5 Major Forecasts of 2014 ...and Beyond

January

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ECONOMY & MARKETS DAILY

Harry Dent's Top Five Forecasts

... and Beyond

By Harry S. Dent Jr., Senior Editor, *Economy & Markets*

This is it.

The government's missteps are finally going to catch up with us. Why? Because all four of my longer term cycles are pointing down at the same time for the first time since between 1930 and 1934!

Not only the U.S. government, but those around the world as well, have continued to escalate their stimulus efforts, with more required and less cumulative effect. And now it's time for the much-needed, overdue, and possibly unavoidable reckoning… or what I like to call "The Great Reset."

What will that look like?

Well, we can look back to history to the two greatest resets after major debt and asset bubbles between 1835 and 1843 and again between 1930 and 1939. Deflation, debt deleveraging, major bubbles bursting and high unemployment… that's what it looks like.

So here's what I forecast:

Forecast #1: Stock Crash Will Soon Begin

Since the market top of early 2000, each bubble has become increasingly inflated and each successive crash has been a bigger disaster. This phenomenon displayed is called a Megaphone Pattern, as shown in the following chart. Stocks had a similar pattern in a triple peak between 1965 and 1972, the last time a generation peaked in their spending. The 1973–1975 crash was the largest.

However, after the next crash, the rebound will not rise to test new highs as it did during previous booms. Indeed, the Dow is likely to fall as low as 5,000 over the next two to three years and then bounce to something like 10,000 into 2017. After that, it will likely see an ultimate bottom of 3,300 by 2020.

DOW Megaphone Pattern

My research also suggests that corporate profits will tumble by 24% or more in the next four years.

That, along with a drop in P/E levels to as low as 5, suggests a 65%-plus decline for stocks in the next few years and ultimately an 80% decline.

Forecast #2: Oil Prices Will Hit $45 by 2016

Once oil breaks $80, the next stop is likely to be at least $45 between now and 2016.

What's more, I see the price of crude dropping to between $10 and $20 per barrel between early 2020 and 2023. However, the first sign of weakness will be a drop below $80, which I expect by this summer.

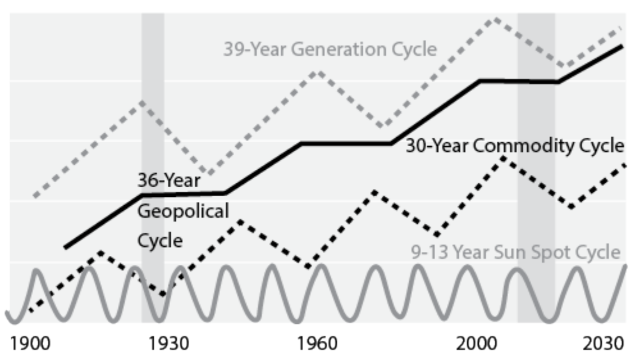
This price fall will occur for two reasons:

1. The world economy slows with falling demand;

2. Ongoing sanctions pressure on Iran forces a deal.

The last bubble that peaked saw home prices falling years ahead. That is now happening with commodities. This leading indicator is worth heeding.

Ultimately, I am looking for a massive real-estate bubble to burst in China that would cripple its economy. That would be the biggest blow to oil and most other commodities — particularly gold, (as shown in the chart below). China is the second largest purchaser of that precious metal; India is first by a hair.



* The shaded areas denote simultaneous downtrends

Forecast #3: Gold Prices Continue to Plunge

After falling back to reality last year, gold is now trading more opposite to stocks than normal. That suggests we are nearing a top in stocks, and gold will run in the opposite direction. This is what happened in 2007 to 2008. Gold is likely to fall back to $1,125–$1,150, as stocks rise and peak. It should then stage a final rally to around $1,400 to $1,430, before collapsing dramatically again.

Historically, gold tends to rally in the anticipation of a financial crisis, then collapse when debt deleveraging and deflation sets in. I would advise selling any remaining holdings of gold and silver on such a rally.

The next stop for gold by 2015 or 2016 is around $700. Ultimately, gold will likely bottom around $250 between 2020 and 2023.

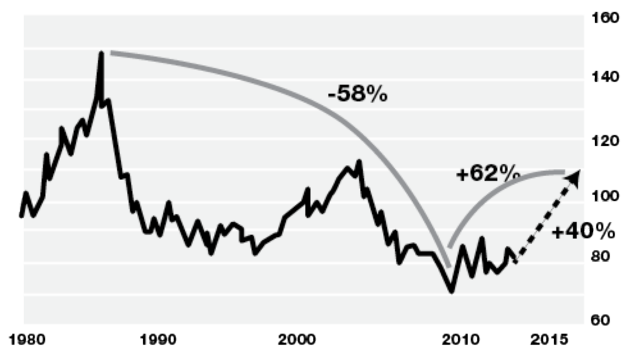
Overall, commodities have peaked in the long-term and will not rebound again until around 2023 to 2024, when we could see the strongest commodity boom in modern history. This is when commodity-intensive emerging countries will drive most of the global growth.

Forecast #4: The U.S. Dollar Will Keep Rising

The biggest surprise over the next few years will be a continuing rally in the U.S. dollar. Many traders doubt this, but an environment of debt deleveraging, global bubbles and crises will make the dollar the safe haven again, as it was during the late 2008 meltdown.

I see the U.S. dollar index, which measures the dollar against six key global currencies, rising even more than the 27% by which it increased in 2008. I see a potential for the U.S. dollar index to rise as much as 40% over the next couple of years.

U.S. Dollar Index



A bet on the U.S. dollar rising is undoubtedly the best way to hedge your portfolio, outside of being short stocks.

Forecast #5: Real Estate Set for a Bigger Crash

The word almost everywhere these days is that real estate has finally hit a mode of sustainable recovery. This is wishful thinking, at best.

As I have argued in several previous issues, real estate is rebounding because of speculation from institutional and individual investors — little more. Mortgage applications for purchases continue to be flat and mortgage rates are rising. I see home prices falling another 34% to 44% between now and 2016.

My advice: Sell now and ask questions later!

The Catalysts

The most likely catalyst for the next crash will be global triggers in major fault-lines like southern Europe and China.

Japan triggered the first crisis in the early 1990s when it went over the demographic cliff. The U.S. triggered the second crisis in 2008 as it went over the cliff and its subprime crisis roared.

China is the next major domino to fall, but trouble in southern Europe and a fall-off in U.S. real estate could add their own fists to this fight first.

My only caveat is this: Given such a strong confluence of cycles that point downward between 2014 and 2019, if we don't see a major stock crash or economic downturn by November — I'm talking greater than a 20% crash here — I will re-evaluate the success of government stimulus measures to counter and look for a greater crash more toward 2018 and 2019… but my cycles tell me the time is now.

My view is that central banks have stretched economies and debt about as far as they can and it will simply take a trigger to blow this bubble back to its B.S. origins… and there are many more triggers than I have discussed here!

So what should you do with your investments this year?

My advice is to tread very carefully and get as defensive as you can get, especially as the Dow gets near 17,000. Take advantage of any moves up, but be prepared to protect yourself when necessary Now is the stay to stay flexible and be agile.

And listen to this video immediately. In it, I answer questions about why I see all of these events unfolding this year… and this decade. And mark my words: it's ugly. I also discuss what those in power are likely to try to do to stop it all… and why they will lose.

Start here

About *Economy & Markets*

In 1989, Harry S. Dent wrote the book *Our Power to Predict*. In it, he revealed how an investor could use demographic trends to accurately predict the direction of the markets, sometimes decades in advance.

Since then, Harry and his business partner Rodney Johnson have been using this New Science of finance to accurately identify booms and busts well ahead of the mainstream.

They gained national attention for their work in warning investors of the 2008 credit crisis and subsequent stock market collapse, many months before it happened.

But this was not the first time they were "on the money" with their big picture forecasts.

For example, in 1989 Harry accurately forecast the Japanese economic collapse and the multi-decade depression in Japan that would follow.

He also called a Dow of 10,000 by the early 2000s at a time when most economists, politicians, businessmen, analysts and investors were expecting the exact opposite. The Dow broke the 10,000 barrier for the first time on April 5, 1999.

In other words, they accurately predicted most of the major economic and stock market events that could have made you substantially richer over the past 20 years.

How do they do it? Well, while most economists focus on short-term trends… policy changes… technical indicators… elections — things that are volatile, unstable and can change from day-to-day — Harry and Rodney focus on long-term trends. Demographics. Business cycles. Human behavior patterns. Things that have demonstrated themselves over hundreds (even thousands) of years to be consistent, predictable and measurable.

They study the past to predict the future… an approach that enables them to forecast years into the future with an incredible degree of accuracy. Then they make minor tweaks and adjustments in response to short-term events that occur along the way.

And that's what they bring to you in *Economy & Markets*, so you'll know what's coming next… where the immediate opportunities are… and where to park your money for the longer term.

As a *Economy & Markets* subscriber, you will know, for example, when it's time to start profiting from the rise of specific emerging market economies (it's not now, despite all the hype about these markets). And exactly what industries and investments will hand you the fastest profits, first.

You'll learn when commodities will likely reach their peak in their cycle and how to ride the gains. You'll also learn when they'll turn down and what investments to make to profit from any moves down.

And you'll learn when the property market will turn up again… you'll learn when, money markets and bonds would be a better investment than stock allocations… and when not.

You'll be ahead of the markets on every boom and bust… access the tools you can use to prepare yourself to survive and prosper.

Meet the Experts

Harry S. Dent Jr.
Editor

Harry studied economics in college in the ’70s, but found it vague and inconclusive. He became so disillusioned by the state of his chosen profession that he turned his back on it. Instead, he threw himself into the burgeoning New Science of Finance where identifying and studying demographic, technological, consumer and many, many other trends empowered him to forecast economic changes.

Since then, he’s spoken to executives, financial advisors and investors around the world. He’s appeared on “Good Morning America,” PBS, CNBC and CNN/FN. He’s been featured in *Barron’s, Investor’s Business Daily, Entrepreneur, Fortune, Success, U.S. News and World Report, Business Week, The Wall Street Journal, American Demographics* and *Omni*. He is a regular guest on Fox Business’s “America’s Nightly Scorecard.”

Harry has written numerous books over the years. In his book *The Great Boom Ahead*, published in 1992, he stood virtually alone in accurately forecasting the unanticipated boom of the 1990s. That same year he authored two consecutive best sellers: *The Roaring 2000s* and *The Roaring 2000s Investor* (Simon and Schuster). In *The Next Great Bubble Boom*, he offered a comprehensive forecast for the following two decades.

In *The Great Depression Ahead*, he outlined how the next great downturn is likely to unfold in three stages, with an interim boom stage between 2012 and 2017 before the long-term slowdown finally turns into the next global boom in the early 2020s.

In *The Great Crash Ahead*, he outlines how this next great crash is likely to unfold in the coming months. He explains why there is nothing the government can do to protect us as deflation takes hold of the economy.

Harry’s latest book, *The Demographic Cliff, How to Survive and Prosper Dueing the Great Deflation of 2014–2019*, shows why we’re facing a “great deflation” after five years of stumilus — and what to do about it now.

Today, he uses the research he developed from years of hands-on business experience to offer readers a positive, easy-to-understand view of the economic future.

Harry got his MBA from Harvard Business School, where he was a Baker Scholar and was elected to the Century Club for leadership excellence.

Rodney Johnson
Editor

Rodney works closely with Harry to study how people spend money as they go through predictable stages of life, how that spending drives our economy and how readers can use this information to invest successfully in any market.

Rodney began his career in financial services on Wall Street in the 1980s with Thomson McKinnon and then Prudential Securities. He started working on projects with Harry in the mid-1990s.

He's a regular guest on several radio programs and is featured on television where he discusses economic trends ranging from the price of oil to the direction of the U.S. economy. He too is a regular guest on fox Business's "America's Nightly Scorecard." He holds degrees from Georgetown University and Southern Methodist University.

Adam O'Dell
Investment Analyst

Adam has one purpose in mind: to find and bring to subscribers investment opportunities that return maximum profit with the minimum risk. He achieves this with his perfect blend of technical and fundamental analysis.

Tactically, he does exhaustive back-testing and probability-based research. It's the ultimate partner to the exhaustive research that Harry and Rodney do in the exciting realm of the New Science of investing.

Adam has worked as a Prop Trader for a spot Forex firm. While there, he learned the fundamentals of trading in the world's largest market. He excelled at trading the volatile currency markets by seeking out low-risk entry points for trades with high profit potential.

Aiming to find the best opportunities across all asset classes, Adam expanded into the commodities, equities and futures markets.

An MBA graduate and Affiliate Member of the Market Technicians Association, Adam is a lifelong student of the markets.

Publisher ....Shannon Sands
Senior Editors ....Harry Dent and Rodney Johnson
Investment Analyst ....Adam O'Dell
Graphic Designer.......................Jeffrey Weeks

Economy & Markets
55 NE 5th Ave. Suite 200
Delray Beach, FL 33483 USA,
USA Toll Free Tel: (888) 272-1858
Contact: http://economyandmarkets.com/contact-us
Website: www.economyandmarkets.com

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