# Book The Great Depression Ahead

## How to Prosper in the Crash Following the Greatest Boom in History

Harry S. Dent, Jr.
Free Press, 2009

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## Recommendation

This book is a bold attempt to predict not only the next several decades, but also the next several centuries – at one point, author Harry S. Dent prognosticates about the year 2400. As he mentions, however, he did predict Japan's 1990s economic slump and the U.S. boom that began in 1998. If you are a believer, take cover, because now Dent's predictions are not so rosy. He foresees a major depression followed by a long period of slow growth. He is singing with the great chorus of economic pundits and prophets, the preponderance of whom seem to be chanting a dirge. However, Dent predicts several encouraging points of light in the very long tunnel ahead, and a great new boom starting about 2020–2023. His methodology is distinctive, though not unique. He anchors his analysis in demographic and technology cycles. Readers might or might not share his faith in the existence and predictability of these cycles, keeping in mind that good advice in the past is not an accurate predictor of the future. However, *BooksInShort* notes that even readers who scoff at the notion that one can predict developments over a centuries-long scale might find the author's methodology useful and his investment recommendations worth considering.

## Take-Aways

- Demographic forecasters are better than ever at predicting economic and other developments, so the world is actually less risky than ever before in history.
- The best experts understand demography well enough to forecast economic cycles with increasing precision.
- The aging population implies slowing economic growth in the U.S. and Europe.
- The U.S. population will shift to the South, Southwest, West and mountain states – but California will lose population.
- Immigration is a positive factor in U.S. economic growth; efforts to restrict immigration will suppress growth.
- South and East Asia will be centers of world economic activity and world population.
- Europe and Russia will become marginal in the coming decades.
- In business, cash will once again be king. Liquidity will determine survival.
- Major depressions occur only once every 80 years. The one following the "Great Crash of 2008–2010" will be the only one that most people now alive will experience.
- The U.S. needs a new "New Deal," and must invest in infrastructure and technology to propel its economy forward.

## Summary

### Complicated Cycles

Life might not be as simple as it was, but it is a lot more predictable. Experts understand economic cycles better than ever. Their challenge is to determine which cycles matter and how they interact. Cycles are interdependent and their interactions are complex. Paradoxically, cycles are more predictable than microcycles. The U.S. economic cycle peaks every 40 years, the stock market corrects every four years, and major inventions, such as the printing press or electronic computing, occur about twice a millennium, with predictable effects. Demography and technology are the windows to understanding economic cycles. For example, the "Baby Boom spending cycle" will end after 2009, and U.S. housing will lose as much as 50% of its value over the long term. Anticipate a crash in commodity-exporting countries, a demographically driven decline in the developed West and even China, and the ascendance of young, developing countries, such as India.

### The Great Crash and the Great Depression – Starting in 2009

In 2009, the U.S. will enter its worst economy since the Great Depression. A false start toward recovery will bloom late in the year, but inflation, interest rates and sharply rising oil/commodity prices will nip it in the bud. Two "bubble booms" will end: the free-spending Baby Boom, and the oil and commodity boom. Deflation in equities, real estate and commodities will continue into the 2020s. Investors should retreat to cash and, eventually, to highly rated bonds that will benefit as interest rates fall and inflation rises. The major implications for your personal finances include:

- Oil/commodity prices will resurge in 2009 or early 2010, and push stock prices sharply down.
- Equity prices in Asia and emerging countries will crash "by 2010."
- The Dow Jones industrial average will fall to 3800 between late 2010 and mid-2012.
- High long-term bond yields will be available from 2010 to 2011. Take advantage of them.
- Until 2012, look for occasional bargains on Asian equities and healthcare stocks.
- Residential real estate, especially rental units, starter homes, and vacation or retirement properties, will become attractive from 2011 to 2015.
- Cash will be king in business, and cash-strong companies will be able to expand.
- Unemployment might rise beyond 15% by 2011, when the depression falls to its nadir.

- Bear market rallies are probable in between mid-2012 and mid-2017.
- Another downturn is probable between 2017 and 2020–2023.
- The next boom will begin by 2023, so 2022 is the last time to buy stocks at a good price.
- Asia will bail out the West in the near term, but its growth will slow in the 2020s, as the West re-emerges.

## Fundamental Economic Drivers – Demography and Technology

Demography is the pivotal economic driver because demographic trends determine spending, productivity, innovation and retirement. Demographically driven economic trends, like inflation, are visible in the data years before they happen, because people follow a fairly uniform, life-cycle pattern of spending that currently peaks in middle age and begins to decline after 50. Over the long term, however, technology makes a bigger impact. New technology is the most crucial determinant of standard of living. Like the demographic cycle, the tech cycle is predictable. Technology follows an S-curve. For instance, the car took 14 years to penetrate 10% of U.S. households, but, in the next 14 years, it penetrated 90% of them. Then, the curve leveled off. Demography and technology both point to a depression beginning in 2010 and ending in the early or mid-2020s. Every investment except cash and very high quality bonds will fall in value.

## New Cycles and Scenarios

The "Geopolitical Cycle" is 32 to 36 years long. The first half favors equities; the second half strongly hinders them. This cycle will begin a slide in 2001 that will bottom in 2019. It peaks again in 2036, with a subsequent slowdown. Terrorism will become a more severe problem, as the commodity bubble aggravates conditions in the Middle East. Protectionism will hamper trade. Stock prices will suffer. This Geopolitical Cycle was behind U.S. equity fall-offs after the 1990s.

> "The most important cycle change for your wealth, health, life, family, business and investments is just ahead during the first and last depression you are likely to experience."

The commodity bubble could take oil prices back to $100-plus per barrel by early 2010, driving stocks down. Expect a severe stock market crash to hit bottom in 2012, after which stock prices should begin to rise. The "Decennial Cycle," well documented by such writers as Ned Davis, means stock prices will fall again in the early 2020s. The Geopolitical Cycle's upturn after its 2019 slump will cushion the Decennial blow. In the well-known, four-year "Presidential Cycle" – which occurs as the U.S. government and Federal Reserve adopt openhanded policies to support the current presidential administration in the run-up to elections – will point downward in the first years of the administration that comes to office in 2009. Thus, in late 2009 and 2010, all major cycles will be on a downward path. Investors will have equity-buying periods in 2014, 2018 and 2022, but the best long-term equity opportunities will come between late 2010 and mid-2012, and again in late 2022.

## The Historic Real-Estate Bubble and Its Aftermath

What might have been history's biggest real-estate bubble has just ended. It will continue to collapse, seriously harming the banking system. The properties most apt to suffer value declines will be trade-up houses, such as the so-called McMansions. Vacation properties and retirement homes, which have been a focus of speculative buying, also will drop.

> "The long-term slowing will come...from natural demographic and technology cycles."

In residential real estate, apartments represent the soundest investment because young households rent before they buy. The rental cycle will continue through 2017. In 2011 and 2012, starter homes will be a good bet as mortgage rates fall, and many families buy their first houses. Vacation and retirement residences will begin to become more attractive shortly after as the Baby Boom starts to downsize. Trade-up housing will perhaps rise by 2015 and boom after 2020. Expect a sustainable boom across real estate from 2023 to 2036–2040. The coming depression will take a toll on commercial real estate, but opportunities will arise in 2012 and 2013, and after 2023. This economic crisis, featuring depression and struggling banks, will go through these stages:

- **2012–2013** – Very severe collapse.
- **2012–2017** – A rally that could last five years.
- **2017–2020** – Another downturn and deflation, but not as severe as 2012–2013.

## Moving South and West

Young households, more than retirees, will drive U.S. immigration and internal migration. The "echo boom" will see domestic migration to the Southwest, Southeast and Rocky Mountains. Young households will seek small cities of one to two million people or less. The coast will see a slowdown in immigration as the depression drives unemployment up and real-estate prices down. Immigration restrictions could have a dire effect on the economy because immigrants are a net positive benefit. While they impose costs for education, medical care and the like, on average, immigrants each pay about $80,000 more in taxes than their benefits cost society.

> "Life clearly has become more complex over modern human history, yet we have learned to predict more events in all areas of life."

Spending by echo boomers will drive economic growth. They will buy homes and pay local taxes. The post-World War II Baby Boom has driven the American economy for the past two to three decades. Boomers' spending and technological innovations improved productivity and generated prosperity. This economic environment was a magnet for immigration. The downturn beginning in 2010 will see a reversal of that prosperity, cushioned by echo boomers' spending. Arizona, Idaho, Nevada, Oregon, North Carolina and South Carolina are likely to be the greatest beneficiaries of U.S. echo-boom residential choices.

## Global Demographics

Globally, major demographic and economic changes are underway. Japan peaked in 1990. The West, Russia and Eastern Europe will peak in 2010. China will peak from 2020 to 2035, and Southeast Asia and Latin America will top off from 2040 to 2060. The Indian subcontinent and the Middle East will grow through 2070. If Africa modernizes and joins the world, it could emerge in the last decades of the 21st century. Slowdowns in the developed West will be severe from 2010 through the early 2020s. Asian exports will suffer, as commodity-dependent countries hit serious trouble. Look for buys in Asian equities from 2010 to 2012.

> "This is the Darwinian process of free markets."

World growth will resume in earnest in the mid-2020s, but China will cool off by 2020, as the Geopolitical Cycle peaks and then slows. Nations will confront severe challenges in the wake of the depression that begins in 2008, including more terrorism, protectionism, war, friction and environmental strain. The solution will be increased international cooperation and more new political institutions that will help bring on a new round of globalization in the 2020s.

> "These markets foster innovation and the expansion of many new companies...then shake them down to the very fittest during the crashes and depressions that follow."

Aging societies will make technological innovation more difficult. Youth drives invention and there will be fewer young people. Economic progress and rising standards of living depend on technological innovation. The world might have to rely on baby booms in emerging nations and on advances in longevity.

### The Failure of Asset Allocation

Tired, traditional approaches to asset allocation will falter. Relying on historical asset performance to predict the future is not prudent. In fact, forecasters do not know the odds of stock market moves as well as they know the odds of a throw of the dice, yet they make investment decisions as though they do. Statistically based investment models are quite risky. Experts do not have a good enough grasp of the probability to make statistical predictions about asset allocations and stock prices. Though they might not be able to project GDP with precision, they do know how the trends will play out. And this knowledge indicates that all economic cycles will turn downward in the very near term.

### Making Money in Deflation

The downturn will be comparable to those of 1969–1982 and 1930–1942, but worse. Deflation beginning in 2009 and 2010 will make the shortcomings of traditional asset-allocation models crystal clear. The conservative investor should be in cash in 2009 and 2010. Choose long-term, high-quality bonds from 2010 to 2022. Get in selected equities (Asian firms, multinationals, healthcare) from 2012 to 2017, and in large-cap U.S. equities, Indian equities, healthcare and real estate from 2022 to 2035. Businesses are entering a period of severe competition. Companies must choose among:

- **Selling before the end of 2009** – Businesses will fetch less and less as the depression worsens. By the end of 2010, you might only be able to get half the price available in 2009. So it makes sense to sell early if you are planning to retire or change careers.
- **Building cash reserves** – Streamline operations. Look at the tough times as an opportunity to acquire assets of failing competitors and build your market share.
- **Thinking very strategically** – Sell nonstrategic operations and make acquisitions that will benefit from developments in the long-term cycles.

> "Investing in new technologies...is perhaps the greatest way that government can help spur private investment and innovation."

Hold off on borrowing and capital investments until the trough of the depression, when interest rates will be low. Focus on cost cutting now. Pay debt, outsource and raise cash by selling businesses you don't want to be in for years to come.

### The New "New Deal"

As in the 1930s, business and politics will require revolutionary changes – a new "new deal" – to cope with the problems that await. Rich countries will struggle with the demands of aging populations. India will outstrip China and be more powerful than the U.S. by mid-century. Globalization will suffer setbacks, but it is the only way to deal effectively with the challenges ahead. The outline of the new "new deal" should be visible within countries beginning in 2012. The new deal among countries will follow from 2014 to 2023.

## About the Author

**Harry S. Dent Jr**. also wrote *The Great Boom Ahead.* He is the president of the H.S. Dent Foundation, whose motto is "Helping People Understand Change."