Harry Dent: 'Biggest Crash Ever' Likely by End of June

But by 2024, it will be over and the U.S. will experience the "next Spring Boom," the "Contrarian's Contrarian" tells ThinkAdvisor.

By Jane Wollman Rusoff | March 10, 2021

Here's Harry S. Dent Jr. taking the stock market's temperature: It's at fever pitch!

"It's the riskiest market since 1929," he argues.

And the U.S. economy? Ready to fall apart.

"A huge collapse is coming (https://www.thinkadvisor.com/2020/12/03/harry-dent-market-crash-coming-in-2-3-years-economy-already-dead/). This thing will be hell."

That's what "The Contrarian's Contrarian," as Dent has been dubbed, tells ThinkAdvisor in an interview.

The strategist correctly called Japan's 1989 bubble bust and recession, the dot-com crash and the populist swell that made Donald Trump president.

What could be "the biggest crash ever," he argues, will hit by the end of June, if not sooner. It will be "the initiation of the next big economic downturn," Dent predicts.

"Fake earnings, fake GDP, fake interest rates and super-high valuations" make for an increasingly untenable situation, he warns. The expanding market bubble has been building since 2008. But the Federal Reserve keeps averting the next huge crisis by continuously "printing money," declares the Harvard Business School MBA.

His HSD Publishing, an independent research firm, generates monthly newsletters that he and Rodney Johnson, HSD president, each write.

In the interview, Dent delivers his prescription for investing amid the weakened economy and impending disaster, as he sees it: Zero in on long-term Treasurys.

"What's better than sleeping with 30-year Treasury bonds," he exults. They'll "magnify your money." He then describes a portfolio allocation for the investor that's "willing to take more risk." As for the notion of high inflation, "no way in hell," he says.

Dent, whose latest book is "What to Do When the Bubble Pops: Personal and Business Strategies for the Coming Economic Winter (https://www.amazon.com/What-When-Bubble-Pops-Strategies/dp/1722502010)" (G&D Media-April 2020), also tells ThinkAdvisor his considered opinions on cryptocurrency ("a big trend long term"), the GameStop frenzy ("stupid but admirable") and Sen. Elizabeth Warren's wealth tax bill ("First of all, those assets are going to crash.")

ThinkAdvisor interviewed Dent on March 5. He was speaking by phone from his base in San Juan, Puerto Rico, where he has resided for the last several years. When the conversation pivoted to folks who attack him for his frequently inaccurate predictions, he offered some choice words and an explanation, then described key indicators he employs that show "very clear cycles."

Here are highlights of our interview:

THINKADVISOR: How much risk is there in the stock market right now?

HARRY DENT JR.: It's the riskiest market since 1929. The difference is that '29 wasn't as global. This is an everything bubble. And with the $1.9 trillion fiscal stimulus bill, we're wiling to stimulate 40-something percent of GDP just to prevent a slowdown in the economy. That's going to go down in history as the most insane thing ever. They'll say, "What were they smoking?"

Please elaborate on the extent of the risk you see.

This may be the biggest bubble crash ever — stocks, commodities, real estate. The next crash is the initiation of the next big [economic] downturn, which will be much worse than the one in 2008-2009.

When do you think the next crash will occur?

It will likely come by the end of June, probably sooner. The S&P falls to 2,100 — lower than the March 2020 low — and that would be a 47% to 48% drop from recent highs, though it may go to 4,000 first. The next crash will be worse than the last one because it will come from higher levels and [plummet] to lower levels.

Why will the downturn that you see be so harsh?

The only reason the 2008 downturn didn't turn into a depression was that they turned on the monetary spigots so hard and blew us out of it, which kept the bubble going. They kept printing money and put it off. Now we've got a bigger bubble. This downturn is going to be the Great Depression that the deep recession of 2008 was [falling into].

How long do you think the depression will last?

If the economy finally falls apart after this much stimulus, economists will flip from being endlessly bullish to endlessly bearish. They'll say, "Now we're in a decade-long-plus depression, like the 1930s." But I'll say, "Nope, this thing will be hell: It's going to do its work very fast. By 2024, it will be over." By 2023 or 2024, we're going to be coming out of it into what I call the next Spring Boom.

Right now, you favor investing in Treasury bonds. What's your strategy?

Man, what's better than sleeping with 30-year Treasury bonds — the safest investment in the reserve currency of a country that's in big trouble — but not as much as Europe and Japan are in and nowhere near as much as China is in. We're in the best house in a bad neighborhood.

What will happen to the 30-year Treasury bond during the massive crash you foresee?

It's going to fall to half a percent and maybe zero. It will expand your money 30%, 40%, 50%, while stocks are crashing 70%, 80%, 90%. Real estate will go down 30%, 40%, 50%. Commodities are already down 50% and are going down another 30% or 40%. Everything is going to default. Cash will preserve your money. The 30-year Treasury will magnify your money.

So, do you think 50% of an investment portfolio should be in Treasurys?

If you're willing to take more risk, you'll have one bucket in long-term U.S. Treasury bonds and maybe in a few other good governments, like Sweden or Australia. Triple-A corporates could go in there too. Then you'll have another bucket — of short stocks, not leveraged.

Stocks are very volatile on the way down. You can also be in REITs that are in very solid areas, like multi-family housing in affordable cities and medical facilities because those will hold up the best.

There's a discernable euphoria now among investors. But John Templeton, the renowned investor and fund manager, famously said that "bull markets die on euphoria." Do you agree with that?

Yes. And Jeremy Grantham [GMO co-founder] said [on Jan. 5] this level of euphoria means you're within months — not years — of a major bubble peak. You're at the end.

Wil cryptocurrency be part of that huge crash?

Yes. I think Bitcoin is the big thing long term and that crypto and blockchain is a big trend. It's like the internet of finance — money and assets — instead of information. So it's a big deal — but in its early stages.

Bitcoin is going to go to 58 [thousand], 60, 80 — and then end up back at 3,000 to 4,000. I would buy it long term, a couple of years from now. I wouldn't touch it between now and then.

What are your expectations for the economy once the pandemic substantially fades?

Some industries are never going to come back. We're not back to where we were before COVID — by GDP or any other major indicator. Everybody is acting like "When we get over COVID, we'll be back better than ever." The stock market (https://www.thinkadvisor.com/2021/06/29/are-stocks-poised-for-crash-correction-or-more-gains/) is already anticipating that. But it's wrong.

The only reason people are spending is because the government handed businesses and consumers tons of money. But it will get to a point where it's not going to matter how much money is printed — and then you'll have an avalanche. A huge collapse is coming.

What specifically will cause it?

There's is no way you can [keep] having fake earnings, fake GDP, fake interest rates and super-high valuations. Financial assets have to come down to reality.

What are the implications?

Loans will fail by the boatload. Then money disappears. That causes bank and business failures. We have to get all the financial leverage, financial assets and debt out of our economy.

Twenty percent of public companies are zombies. They can't even pay their debt service in a growth economy. They're already dead. We've just keeping them alive with embalming.

How much impact did the small investors in the GameStop frenzy have on the market, and do you anticipate more of that sort of crazy trading?

The fact that it happened shows we're in a bubble, that there's too much money swishing around and that it's too easy to borrow money to leverage up on stocks. What they did was stupid but admirable.

Why admirable?

Hedge funds see a company bleeding, so they put pressure on it to force it to bleed more, and they make money. That forces some companies into bankruptcy — which is not all bad because we need to get rid of a lot of zombie companies.

But that's predatory investing. You're literally precipitating the fall by putting pressure on the people that are long and keep knocking it down till they have to cry uncle. You're accelerating the crash.

So why do you consider "admirable" what those small investors did?

They ganged up on [the hedge funds] and bought the hell out of [the stocks] on leverage and shoved it up their ass. The hedge funds were shorting on high leverage.

But these guys called their bluff and forced them to sell out to keep from losing their whole funds. They did the same thing that the big boys do to the small boys.

But why was it "stupid," as you said a moment ago?

It was just as predatory [as what hedge funds do]. One of these days it will be considered illegal, I hope. The [small investors] who got in late in the cycle, when it crashed, lost their asses. The ones who got in early made money.

There's widespread expectation that significantly higher inflation is imminent. But you don't agree. This relates to your favoring long-term Treasurys. Please explain.

People say that if you print so much money, it turns into inflation. But we've been printing money nonstop at the highest rate for 12 or 13 years now — and where's the inflation? We just get a little bit.

There's no way in hell you can create high inflation and not even a chance in hell you can create hyperinflation in this bubbly, highly unproductive debt economy because the money has nowhere to go. It's just going into financial assets that make stocks and real estate more overvalued until they burst.

So you foresee no meaningful rise in inflation?

Here's why we could get a little inflation now: For the first time, the majority of the last round of stimulus didn't come from the central bank's printing money; it came from fiscal stimulus. A lot of that [money] does go into businesses and consumers' hands, and they turn around and spend it.

Some critics argue your forecasting has often been wrong. What do you tell them?

I tell them to [vulgar phrase]. I also tell them that's the reason I have a newsletter. They'll say, "In your book of 2012, you said 'X'." But six months later, in my newsletter I'll say, "I guess this crash isn't going to be so bad because they printed more money."

I've said, "We're getting bubbly now." But then I'll say, "Oh, this isn't the big one yet." I've had to do that for years. Usually we're right when we're saying things are about to give. But the [catastrophic] one [doesn't occur] because they step in bigger than ever [and print more money].

You say your indictors are different from those of others. By what are you guided?

I have very clear cycles that people aren't aware of. Here's one that's crystal clear: There's a 90-year bubble cycle [between crashes]. And [I've found] that the most measurable projectible is demographics.

How so?

I have 40-year cycles in demographic booms or busts. I came up with them myself. I realized how predictable baby boomers' spending was and how many of them there were.

I thought, if I just move the birth index of baby boomers forward from when they're going to spend the most money — age 46 — I can predict boom to bust. And I did. In the late '80s, people thought I was a bigger nut than today when I said the Dow was going to go to 10,000 by [year] 2000.

What else led you to expect that the boomers would be super-important?

In the early '90s, we were on the verge of the biggest boom in history because the baby boom generation is giant, and internet and personal computing were moving mainstream.

In the '80s, my indicator was so clear: Baby boomers were going to spend so much money and drive the economy stronger than anybody — all the way through 2007. I [forecasted] that by the end of 2007, we would have a slowdown. And that was [the runup to the 2008 crisis].

How much influence and impact do baby boomers have today?

We're in slow baby boomer spending and dying baby boomers. We're still in that demographic weakness from 2008 — and they keep blowing bubbles to get us out of it.

What other indictors do you rely on?

One of the best indicators is money velocity. It measures how productively money is being invested in the economy — but it's been sucking wind for 24 years. In a normal, good economy, money grows through the banking system, which makes loans and investments.

You get a good return and profits; then you re-invest — and the money can keep going up. But money velocity has been falling since 1997. It's not paying off profits to reinvest.

At this juncture, what do you predict for money velocity?

It's going to sink more when we deleverage. When it gets to an extreme, we'll shake out all this excess lending and debt, and the financial bubble, all of which are unproductive.

They're lending money to keep already-dead companies going. In one sense, I don't blame [the politicians], whether Republican or Democrat, because nobody wants this bubble to burst on their watch. Donald Trump criticized the bubble and then blew it up bigger than anybody.

Speaking of politicians, what do you think of Sen. Elizabeth Warren's wealth tax bill (https://www.thinkadvisor.com/2021/03/01/sen-warren-introduces-wealth-tax-bill/) that she introduced on March 1?

It makes sense, in a way. The rich have benefited from this financial asset bubble. This is where the bubble is, and that's where it's easy to get money. She's going in the right direction.

But my problem with it is: How do you measure wealth? For example, how do I measure my own — $20 million-a-year-at-best, $10 million-a-year-at-worst — private company that goes up and down like a yoyo?

Any other thoughts about Sen. Warren's Ultra-Millionaire Tax Act?

She's starting the tax at only $50 million, and she thinks she can get $3 trillion over the next 10 years. She won't get that.

First of all, those assets are going to crash. Secondly, people will be smart enough to get around it, like they always are, in some ways. Very smart wealthy people are going to try to hide their wealth and say they're worth less.

You don't think the bill will pass, then?

It's a bigger tax than [Warren] makes it look like. She's saying it's only 2%, but it's 2% every year of accumulative assets. That's a haircut. I don't think it will go through.

Given your dire forecast for the market and economy, what's your personal mindset right now?

My view is that if this bubble lasts even two more years, I'm going to move to [a] little island off Puerto Rico and never be seen again.
