Harry's Take

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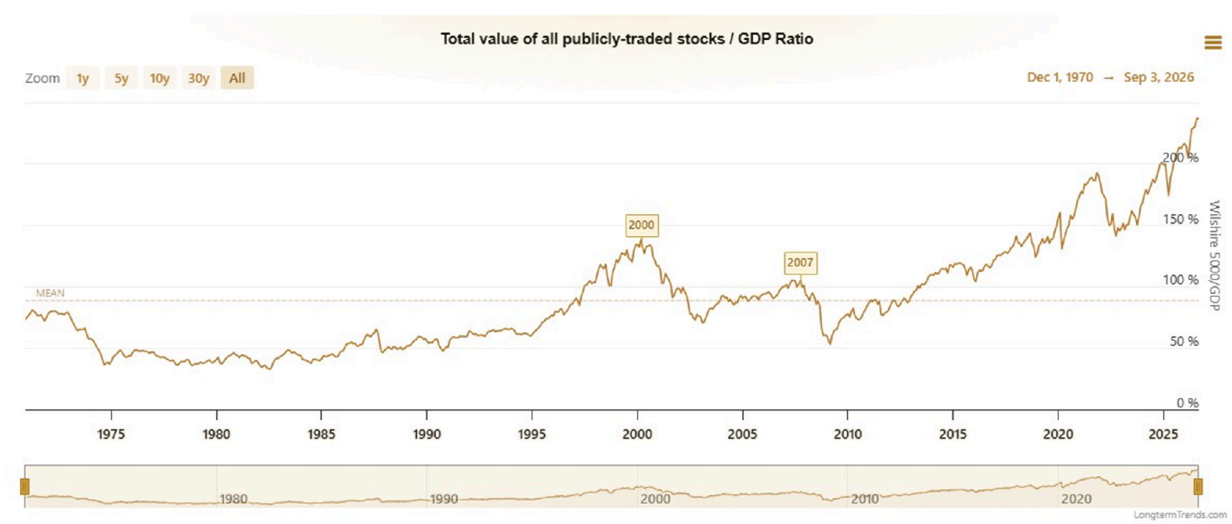
Buffett Indicator Hits New Extremes: Crash Inevitable!

There are many indicators that signal overvalued markets, and many are flashing in this most-bubbly of times after 17.5 years of $31 trillion of combined fiscal and monetary stimulus poured into our economy since 2008. I have documented this thoroughly for many years now. But the most respected and simplest is the one Warren Buffett most follows: Total Stock Market Capitalization to GDP. This one just keeps getting more and more overvalued as this chart shows. It also shows that we have a stock crash every time we get such a surge in valuations! Hence, a crash is coming sooner or later, and I say now... Sooner!

Buffett Indicator Keeps Getting More Overvalued: Crash Inevitable!!!



Source: https://www.longtermtrends.com/market-cap-to-gdp-the-buffett-indicator/

This is not just the first “Everything Bubble” in modern history, with real estate, commodities - and since late 2023 even gold and silver joining; It is the longest and largest stock bubble by far, and real estate more so. This real estate bubble since 2012 dwarfs anything in history and it's global. This stock bull run since early 2009 has been a bubble from the beginning due to such massive artificial stimulus, what I call “The Over-Reaction to COVID.” No bubble phase has lasted more than 5-6 years, including 1995 - 2000, and 1925 – 1929. This one was bubbly right of the gates from its March 2009 bottom forward, due to such massive stimulus, and is now 17.5 years long. And, the economic slowdown that spawned such massive stimulus was over after my Spending Wave bottomed in late 2022 after peaking in late 2007 on cue. Hence, we shouldn’t keep needing stimulus now. But, the U.S. is still stimulating to the tune of $2T a year in fiscal deficits, because now they have an over-stimulated economy with unprecedented debt and zombie company levels weighing us down which resulted from keeping an overdue recession in 2020-22/23 from doing its work to cleanse these debts and marginal companies… as free market capitalism does so well and quickly when needed. Now no central bank or government wants to see this overdue debt detox, so they keep the stimulus (crack) high!

Investors should normally rebalance away from the most over-valued stocks or sectors at a cyclical top like this, and then re-balance again after a substantial correction is over. Why? Most of us aren’t good at timing the markets, hence it often doesn’t work well as we tend to be too late to get out, and too late to get back in.

But this time is different: It is first an extension of the 90-year Super Bubble Cycle that is just too “damn big” to sit through. You can’t really recover from a 70% to 90% crash that is typical in this cycle. But this bubble has now been stretched beyond anything in history due to $31T in stimulus in the U.S. alone, and it is an Everything Bubble so there is no place to hide except for the safest lowest yield bonds like the U.S. Treasuries – not even gold will survive this massive crash. All this means this crash is very likely to end up rivaling the 1929-32 crash which was 89% in the blue-chip Dow. And it took 25 years into 1954 to get back to even. But most people would have never seen that as they would have panicked somewhere on the way down and gotten out, and not caught most of the strong first surge from late 1932 into late 1937.

I know this bubble has gone on and on and defied any common-sense arguments against it. But with gold and silver joining full fledge since late

2023, there is nothing left to bubble and that's when it is most likely to burst! And the 4-year cycle hits into late this year, hence this is a good time for it to start. At least get as safe as you can for just the next 4 months… Then we can re-evaluate in January.

Harry

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