Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

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HarryDent.com

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me once again on today's program is returning guest and multi-time bestselling author, Mr. Harry Dent. Harry is a prolific economic commentator, has a terrific background and is expert in demographic research and he is offering a free newsletter to our listeners, that is a weekly newsletter. All you need to do to sign up and subscribe is go to harrydent.com. And Harry, welcome back to the program.

Harry Dent:

Nice to be back, Dennis.

Dennis Tubbergen:

So, Harry, here we are at the beginning of 2023. 2022, we had a couple quarters of economic contraction, which used to be called a recession. Although some of the ruling elites say we shouldn't call it that anymore. What's your economic forecast for 2023, more of the same or where are we headed in your view?

Harry Dent:

Dennis, I actually think as a year in particular, because I think most of the year's going to be down. Okay. So that this is going to be the worst year since 1973 or '74 or of course backwards 1930 and things like that. 2001 was the most recent, very difficult year. The crash didn't ... the tech wreck didn't start until around May 2000. So, the worst year was really 2001. So, I think this is going to be like 2001, 1973, 1930, years where we really see a major downturn instead of a correction or even a major correction. And I think people are still thinking, well this may just be a larger than average correction. And I've been saying this in the, again, no, this thing was set to peak. The central banks have put out this market longer and longer with ... I mean massive stimulus. I mean since COVID, they did 10 trillion combined fiscal and monetary. Half of GDP in two years is stimulus.

The market should have doubled. Okay? So, it went up some, but now it's already coming back down. So, despite all that stimulus, they were only forced to now tighten because they overdid it. Inflation suddenly went from zero to 2% up to 9.1 I mean suddenly, because they overreacted to COVID, and now they've had to tighten and there's only one place stocks can go now is down in a tightening environment. And the fed's going to have to at least go probably another couple of months before it's obvious that the economy's slowing too much. That's enough to do the damage because stocks have already gone down. The Nasdaq, which might be the key index, I tracked,

the tech index is a little more volatile, a little more central. It was down 34% first crack. Well, that's the first thing Dennis had told me, okay, this bubble finally burst, darn it.

And they pump it up and up, but first bubbles, and I studied everyone since the stock market started, major bubbles. For a bubble to crash, you need to see at least a 28% first whack right off or average 41% and at the worst, 50%. So that 34% crack in the Nasdaq was the first sign to me, okay, the thing finally topped. And I think what happens is once investors see that the central banks are losing control, hey, hey, they are over overstimulating COVID. Then they over tighten. Hey that's called losing control. And the markets, I don't think ... I am saying we will not see a new high now, that's not in the cards anymore and we're in a bounce after the Nasdaq went down one more time, 38%. Now it's bounce some. I think we're heading down into the next wave down. You have got to remember another thing. Any major bull market or bear market, any major new direction will have three waves typically.

So, we saw the first crash at the end the June. We've been sideways more since then, slightly new low in August, I mean I'm sorry, in October. And now we're bouncing. This wave is already turning down the second. The next wave, which should be the middle wave, is usually the strongest and largest, if any. I think we're in that. This is the important wave, this middle wave. It's called a three wave down. One wave first wave down, a second wave bounce, which we've seen. Now we're in the third wave down. If this follows through, which I think it's going to likely to do soon, this next wave, next thing you know, the Nasdaq's going to be down 50 to 60% and then the S&P a little less than that. And people are going to be realizing that hey, this isn't just another correction, however deep it seemed at first.

The market is topped, and we're not going to see new highs for a long time. And then people's psychology changes. Now people are not just buying on the dips anymore. And that's what people have been trained to do since 2009 with strong stimulus. So that's where we're at. We're at a point where the markets have fallen enough to say yes, we have seen a major top here. And I think we may never see stocks higher than this, especially adjusted for inflation in real estate even more, by the way, because the millennial generation is not the magnitude of the baby boom to take us. It takes us to about the same height of the economy, but even less so in housing and stuff.

So, this is really a major trend change, and investors have to stop and get out of this thing about, oh we just buy on the dips now. I think that's going to cure that very quickly, and that's why we need to see follow through. So again, the best thing to look for on the Nasdaq and we're not far from it, just a couple percent here. We break 10,088, we're likely to ... the market's likely to go down faster and next thing you know, we're down 50% or more and everybody's thinking differently. Oh my god, the bubble's burst. And yes, even these mighty central banks in the Fed, these guys lost control. They overdid it and boy did they overdo it.

Dennis Tubbergen:

And Harry, when you talk about the Fed and you've mentioned in the past that in this boom, these boom and cycles that we see, and you've actually narrowed down the timing of some of these cycles as well as many different cycles, which is a discussion in and of itself. But when you take a look at how much stimulus it takes to blow this bubble back up again, it takes more and more stimulus to get a more diminished result. So, do you see the Fed now, assuming we get this market action to the downside, do you see the fed reversing course and say we need more stimulus?

Harry Dent:

Well yeah. I mean, they are now tightening now. And again, they were forced to do that by their own overreaction ... COVID was a natural virus so it hit. Nobody's going to say there's something wrong with the economy because we slowed because a lot of people got sick and we couldn't go out and transact and socialize as much and all this sort of stuff. They overreacted to that. If they hadn’t done that, they could have kept us going longer. So now that they've overreacted though, the markets are weakening. And when they get down enough, people, like I say, they're going to think differently and they're not going to think, are we just buying on the dips. Something has changed, and the economy will move into recession very quickly. And so, some measures it's already, in some measures it's about to, but most indicators say a recession's coming, if not already here.

So, this is going to change things. The difference has been because we've put this off so long, because all the gain since the 2009, early 2009 bottom have been stimulus. They haven't been demographics, better aging of population and the higher spending and that. None of this growth in the markets has been natural and the economy would've been much worse. So now, like you said, it takes more and more to keep a bubble going and that's true of anything in life. It takes more and more to keep something going, especially if it's artificial stimulus.

So, there's no way to get this. I mean the Fed would have to turn around and print $10 trillion in one year instead of stimulus at 10 trillion in two years. They would have to keep doubling down. And since the last time finally went too far on them, even that, I mean you can't imagine the Fed turning around suddenly after tightening for a few months and saying, oh we got to go back to full-on stimulus. What that would be saying to people is, oh my god, the economy is really weak. All that stimulus wasn't enough, and we started to fall into recession just because they tightened for a few months a little.

I mean, all of this is going to bring out the truth. And the truth is, Dennis, really simply, the underlying economy, and I've got the best indicator in the world for this, the spending wave. And I can do it in any country in the world. But the U.S. baby boom peaked in 2007 in their spending wave from 1982 low. And we started going down and that's why we had so much. Dennis, the 2008 '09 crash was the biggest we'd had in decades. And the Fed just panicked, and just started printing money like mad. Well, we don't come out of the baby bust downturn until 2024, '25 in that time period.

So, the demographics are still the weakest they're going to be, which means it takes escalating stimulus to make up for that. And on top of that, after this crash, people are now going to be more scared. And like you say, they're going to have to double down even more just to try to get back to where they were. So, this is a losing game. To me, I was just waiting for again what I measured every bubble in history, I was waiting to see at least a 28% stock crash, the first crash, and we got 34% in the Nasdaq and close to that 28% of the S&P. So that's what told me this is over.

I don't think the Fed can reverse it at this point. And they'd have to do something so dramatic. Again, they'd first have to stop tightening after a few months. That looks really weak for the economy. And then they'd have to go back to strong stimulus. Boy, that would be an out-and-out confession. This economy's so dead, we have to live on crack cocaine until we pass out.

Dennis Tubbergen:

Harry, one of the statistics I read was that at the time of the financial crisis in 2007, 2008, worldwide debt totaled about 100 trillion. And today it totals about 300 trillion. I'd like your opinion as to the validity of that statistic. And when you start talking about those numbers as far as debt levels are concerned as a percentage of economic output, we're looking at a 1930s styled deflationary outcome the way I see it. Is that out there or is that real?

Harry Dent:

Yeah, that's what people really need to understand, exactly what you're saying here. I mean, recessions slow down the economy and of course stocks and maybe home values flatten out and stocks go down and stuff. So, it does shrink financial assets, and debts fail and that means debts go away. So, it shrinks financial assets and debt. It slows the economy. This is more than that because this is the greatest financial asset bubble in history. Number one, it's an everything bubble. Why is it an everything bubble? Because the stimulus after the 2008 recession and crash was so strong by central banks around the world that everything bubbled, okay. Real estate, stocks, commodities, gold. I mean, even gold bubbled. And so, we have to take those bubbles out. All these high financial assets and high debt. Debt has gone up from one and three, and well, financial assets is the number I most monitor, Dennis.

Financial assets are now at 600 trillion, double that debt number. So that debt number's unprecedented weight on the economy. But financial assets being so high, that's a weight too, I mean because they can't keep going up. And when financial assets just come back down to normal levels, which would mean, and I've already done an estimate of it. I've done take the bonds, stocks globally, everything, real estate and say what happens if these financial assets just come back to normal, not low, normal values. 250 to 300 trillion, Dennis, would disappear from the economy, financial assets. So, a lot of debt's going to be written off, say maybe half of that 300 trillion. But half of these 600 trillion financial assets are going to disappear. This is literally money in people's investments and bank accounts that they're going to live on in the future. So, if all of a sudden, your net worth for the typical person or your literally financial assets you have for the future drops in half. And that could mean stocks 80 to 90, and real estate 30 to 40 and other things in between.

I mean that's going to change people's perspective and make them conservative not only in their outlook but, in their spending, as well. Well, gosh, we can't spend as much. Oh, we can't buy that new home we were thinking about, now this has happened. So this is going to be a watershed shift from bubble mania, which started only in 19 ... late '94, first stock bubble. And when the stock bubble crashed in 2000 to 2002 people just said, oh well we'll go to real estate then. You had a real estate bubble in 2006, and then it crashed. Here's the difference this time. Now we've had everything bubbles, stocks, real estate, everything and it's all crashing at the same time. So, there's nowhere to hide. You have to be in the safest long-term treasury bonds to make good money or cash just to preserve what you have.

And everything else is going to go down. Everything else. Normal corporate bonds have risk in them. They'll go down 20 or 30. High yield bonds will go down 50% or 60%. Stocks go down 70, 80, 90. If real estate goes down 50%, my estimate this time instead of 34% from 2006 to '12 in the last crash, and that was more than the Great Depression at 26% for real estate, because we never had such easy financing back then. So real estate really joined stocks in this bubble and everything. So when everything goes down, you don't have many options for diversification. The key is to protect what you got. And there is one proven and 2008 to '09 prove that in spades, one asset that will go up and go up substantially, 30-year or 10-year treasury bonds or 20-year triple A corporates bonds.

Those are the things that actually appreciate substantially. The treasury bonds of the long-term treasury went up 45% in the 2008 crash. Whoa. Stocks go down 57, and they go up 45. Wow. Well they're going to go, I think the TLT is the treasury bond ETF average of 10 and 30 20-year average. I think that could almost double in this crash. You will never ever see a treasury bond rally like that in the past. Not even in the in the ... after the Great Depression or in the future. So that's the opportunity here.

The safest investment, again, 30-year treasury's best, 10-year treasuries, and then 20 year Triple A corporates. Those are the three things that will go up and go up substantially in a short period of time. Everything else from normal bonds, junk bonds, real estate, high end will go down more than low end on and on and on. Nasdaq will go down more than the S&P. But in the end, not a lot more. I mean everything goes down. This has never happened. Even in the Great Depression, everything went down, but real estate did not ... well crashed in about half as much now. That real estate downturn in the '30s wouldn't have killed people. It was a stock crash. Real estate's going to be the biggest harm to people this time because people have mortgages against real estate. So, a 40 to 50% decline in real estate more than in 2008 crash is going to take people into negative equity and put banks in really deep trouble.

Dennis Tubbergen:

Well, my guest today is Mr. Harry Dent, multiple time bestselling author. You can get a free subscription to his weekly newsletter by visiting harrydent.com. I'll continue my conversation with Harry when our LA radio returns. Stay with us.

Welcome back to RLA radio. I'm your host Dennis Tubbergen. And joining me once again on today's program is returning guest, Mr. Harry Dent. Harry

is offering a free subscription to his weekly newsletter for our listeners today. You can go to harrydent.com and sign up. Again, the website is harrydent.com.

So Harry, just to jump in where we left it off in the last segment, you were talking about U.S. treasuries as being the best place to have your money, both the 10-year and the 30-year. Just to maybe be devil's advocate here for a minute, with the U.S. government now operating at a huge deficit and some of those numbers actually may be being shaded with the deficit numbers not being accurately reported, according to some of the research I've been doing. Certainly Congress doesn't seem like it's got any plans to change its free spending. At what role does US government debt have in U.S. treasury performance. And at what point do US treasuries cease to be the safe haven?

Harry Dent:

Well, the 2008 downturn was the deepest downturn we've had since '82. I mean, it was very similar in unemployment. It was much, much bigger in financial assets stock crash, but it was similar in unemployment and economy, and that takes a lot out of the economy. I mean, you just can't come back at first from that. So, this is something that after ... You can't get away from the fact that the bigger the bubble, the bigger the burst. And you can't get away from the fact more so from my point of view, as I said earlier, that this entire stock bubble and everything bubble was not during a period of stronger underlying growth. I'm the one that first learned to measure underlying growth by demographics. When people spend the most money, which is the most known statistic on earth that nobody pays attention to.

People enter the workforce at 20 after only costing the economy to be raised by their parents and schooled by the government and everybody else. And then they grow and earn and spend money and drive the economy up and drive inflation down with their productivity. So, this is, there's reasons for the economy growth. All of our growth since early 2009 stock bottom has been stimulus, money thrown in, printed out of nowhere. What's the price for that eventually? Inflation, which they finally got. And in other words, you don't get something for nothing. So, people, what I'm telling people, this is not your stunt. Most financial advisors most of the time are right. When we have a correction, just sit through it and rebalance and re-buy more at the bottom. No. That's not what you do. You have to get out of the way of this. This is once in a lifetime. This is '29 to '32 and to a lesser degree, 2000 to 2002. This occurs very rarely to see crashes of this magnitude where everything goes down. Okay?

Everything except to say ... So, money has to flow somewhere. So, it goes to cash. People get scared and go to cash. But the one safe haven, and again 2008 proved this. I mean everything went. 2008 to me was like the warmup for this. And if they had not stepped in with strong stimulus, the 2008 downturn would've been more like '30 to '32 and would've gone much deeper longer. It was 1.7 years. It would've gone closer to three years, and it would've gone, stocks would've gone down 80-some percent like they did in the Great Depression instead of 57.

So, the truth is, we have to get this now, Dennis. We pumped our way out of this. We still have to take out this 300 trillion in debt. Half of that, those debts are not sustainable. We have to get this 600 trillion of financial assets down to something more sustainable, like 250 to 300. It should be two to three times our global GDP, not six, just like the debt. So, we have to clean our decks to be able to grow again and we will grow not as much as with the baby boom, but 2000, late 2024 into 2037 will be the millennial boom. We will have rising demographics, growing spending of that generation. It's just not as long or as large in magnitude as the baby boom. But that's enough to pull us strongly out of this.

So, if stocks do go down 80 to 90%, which I see then, then there's going to be huge gains from 2024, '25 into 2037 in a relatively short period of time. Just 12, 13 years. So that's the upside. The challenge is if you don't get out of the way, if you treat this as a just larger than normal correction and see most of your financial assets, your home and your real estate investments and your stock investments and your bonds go down so much, you're going to spend the rest of your life catching back up and never probably get back to even.

There couldn't be a more important time, and we're only about a third away into this. So, you can still save two thirds of your loss if you get out now and wait and watch. And I'm telling you, you're only going to have to wait, I think mid-2024 would be my bet on when we can start buying stocks again. Real estate, you'll have longer, although you can probably start then. But real estate takes longer to bottom and turn around just like it did in the last crash. Stocks bottomed in early 2000, March 2009. Real estate didn't bottom until early 2012, three years later. And real estate peaked a year ahead of stocks. So that's the thing. The best way to see this is the investment and buy opportunity of a lifetime. But you can't do that if you don't preserve and lock in what you've already made. And to do that, you've got to really accept that you've got a giant bonus.

This great gain since 2009 in stocks and real estate was not deserved. The first bubbles were natural bubbles from really good times and investors getting over-excited and overvalued on top of it. This since 2009 has been total BS. It's all been stimulus, and stimulus is going to ... That's why the Fed is overestimating how strong the economy. They think the economy can take this mild tightening. The economy cannot. If they just stop stimulating, this economy will fall apart and this debt, these debts will start to unravel. They're so high. So, the Federal Reserve really doesn't understand how big a bubble they created. Again, before the end of 2007, we all created it. Government, businesses, consumers, great times and we always overdo it. Okay? That's human nature. Ever since then, it's been all government stimulus, overreaction, failure to have faith in free market capitalism to go up and down and do the best thing in the long term. Be the invisible hand, as Adam Smith called it in the late 1700s.

People espouse free market capitalism as soon as we have a recession, which is necessary, just like eating and defecating or anything else, rain and sunshine, all these things, natural cycles. This is a natural cycle. Well, you don't have free markets ... you don't have faith in free market capitalism if every time we slow down, you have got to stimulate and goose the economy up again. You're not trusting the free market system. Recessions purge our economy. Bad business practices, failed businesses, failed government policies, everything. Recessions are just as necessary to growth as booms. And fortunately, booms tend to last two times as long as recessions. And that's how we make progress in history.

But you can't keep booming without cleaning the decks every 10 years. And we have had a recession every 10 years since I was born. Well, we've been preventing this last one and that's why we got a bigger bubble, and that's why we're going to have to have a bigger burst. We're going to end up in the same place anyway.

Dennis Tubbergen:

So, Harry, we've got maybe just under two minutes left in this segment. If it's going to be time to start buying stocks potentially a couple years from now and we've got $300 trillion of debt, which we've discussed in this segment that maybe half of that won't get paid. That tells me that the next two years are going to be pretty ugly.

Harry Dent:

Yeah. This will be the worst crash of our lifetime. You go back two generations, the Henry Ford generation, that was late '29 to '32. It should

have been 2008 to 2010, the worst crash. And then a follow-on crash. That was the pattern of the Great Depression, '29 to '32 giant crash. Then a rebound with some stimulus and then another crash, but not as giant from '37 to 1940. So, we're going to get the big crash at the end, because they limited the crash and downturn on the front side with such massive stimulus. So, we're going to see more like '29 to '32 in stocks and '29, '30 to '33 in the economy in the next few years. And it's going to be the worst thing we see. We will not see a downturn this big in the decades ahead and we have not seen it in our lifetimes. Only the people who are already dead would've seen it in the early '30s.

So, this is serious what I'm talking about if it happens, and I see no way around it, because you don't get something for nothing. If we could always do better by just printing money out of thin air, I mean we can, gosh, well, we should do it if that's the truth. But I'm saying no, you don't get something for nothing. There's no way we don't have a bigger crash than we've seen, bigger crash than 2008 to '09. In fact, Dennis, I put a number on that, 1.5 times the stock crashed. 1.5 times the unemployment, on and on and on. This is going to be 50% worse than we saw in 2008 to '09.

That's the best way to put it in perspective. What would you sell if you knew that? What would you do if you knew that? And you wouldn't listen to your stockbroker and sit through this correction is what you wouldn't do. But then you might even sell your vacation home or sell a big home you have and downsize to a smaller one after the crash at bargain prices. So, think that way. What would you do if you thought a recession one and a half times as bad as 2008 and '09 was on its way?

Dennis Tubbergen:

Well, my guest today is Mr. Harry Dent. You can get a free subscription to his weekly newsletter by visiting the website harrydent.com. The website again, harrydent.com. Harry, always a pleasure to catch up with you and get your perspective. I always get terrific feedback when you're on the program. So, thank you for joining us today, and I'd love to have you back down the road here for another update.

Harry Dent:

Sure. Thank you, Dennis.

Dennis Tubbergen:

We'll return after these words.