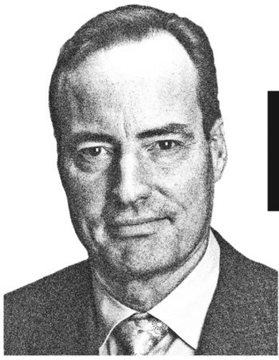
APRIL, 2019



The Leading Edge

HARRY DENT [UNFILTERED]

THE APRIL ISSUE

Inside This Issue

The Non-Secret to Improving Financial and Business Success

I chose an uncommon focus in economic forecasting: cycles. Actually, it really wasn't a choice. I was compelled because cycles are all around us, all of the time. They're woven through nature and the history of humanity. They impact every aspect of our lives. Seeing and understanding them makes achieving financial and business success so much easier.

It boggles my mind, and frustrates me, that so few economists and advisors like myself study and use them. And it surprises me that people don't pay more attention to them. I suspect we, generally speaking, are cycle-blind because there is always a negative component. Willingly focusing on the FULL cycle constantly can be downright depressing and debilitating. Every life cycle ends in death. Every addiction cycle ends in pain. Every bubble cycle ends in a bust.

Our natural, *human*, inclination is to suppress conscious thought of the negative and strive for only the positive. In so doing, we often minimize the value of the former and overestimate the value of the latter. If we only succeeded, how much would we learn?

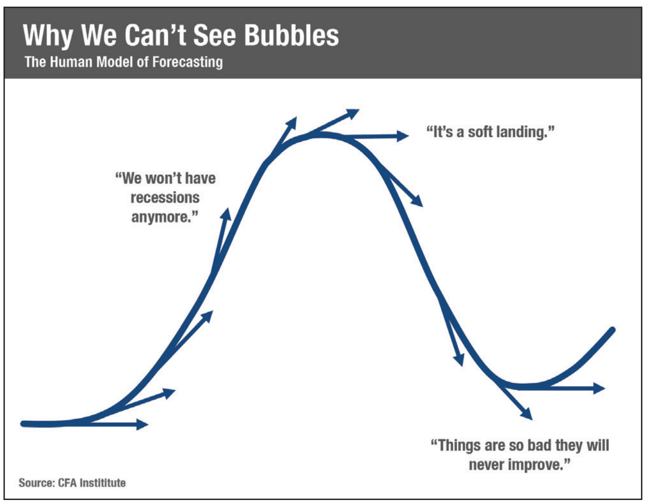
Besides that, too much success (or lack of failure) makes us complacent and sets us up for even bigger failure. We don't like pain, but it keeps us alive by avoiding danger so we can experience the pleasures of life.

I was listening to a comedian recently who was joking about the "old America," where kids weren't strapped into car seats until they were 18 and they weren't bubble wrapped when riding their bike or roller skating in the neighborhood. As he put it, "The pain of falling on cement was motivation enough to get better and NOT FALL."

We need – *need* – hardship to grow, as individuals, as businesses, as investors, as a species. Yet we do everything in our power to avoid pain and discomfort. Talk about the "human condition."

Another "human condition" that often does us harm is our innately linear view of the world. While this creates the opportunity to use the best, most unsophisticated way to predict the future – just bet against the consensus of public opinion – it leaves businesses, investors, economists, and analysts surprised when cycles follow their natural path.

Look at this chart. It's a brilliant depiction of the dangers of our linear thinking…



In short, our "human condition" blinds us to the opportunities AND dangers right before us. It has us looking the wrong way, if we're looking at all.

It's why most people will tell you the markets are not in the greatest bubble ever, even when it's stupidly obvious that they are. It's why most people will miss the Dark Window this year. And it's why most people will get slaughtered after this Economic Winter Season ends with a bang.

That's why studying cycles became my life's work… why I get up in the morning.

Living life, operating business, and considering investments without consciously understanding the nature and presence of cycles is like driving down the interstate blindfolded. An unnecessary dangerous activity.

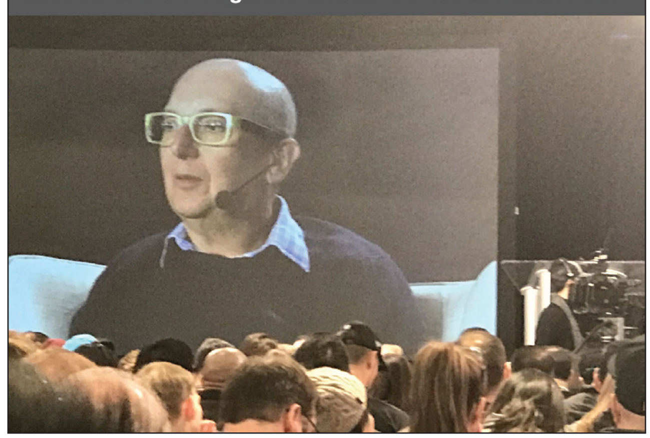
Cycles are obvious… and useful. And I want YOU to benefit from them. That's why, in this month's edition of *The Leading Edge*, I explain the six laws of cycles, and how understanding them can immediately improve your financial-, business-, and investment-decision making. Before we do that, though, a quick personal story…

God's Instruction: Live Your Life in Service

I spoke at the Tony Robbin's Platinum Partners Conference on finance and investing in February. It's an annual pilgrimage for me, and one I eagerly anticipate because I always come away with life-changing insights (while hopefully imparting some of those insights to other speakers and attendees myself).

The best speaker in yet another sensational line up this year was Count Luca Padulli.

Luca Padulli on stage at Platinum Partners Conference



He doesn't look like a Count, does he?!

He's unassuming and a delightful, simple character whose primary mode of transportation in Italy is his bicycle and the local bus.

Yet he manages a massive fortune for descendants of the Medici family… you know those titans of commerce and innovation dating back to the Renaissance? Those guys!

While on stage, Tony asked him what his secret to success was. He answered simply: *"I have no fear."* His devote Catholic upbringing taught him to trust God's will. Such trust engenders serenity, even in adversity.

As he talked, I realized he had a great deal of common-sense knowledge about the basic cycles of life. He intuitively knows that challenges and adversity are blessings, not curses to avoid at all cost. He knows how to learn from his mistakes and move on. Much like you.

Tony also asked him what he loved most about what he did. He responded: *"Oh, it's an awful responsibility, a terrible pain in the ass!"* His joy comes not from what he does but from his service to the family and all others. It's another spiritual principle that was entrenched in him as he grew up: Trust in God and have your life be service to humanity.

You could say cycles are the work of God.

They are everywhere and in everything. And they move through four seasons. This was one of the first things I learned about the nature of cycles when I began my research back in 1980.

And once I had quite unintentionally completed my 10,000 hours of immersion to become a master on the subject (as Malcolm Gladwell asserts, in his brilliant book *Outlier*, is necessary for the mastery of anything), a simple truth became evident. That is: We can see the most important cycles that will impact our lives, family, investments, and business over the rest of our lifetime. And when we see them, we can become proactive rather than reactive.

Seeing them – and knowing what action to take accordingly – becomes easy when you know the laws they follow… so here they are:

The Six Laws of Cycles

LAW #1:

There are infinite numbers of cycles, especially as you get into shorter-term time frames. That makes the short term harder to predict than the longer-term trends.

I know that sounds counterintuitive, especially because most economists believe shorter term trends are more predictable. But after more than 87,000 hours of immersion in this topic (over the last 30 years), I can tell you they've got it backwards. Long-term forecasting is easy. Short-term forecasting isn't, which is why I always boil things down to two scenarios. For long-term forecasts, I have just one primary prediction.

As they say in Zen philosophy: "There is only one path… the one that happens."

The trouble with short-term cycles is that they're probabilistic. Longer term cycles are deterministic… simple cause and effect. There are fewer cycles of impact, the longer-term you go out, and the short-term cycles and wiggles become less significant.

To illustrate, consider my Spending Wave. Generations increase their spending as they age to about 46 years for the Baby Boom (47 for the first wave of the Millennials). After that, they increasingly spend less until death. That is totally predictable, like death rates are predictable for life insurance actuaries.

We are born, enter the workforce at age 20, get married, have children, earn and spend more money until the nest empties, retire at age 63, and then die at about 79 in the U.S. (84 in Japan). We weigh the most at age 60, eat the most calories at age 14, have our peak of basic cognitive abilities at age 50.

All cyclical. All easily predictable over the long term.

So, the first law of cycles is that they're probabilistic in the short term and deterministic in the long term.

In practical terms it means that people like me can make good, educated guesses about the short term – which improves your odds – but if you identify the most critical cycles, long-term trends are clearer.

Presently there are very high odds of "the crash of a lifetime," while longer term trends continue along the same bullish trajectory they've been in since the late 1800s.

LAW #2:

Evolution and progress are EXPONENTIAL, not linear.

Knowledge and success build on themselves. It's like re-investing the dividends and creating exponential wealth out of a modest 3% linear growth trend.

As I wrote earlier though, our human inclination is to think in linear terms. That's why we miss the opportunities when things seem darkest… or miss the warning signs when things seem brightest. It's also why we have such a hard time understanding other generations.

Just four generations ago we were living more like those days of the "Little House on the Prairie!"

Baby Boomers grew up driving cars.

Millennials grew up navigating the internet… and they can drive circles (ahem) around their parents and grandparents on that front. Not in their own cars, of course, as the younger generation has embraced ride sharing.

Regardless, progress between one generation and another is so vast that it leaves the older set feeling, well, old! People have a clear tendency to overestimate the impact of new technologies when they first emerge – blockchain and cryptos are good, recent examples – and so greatly underestimate the impact longer term.

LAW #3:

Progress and evolution do not occur in straight lines. They are always cyclical.

Yet economists aspire to eliminate recessions. Clearly, they don't appreciate the "play of opposites" that creates the very dynamics of life and drives all progress. They fail to realize that stopping recessions is the equivalent of eliminating sleep. This shows that they don't understand the very processes they're studying from the start.

Even the simple law of energy requires positive and negative poles. Without those opposites, there is no energy.

Prevent recessions and depressions and you create a zero-energy environment… a coma economy, like Japan today. In keeping the economic pain at bay, the Japanese have succeeded in keeping the gains at bay as well… no pain, no gain! And again, without pain to warn you of life-threatening things, you wouldn't be alive to experience pleasure.

LAW #4:

Cycles don't operate in isolation. There is always a hierarchy, usually three or four, intersecting and dissecting, all influencing each other and the results.

There is one dominant cycle, but along for the ride are a few others that significantly refine the process of growth and change. Knowing which ones to watch and understand helps you tailor the actions you take… to become proactive instead of reactive.

The best example is the climate cycles that Milutin Milankovitch made famous. That guy is my cycles hero!

His hierarchy of cycles starts with the dominant 100,000-year cycle. To that he added the 42,000- and 21,000-year ones that project ice ages and the warmest and coldest periods tens of thousands of years in advance.

Thanks to the incredible work of this Serbian geophysicist and astronomer, we know the next ice age is due 80,000 years from now. We also know that the earth should be moving through a moderate cooling period right now. Considering the increasing temperatures across our planet, and the resulting severe weather, clearly humans and our pollution are having a negative impact on the environment. It's simply not debatable to me. But on the other hand, natural cycles have created much greater extremes in warming and cooling over history

Most important, the Milankovitch Cycles prove wrong those economists who argue long-term forecasting is impossible, citing that life is just too complex. To the contrary, these cycles show that, over the long term, cycles are much simpler and thus much easier to track and forecast.

As gloomy as my near-term forecasts are, the long-term picture continues to be one of unprecedented progress on the critical 500-year cycle of inflation and mega innovation, a subject I covered in detail in the December 2018 issue. In that time frame, there are three key cycles: that 500-year one, a 250-year Revolution cycle, and a 165-year East to West Dominance cycle. All three point up together into 2150. Hence, the long-term trends are crystal clear and very bullish.

But too many cycles spoil the soup!

Possibly the hardest part of studying cycles is knowing which ones are important to the subject matter at hand and which ones to dismiss. It's something that every cycles scientist, myself included, struggles with daily.

LAW #5:

Every important cycle can be broken down into four seasons, like spring, summer, fall, and winter. That's how you determine the primary or dominant cycle in a hierarchy… it's the one that breaks the most clearly into a four-season pattern.

100,000 years for climate.

60 years, 500 years, and even 5,000 years for the economy.

Note that the out-sized impact of the Baby Boom generation caused the 60-year economic cycle to temporarily stretch to 80 years. It will go back to that dominant 60-year cycle in the future.

Each stage (season) of these cycles is different and requires different strategies. Just like the clothes we wear differs with each season, so too should business plans and investment strategies.

There is no all-season strategy unless you want to under-perform in ALL of them.

Economists, and uber-successful hedge fund managers like Ray Dalio, want to come up with such a strategy, but they're doomed from the start. If they understood law #5, they wouldn't make this obvious mistake.

LAW #6:

Cycles affect each other. A 40-year generation boom within a rising 500-year mega-innovation cycle is going to be stronger than such a boom in a declining larger cycle. The current 250-year Political Revolution cycle will not be quite as strong or impactful as the one that occurred in the downward phase of the last 500-year cycle, where we saw the big bang advent of democracy, free market capitalism, and the Industrial Revolution (the most important development in modern history). This is precisely why it's important to have a hierarchy of cycles.

Even sunspot cycles, which are actually critical to boom and bust cycles about every 10 years, are impacted by the gravitational cycles of the larger planets, like Jupiter, on the sun. That causes it to vary between eight and 14 years, and scientists are good at predicting those variances. The present cycle is the longest in hundreds of years and is nearing a bottom, which increases the odds of a major crash near term,

Lessons from the Gold Standard of Cycles Research

Since I consider the Milankovitch cycles the gold standard for cycle research and predictions, let's look at them a little closer. Sure, it's an almost unimaginable time scale and of little relevance to our daily lives, but it's fascinating and best demonstrates the principles of cycles and forecasting.

I study longer-term cycles to give a greater perspective of "direction" and magnitude to shorter term ones. But also, I can see nuances in the four-season cycle that would not be as obvious in short-term cycles. Most important, it offers some insights into why even the clockwork-like world of Isaac Newton and scientists in general isn't quite as clockwork-like as they like to think.

What do I mean when I talk about perspective? As we walk up the cycle hierarchy, the picture we see changes. Just like the world looks flat from 6 feet off the ground, rise beyond the atmosphere and the Earth's spherical shape crystalizes. Move further out and we begin to see that the Earth wobbles, tilts, and wonders a bit in its orbit as it flies through space… just like a spinning top! Those three seeming imperfections are the cause of those three 100,000-, 42,000-, and 21,000-year cycles that make climate change so predictable longer term. These imperfections occur from the impacts of the gravitational pull of other planets/cycles. We can't feel or see that when our feet are on the ground.

When we're in the middle of it, it's hard to see all the elements. The more we broaden our perspective, the more we can see, and the better the decisions we can make. Gain enough perspective, and long-term forecasting becomes easy.

Take the 900-million-year, four-season climate cycle that saw the formation of Snowball Earth, when the planet froze some 600- to 700-million years ago. It was the greatest winter season on record! And it was totally predictable with tools the best scientists have today.

Same with the last great summer season, when the dinosaurs roamed the earth, becoming massive in size and population thanks to the super-abundant foliage when there was no ice on the north or south poles.

Mammals and humans have thrived in the fall cooling season that started about 50 million years ago. It ended up killing the plant-eating dinosaurs, but gave us what we needed to emerge and dominate – and dominate we do, even to the point of impacting climate substantially for the first time in history.

But back to Milankovitch, the primary cycle that affects earth's climate in relationship to the sun is this 100,000-year eccentricity cycle (wandering), followed by the 42,000-year obliquity cycle (tilt), and then the 21,000 elliptical cycle (wobble).

That is the perfection of imperfection in life and in cycle forecasting. It's kind-of-clockwork-like, but not exactly… as cycles (and gravity) affect other cycles, the sixth law. But those cycles are still constant and predictable when you put them together in the right proportion and hierarchy. That is the greatest challenge and "art" of cycle forecasting.

Can Cycles Become Outdated?

I love it when someone asks me if my cycles are outdated because progress is exponential. It shows me they really understand that things are not as linear as they appear.

My response is that cycles are CONSTANT. Progress doesn't change them. They're imbedded in the physics of reality.

But…

There IS more progress in each of these cycles due to the exponential nature of change and progress. I would go as far to say that there has been more progress in the last 150 years than in all of human history (more than 250,000 years back to the measured "Eve" gene). That is the progressive nature of technology and evolution. But human and economic evolution tend to come in 5,000-year civilization cycles, and 500-year mega innovation cycles, and 60-year economic cycles… and of course, much larger and smaller ones. These do not change.

Again, even though there was an aberration in the 60-year cycle due to the first middle class generation, the Bob Hopers, and then the massive Baby Boom cycle to follow, that 60-year cycle is still in effect and will re-assert itself in the decades to come.

Certain cycles will become more important when technology and evolution favors them, just like aberrant genes that spawn innovation and evolution. It's the relationship *between* cycles that makes forecasting more of an art than a science. As does their eccentricity, tilt, and wobble.

Returning to the previous example, sunspot cycles may average 11 years in the longest-term studies, and 10 years in the last century, but they vary between eight and 14 years in reality. Why? The gravitational pull of the larger outer planets like Jupiter affect sunspot activity.

I look back at recessions I've lived through in my lifetime: early 1960s, early 1970s (and mid), early 1980s, early 1990s, early 2000s… and just off cycle a bit, 2008-2009. There's an undeniable pattern.

Yet I get a lot of flak because of this cycle. Not only because people think I'm looney when I first tell them about it, but because it's so variable AND it has such a big effect on stock and economic booms and busts about every 10 years.

The impact of this cycle isn't news. Ned Davis knew of it, and based many of his forecasts on it. But he didn't know it was the sunspot cycle, only that it was an average 10 years up and down. His mistake was not appreciating enough the variability of cycles as they affect each other, especially this one.

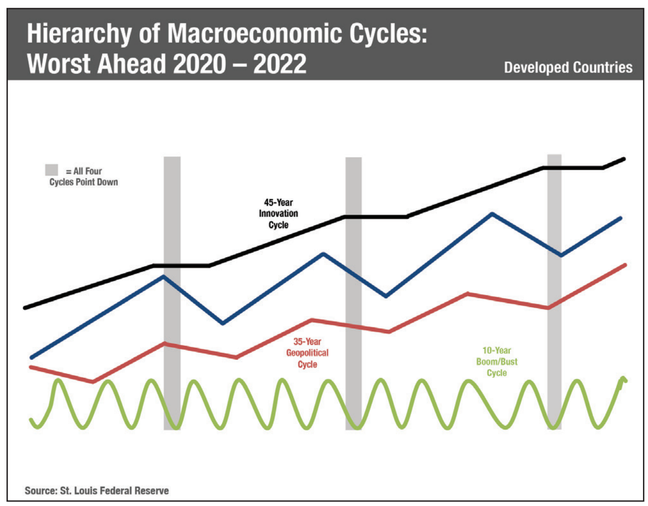
Because my research had taught me to be wary, I knew better than to call for the peak when it was due on Ned's cycle. Turned out that it peaked 14 years after its previous peak in March 2000, which was the exact top of the tech bubble.

Ned has three cycles in his hierarchy: the 10-year, a four-year, and a one-year. That's why he's good. But now I can forecast this sunspot cycle better because I understand the actual cause and listen to the best scientists, which gives me an edge… as do demographic cycles that may average every 40 years, but are very different in countries and regions around the world.

In my next issue of *The Leading Edge*, I will focus on the very important shifts in how constant cycles vary in their impact given evolving technologies and economic conditions, which also spring naturally from cycles. Such an insight was why I was the only long-term cycles guy not to fall for the "Great Depression of 1990" predictions that were so popular in the late 1980s. Rather, I saw the massive rise and importance of the Baby Boom demographic cycle (and its simultaneous demise in Japan).

A new cycle was king after World War II. Now another important 90-year cycle is king, with this final bubble of all bubbles into 2019.

We have had so much progress since I was born and started studying cycles in the late 1970s that I have been able to prove and document a hierarchy of cycles, as this last chart shows. And of course, there are three long term cycles and one intermediate term



(sunspots) to refine them.

The technology cycle is the most important, longer term, at 45 years. The demographic cycle, at roughly 40 years, became the most dominant after World War II when the first middle-class generation (the Bob Hopers) entered our workforce.

All four of these cycles head down together into 2020. That tells me that the next great crash is most likely to occur next year, with the worst over by 2022-2023.

The Geopolitical and Sunspot cycles should turn upward in 2021. The demographic cycle turns around in 2023. But the most important technology cycle doesn't turn up strongly again until 2032 or so.

So, the next global boom won't be as strong as the one we saw from 1983 to 2007 as all three cycles won't be totally in sync. And it will be concentrated most dramatically in India and Southeast Asia after China's lead in the last three decades. After all, we are in the rising East phase of that 165-year cycle.

My friend and co-author of *Zero Hour*, Andrew Pancholi, has seconded my generational insight that it takes two generations to create a four-season cycle in economics: a spring boom, an inflationary summer recession, a fall bubble boom, and then a deflationary depression. This temporarily created an 80-year four-season cycle.

Double cycles tend to be doubly powerful, evidenced by the fact that this demographic cycle stretched the normal 60-year four-season cycle by 20 years. And the 90-year technology cycle (45 x 2) is creating the biggest bubble ever in what would normally be a deflationary or depression era.

I'll cover this transition of how different, CONSTANT, cycles have been more impactful as our economy has evolved in the next issue of *The Leading Edge*… and why the most basic 30-year Commodity and 60-year Inflation cycles are still intact and will return to prominence in an emerging-world-driven demographic growth economy ahead. Stay tuned. Between now and then, remember these six laws of cycles. It'll help you make better financial, business, and investment decisions.

About Harry S. Dent Jr.

Harry Dent studied economics in college in the ’70s, but became so disillusioned by the state of his chosen profession that he turned his back on it. He spent the ’80s coming up with a radical new approach to forecasting the economy; one that revolved around demographics and innovation cycles.

Since then, he’s spoken to executives, financial advisors, and investors around the world. He’s appeared on “Good Morning America,” PBS, CNBC, and FOX. 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*.

Harry has written many 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. In 1998 he authored the best seller: *The Roaring 2000s*. In T*he 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 could unfold in three stages. In *The Demographic Cliff*, he showed why we’re facing a “great deflation” after years of unprecedented stimulus. His last bestseller, *The Sale of a Lifetime* showed all the opportunities that will abound once the great reset has begun. His newest book, *Zero Hour*, warns of the greatest political polarization since the Civil War and why we’ll see a major revolution.

Harry got his MBA from Harvard Business School, where he was a Baker Scholar and was elected to the Century Club for leadership excellence. He has been a Fortune 100 business consultant at Bain & Company, CEO of several small companies, a new venture investor, and founder of Dent Research.

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