



Harry's Take

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Reader Mailbag: Questions and Harry's Answers on AI, 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: Everyone is talking about AI and a new Industrial Revolution or rather productivity revolution that will come as a result of AI. There's huge investment in data centres, AI research and an arms race that is advancing science.

Is it possible that this could mitigate or change the pattern of market cycles?

A: It is the early stage bubbles in crypto and now AI that are driving this bubble, like the Internet and then dot.com stocks drove the first one into early 2000. This looks like the peak. It's the next big thing still in its early stage. That's when gigantic projections from the moving mainstream can be first made...

The Problem is it doesn't happen as quickly as novice investors who jump on board think. That's why these most dramatic bubbles see the biggest crashes. The Internet bubble was late 1994 into early 2000, but suddenly crashed 78% into 2022... yet the Internet boom is just peaking now, 25 years later.

There is no preventing a crash after the bubble is already this extreme! And it looks inevitable now.

AI will continue to grow for the next two decades or so. It's just the valuations and projections will get more real after a major crash. And many marginal companies will fold or be absorbed by the successful survivors. "What doesn't kill you makes you stronger."

Q: This market is killing me. I talked to a 44-year-old financial advisor who was in his 20s during the 2000 and 2008 crashes and he believes this market is different since we have AI and Crypto. He is so proud of his investment skills and how his clients are getting 100% returns. I fear he is not alone, and it is guys like him that will continue to push this market so far from reality that either we get some faces ripped off or it becomes the new norm. I just don't think it is possible to become the new norm, but it is so difficult to see this stretch beyond what is healthy.

What do you think will trigger the markets to finally give in and crash?

A: In 1995-2000 we had the Internet moving mainstream and the dot.com retail revolution. It bubbled and then burst 78% 2000-2002.

What the difference this time is \$29T of stimulus has kept the bubble going another 6 years. Hence, even more overdue now for a crash than 2000. This bubble should have burst 2020-22, and now will likely melt down even bigger from 2026-28.

Yet bubbles are not bad things. They usher in new tech infrastructures that pay off for decades. But the crashes to shake out the excesses are brutal like 1929-32 and 2000-02.

Q: How many companies are fraudulently pledging debt multiple times to take on more debt? Seems markets are set for a 2007 CDO redux?

A: I agree. Even in a healthy boom, the longer it goes, the more consumers and businesses borrow. And debts will start to default and trigger the next recession. Not counting the brief and outside shock recession from COVID, we're 16 years from the end of the last major recession with the highest debt ratios, government and private, ever. And private debt is near 3X government and more likely to default. We're 6 years overdue by my

fundamentals and cycles... So a bigger crash and downturn than 2007-09! More on 1929-32 level. But we have to see how much credibility governments have to fight with ever more stimulus. It took \$10.5T, or 44% of GDP in 2 years to fight the COVID crisis. So, \$20-25T this time?

Once a philosopher twice a pervert! I think they do lose credibility if we end up back in recession or depression after the biggest by far stimulus ever. And we finally let the free markets back in to rapidly clean up the mess!

Q: What are your thoughts on the Australian housing market? It seems to be going from strength to strength with immigration and new government policy pushing it higher and higher. There doesn't seem to be any end insight. Do you think that house prices can revert down in Australia, I don't think that there has ever been a reduction in price in Australia but things seem to be out of control in this sector. What are your thoughts?

A: It's true, Australia has the best demographics in the developed world for a continued boom in housing... But it is the most overvalued in the developed world, and second only to China globally; and China's your biggest customer for exports, hence you are sure to feel their unprecedented collapse where households have 75% of their net worth in real estate, and Australians are second on that measure as well.

I think on its own, Australia wouldn't tend to go down, maybe just plateau. But the rest of the world will... and your best customer goes down the hardest from the biggest and most government-driven bubble ever!

No way in hell Australia is the only developed country in the world to not burst when everyone else does, and the most in history. I see 60%+ in the mighty US. The last 34% crash here was devastating. I see 40-50%+ in Australia.

You're an island and the biggest-ass one. But you are NOT isolated from the now fully global economy for the first time.

If you did happen to succeed at largely dodging a global real estate crash, then you would largely lose your greatest advantage long term: the high quantity and quality of Asian immigrants. Your growth train would end and they would have to go to the US and Canada where real estate suddenly becomes much more affordable.

We would thank you for that, as I almost never hear complaints about Asian immigrants, only all the others...

So, don't look a gift horse in the mouth, and trust the free market capitalist system that has made the developed countries so rich, and you the most up-and-coming.

And high real estate prices only hurt your global competitiveness and standard of living long term.

You are my top pick for developed countries for decades to come. Don't blow it by fighting the natural and necessary real estate collapse.

Ask yourself who is more important to your country's future? You're older homeowners... or your younger up-and-coming ones? You're kids and grandkids! Who increasingly can't afford to buy your precious real estate.

And the best way to deal with an impending and necessary housing crash is to sell your overvalued one and get a much better one for a much lower price in just a few years. What's wrong with that picture?

With all the gains, you can take a long vacation in Europe and North America and watch your English-offshoot cousins crash! You can tell them some crazy "Yank" told them to sell your house... why did they not sell theirs?

Q: With all of the AI algorithms/bots accounting for much of the trading volume, what are your thoughts on how they have contributed to the bubble, if at all?

A: If anything AI is coming behind Crypto and just adding to the bubble. But this natural tech bubble has been amplified by Central banks pumping in money and lower interest rates which pushes up stocks artificially and creates magnify these bubbles. Historically, bubbles always burst, and hard. It's just a matter of when... Now or very soon looks like the best time to me. It typically only takes 2-4 months to wipe out 50% of the bubble in just the first wave of the crash!

Q: I am starting to lose faith. Raoul Pal - ironically I met him for the first time at the Irrational Economics Forum in 2014 - has the theory that since the government will just print money from now on to keep the market from

crashing, we will not have a crash. And it seems like maybe he is right. The universe has been very forgiving to this regime - it looked like we'd get there in 2019 but then 2020 brought COVID, and now that the first boomers are hitting 80 next year, they will have more incentive to keep their retirements from blowing up.

A: I would sit in 30-year Treasury bonds and collect 4.8% interest or so until things become more clear. If we do slow into a recession, that will be the best place to be and your bonds will appreciate a lot. If not, by say next summer, you can get back into stocks. To me it is clearly too risky to jump back into stocks now... And sorry Raoul, you can't stop a bubble this massive from ever bursting! And it is not healthy. Your body is a lot smarter than governments. When it gets toxic, it flushes it out as quickly as possible.

Q: I too am in agreement the long overdue crash is inevitable, BUT not yet.

Why: I'm a big crypto investor and subscribe to several newsletters, one of which is Weiss ratings. Juan Villaverde, their crypto guru for the past 2 years has given us the highs and lows almost to the day. His latest low call is Oct 27th.

Also, his research over years shows that BTC highs lag gold by 24 weeks which implies March '26 or later.

And we are in the last qtr of the 4th year cycle for BTC which is historically huge. I know because I started in May '17 buying my first one.

We'll know soon but I think the next 3-6 months will be huge for the blockchain digital new society. I know you use BTC as your precursor. We'll soon know.

A: Bitcoin and crypto are the largest bubble, so they should peak first and lead the crash, with Nvidia and AI smaller and close behind.

Markets are so distorted from \$29T in stimulus over 17 years that it's hard to make sense of anything. We can't ascertain if there will be major consequences from such "off-the-charts" stimulus until we see a crash:

1) If we only go back to the late 2022 lows, (-52% QQQ) then that would say that stimulus works to a degree and there weren't serious offsetting

consequences from taking the easy way out through endless deficits and money printing.

2) If we go back to the late 2015 lows (-87%), then there would have been substantial consequences, but some could argue it was still marginally worth it, or

3) If back to the early 2009 lows (-95%), then we're back to Zero, where we started and we're clearly worse off this far down the road.

Similar with housing prices. If we lose all the gains since the 2012 lows, we're worse off.

Q: Is TLT still your recommendation?

A: I recommend a more two-phase approach as stocks react stronger on the front end and T bonds on the back end of a major crash. Start short SQQQ. That is 3X short but highest volume. So just buy 1/3 to be 1X short, or more if you want more leverage.

After the first sharp crash which I expect to be -40% to 48% S&P 500 and -50 to 60% Nasdaq/QQQ...Then switch to TLT as it will be less volatile and explode into the worst of the crisis, as it did into late 2008.

Q: When should I start to add on my holdings in SQQQ and TLT?

A: I favor leaning much more toward SQQQ (adjusting for leverage) for the first crash which tends to be 40%-50%. Then lean much or totally towards TLT after as it will do best into the worst of the crisis. So, add more to SQQQ now as the crash looks more imminent after one more short rally. Maybe even shift some of the existing TLT to SQQQ.

Q: Peter Lynch once said "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves".

Looking back the past 10-15 years, do you think Peter Lynch had been correct but would have to take back his words especially when assessing the most likely stock markets performances over the next 10-15 years (example, your assertion that DOW, Nasdaq and S&P 500 indices will never hit new all-time-highs' again)?

A: My view on this has always been similar. Yes, most investors don't do well jumping in and out of the markets as they almost always get out too late, and back in too late as well. They are more reactive than proactive. That's why for a part of your portfolio where you do apply shorter-term shifts, you find someone that has a system with a proven track record, and then you follow that system and don't second guess. We use John Del Vecchio for that.

But I do feel everyone should get out and go to cash or safer bonds more occasionally when markets hit rare extremes in valuations and bubbles as in late 1929, 1972, early 2000, late 2007, and now, 2025. There are people like me that do have a better track record of doing that... and that's a different skill than short-term timing.

Q: What would ever cause gold and silver to go down in price? Is the gold price offered in this country the same as everywhere else in the world?

A: Gold is priced in US dollars globally. Only currencies would cause that to vary within countries.

Gold and silver have gone up and down in cycles like everything else. They and all commodities have a rough 30-year cycle that peaked in 1980 and more recently 2011-12. Stocks clearly go up long term but crashed 89% 1929-32, and I see something like that again soon.

I see gold as high as \$5,000 and as low as \$1,180 in the next few years. It's not stable in shorter term time frames. It's too late to buy gold, and it should be sold here or by year-end if you own it.

Q: I think something to at least try to analyze is the effect of AI on the economy. It is obvious as AI takes over, many functions performed by humans will disappear. It's happening now. Eventually robots also will be able to do many of the functions only humans can do now. In many ways this could be a boost for productivity but if people have no way to make money to buy that productivity then what happens? It is a fascinating question. This technological change is unprecedented in human history and the economic effects are unknown.

Any thoughts?

A: All technologies automate human functions, and all growth in technologies and the economy are exponential long term.

The end result is creating new, better jobs, and hence, rising productivity and a growing standard of living. Would you rather be working 80 hours a week with strenuous physical labor out in the hot sun with a standard of living just above a homeless person today? That's the "Little House on the Prairie" fairy tale.

50% of small farmers used to create all the food we ate, now 1.5% do. That's a 97% loss of jobs and a massively higher standard of living. Automation is to be embraced, not feared. But you need to steer clear of jobs that will be automated... now, the left-brain logical ones like discussed in my book: "The Roaring 2000s". Right Brain, entrepreneurial jobs will be favored. Better managing organizations for customer focus and bottoms-up decision-making. Creating new products and solutions, etc. If a job is largely left-brain and logical, it will be automated!

Q: ZROZ 's price should just trade inverse to the change in the long term Treasury rate. However it is acting "screwy" now by trading in the direction of the change in the LT interest rate! Is it because now there is some correlation to the fear of inflation if the Fed reduces interest rates?

A: ZROZ is betting on slowing growth and/or inflation, especially longer term by buying 10- and 30-year Treasury bonds. It tends to move 1.6 times the value of TLT.

A recession is the best way to induce these trends and cause only these risk-free bonds to appreciate in value.

If economic growth is heating up or the Fed is trying to stimulate growth by lowering short term rates as now, then long term rates will be seen as rising and these bonds go down in value even if short term rates are pushed down. And yes, they hence generally move opposite to stocks, but not always short term.

When you say they are not trading with the long term rate, how do you know what that long term rate is? The markets through these bonds are trying to anticipate what they will be, and more likely to be right than what

an individual thinks. But there are factors other than Fed policy that can impact longer term rates, like expectations of a war, or tariffs, etc.

Harry

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