch 5000 to 6000 dollars, can you suggest to me your view on gold? And what will be the top price in gold from your point?

A: I think they are seeing a crisis and assuming gold will benefit. I think gold is peaking now or just ahead around $3,800 or a bit higher. Gold is following the bubble just like stocks. It can't be the haven in a crash. Treasury bonds have been mostly down in the last 3 years. They will be the safe haven.

Q: Silver and gold have both got to dramatic new highs as you would know for this year. I'm wondering what you say about the coming crash, would it be stupid to buy gold at this point? When the crash hits will price go below this current price or are they both going to continue up. The other thing I think is maybe a better play would be to put that cash into ZROZ and TLT and after crash buy gold and silver for their run up? What normally happens in these events.

A: This is looking similar to the late 2007 top with stocks and gold topping. So, yes, it's too late to buy gold. Time to sell stocks and consider shorting with 1/3 SQQQ (to be 1X short but in high volume 3X ETF). TLT continues to look lite it bottomed between 83 and 85, but will be slower to respond to recession at first and then explode at the worst. Best simple play: 1X short stocks now. After the first crash of likely 40% to 50%, then cash in short and buy TLT or 30-year US Treasury bonds direct is better.

Q: We are very concerned about FED independence, so it's very hard to predict where it will peak and gold seems to gain momentum again. Hope we can find the right place to sell.

A: There is no top end limit as gold is at new all-time highs. The strongest downside target is the late 2015 lows down near 70%. That simply erases the bubble. Gold's never had that big a downside as, like most things, it's

never had this big a bubble except into the peaks of major inflation surges like the late 1970s.

Harry

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