Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Murray Gunn
Elliott Wave International

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Dennis Tubbergen:

You are listening to the retirement lifestyle advocates radio program. I'm your host, Dennis Tubbergen. Joining me once again today is returning guest Mr. Murray Gunn. Murray is the head of global research at Elliott Wave International. You can learn more about his work at elliottwave.com. And Murray, welcome back to the program.

Murray Gunn:

Thank you, Dennis. It's great to be here.

Dennis Tubbergen:

So Murray for our listeners perhaps that are not familiar with the Elliot Wave method of market analysis, can you give them a very quick primer?

Murray Gunn:

Sure. Well, the Elliott Wave principle is a fractal-based model of the economy discovered by a man called Ralph Elliot in the 1930s. So he discovered that human herding behavior causes markets like the stock market, which is a leading indicator of the economy, to exhibit certain identifiable and repeatable patterns. He found that these patterns repeated every timescale. So it really enabled cycles of herding behavior to be anticipated from the short term to the very long term. So what he did was Elliott examined price data for the US stock market and using his empirical study discovered that these patterns could be labeled and identified. That introduced a forecasting element to market analysis. That really wasn't there before. So for example, if there was a triangular pattern present on the chart of the stock market it's a fairly reliable indicator of what is going to happen when that pattern is complete.

Murray Gunn:

So now the fact that these patterns are repeated every timescale means that the Elliott Wave principle can be used to forecast price developments for the next few years or in the next few months or years or even longer. So at Elliott Wave International, we've taught thousands of people how to use the Elliott Wave method to analyze the markets they follow. We've included everything you need to learn inside a free version of the classic textbook, Elliott Wave Principle which you can get through Elliottwave.com or through the link attached with this discussion.

Dennis Tubbergen:

And for our listeners that would like to get a free book about Elliott Wave principle, we are posting a link on our website, retirementlifestyleadvocates.com. Feel free to go ahead and check out our website, click on the link. Murray has been very gracious to make that available to our listeners. So Murray, our listeners that just heard you say, give that explanation I should say, might've heard you say it, I'm paraphrasing, that market behavior is somewhat predictable. Is that fair?

Murray Gunn:

Well, that's the conclusion that we've come to and the analysis over the past 50 years has proven that to be the case. Even longer when Ralph Elliott was making forecasts back in the 1930s a lot of these forecasts came to fruition. So human behavior as crowds, in herds, is relatively predictable. So it's not a great surprise that because financial markets are driven by human beings in herds that their financial markets should be relatively predictable.

Dennis Tubbergen:

So to maybe put you on the spot a bit here Murray, given that market valuations, at least from a fundamental perspective, the Buffet indicator, which has a market cap over GDP is at an all time high I think about a third more overvalued than at the tech stock peak around 1999. Did you guys see this coming?

Murray Gunn:

Oh, certainly. Yes. We've been looking at the uptrend in the stock market for a number of years now as being towards the end of what we call a super cycle top. Our thesis remains that the global economy has been going through an incredible period of change over the last 20 years. What's been happening really is that global leadership has been changing from west to east. So this super cycle topping process has involved different stages of dominoes falling, and it really sets the stage for what's coming next. So it's incredible to think that the Japanese stock market topped out 30 years ago, that's 30 years of a bear market in Japan. The Eurozone stock market topped at 20 years ago or 21 years ago now. China peaked 14 years ago. So over the past decade or so it's really only been America that's been the last man standing, so to speak, in the great super cycle top.

Murray Gunn:

But if our analysis is correct, then that's about to change now because the US stock market is close to completing this up trend that we've been following for the last number of years and turning into more of a bear trend.

Which could actually be quite dramatic given the fact that there's so much debt in the world and we're looking at a period of debt deflation.

Dennis Tubbergen:

So Murray, when you look and we're recording this on Thursday the 22nd of July, this will begin to air in just a couple of days, but the US markets this week have been extremely volatile. Is that a precursor to this correction that Elliott Wave is forecasting?

Murray Gunn:

Very much so. We very often see increased volatility at the end of up trends. It's not just pattern recognition that we use for, again, to find forecasts. We also screen for sentiment and relate that to where we are in the overall cycle. Really Dennis, where do I start with sentiment now? A famous technical analyst once crypted he was so bullish that he had to walk through the door sideways so he could get his horns through. That sentiment sums up really where we are today. You just need to look, investment fund cash allocations are at all time lows, household exposure to financial assets is at all-time highs, the use of leverage and debt in the financial markets is at all-time highs.

Murray Gunn:

Sentiment surveys show bullish extremes on retail stock trading, IPO's and mergers acquisitions have all boomed. These are all indications of, a bullish extreme, which is consistent with a top in the stock market. But really Dennis, one stat that has completely blown us away recently is that if the current pace continues there's going to be more money poured into global equity funds over the past year, then over the past two decades combined. The fact that that is occurring after a decade long rise in the global stock market index is a sign of a speculative excess that is consistent with a final wave higher.

Dennis Tubbergen:

So do you have any predictions, Murray, as to when this final downtrend begins timing wise? Do we see that this year, next year? Do you have a sense as to timing? I know that's a difficult question to answer.

Murray Gunn:

Well, we think it's pretty close now, given the structure of the waves in the US stock market, and others. So we wouldn't be surprised if this autumn we experienced a down draft in the stock market. It's just a question of whether that actually continues or not. We certainly think the evidence is there to expect that, to continue to be subdued and into next year for a subdued

stock market. So this autumn is very interesting. 2021 itself is a really interesting year in terms of what we call Fibonacci Change cycles, which is related to the Fibonacci series, a number series, which is related the golden ratio, which is a very key part of the Elliott Wave principle. So if we look back in history, we can see that, for instance, 21 years ago it was the 2000 peak, 21's a Fibonacci number. 55 years ago it was a 1966 peak, 55 is a Fibonacci number. 89 years ago, it was the 1932 war, which is also, a Fibonacci number. So from a time cycle point of view this year is really interesting, from our point of view.

Dennis Tubbergen:

Well Murray, we've got just a couple of minutes left in this segment and we can pick this conversation up in the next segment, but bull markets certainly come in various levels of intensity. The same is true for bear markets. So on a level of intensity perspective, how intense will the coming bear market be in your view?

Murray Gunn:

Well, we think it's got potential to be ... Have a period of intensity, but have much more longevity than before. As I said opening that Japan's been in a bear market for 30 years, Europe for 20 years, China for 13 years. Can you imagine the same situation in America? The fact that actually nobody can, and the fact that the Fed's only goal seems to be, at the moment, to keep the stock market up is an indication that once the market starts to turn down and once expectations of lower asset values, which have been inflated throughout all recognition, then that would tend to exacerbate the expectations and exacerbate the longevity of a bear market. Don't forget, the markets can be sideways affairs as they were, for instance, during the 1970s. So we expect a lot of volatility, a lot of bear market rallies, which can be very fast and can be taken advantage of.

Dennis Tubbergen:

Well, my guest today is Mr. Murray Gunn. He is the head of global research at Elliott Wave International. You can learn more about his work at elliottwave.com. We will also have a link posted on our website to get a copy of a free book explaining Elliott Wave analysis. I'd encourage you to check that out. I'll continue my conversation with Mr. Murray Gunn when RLA radio returns. Stay with us.

Dennis Tubbergen:

You are listening to RLA radio. I'm your host, Dennis Tubbergen. I have the pleasure of chatting once again today with returning guest, Mr. Murray Gunn. Murray is the head of global research at Elliott Wave International. I

would encourage you to check out their work. Elliotwave.com is the website. Also if you go to the retirement lifestyle advocates website at retirementlifestyleadvocates.com, we are posting a link to an Elliot Wave book that Murray has graciously agreed to provide to the listeners today for free. So I'd encourage you to check that out as well.

Dennis Tubbergen:

Murray, you had mentioned as we concluded the last segment, that the Fed's only goal seems to be to keep the stock market propped up. I've heard an analogy that the Fed, I think we can both agree, is probably down to one tool left in their toolbox, which is currency creation. If your only tool is a hammer, it seems like every problem looks like a nail. If we see a market correction, won't the Fed come in and try to prop the market back up again? Let me know your opinion. And if that is what you think then will they be successful?

Murray Gunn:

Well, that's a great point, Dennis. In 100 year's time, I think when historians look back, they'll probably view this period of time as being the time of peak central bank. When the seeming omnipotence of central banks was at its Zenith. So everyone thinks that central bank saved the world in 2008 and then again in 2020. When, as I like to call it world war C, the COVID pandemic broke out. The flooding the markets with freshly digitally printed money though does not of itself cause stock markets and the economy to recover. There has to be an underlying willingness on the part of the public to accept that what the central banks are doing is actually useful. It's this positive social mood as we like to call it, which allowed central banks to appear really as the sort of heroes of the day and that's not always been the case though.

Murray Gunn:

If you look at what's happened in Japan, quantitative using in Japan has not always been that well received. So really we have no doubt that when the next downturn in the stock market comes, the Fed and other central banks will try to, again, print their way out of it. Print money and buy bonds again. When that doesn't work they'll resort to buying stocks directly, which they've already hinted at with the buying ETFs. So if it wasn't so serious, it would actually be hilarious that the Fed's only goal now is to keep the stock market up. The problem is that we see is that when social mood turns negative and confidence disappears, there'll be nothing that central banks can do to stop the stock market from falling. It is when the public realized that the emperor has no clothes, if you like, that central banks seem to be powerless. That's the real danger moment, of course. That will come in stock markets. In our

parlance that moment will probably come during the middle of a third wave down.

Dennis Tubbergen:

So, Murray, you mentioned in the last segment, sentiment. You mentioned in this segment, social mood. I've had the pleasure of talking with Bob Prechter in the past, and he's talked about this science called socionomics and you alluded to that. So can we just explore briefly the link between social mood and market performance?

Murray Gunn:

Sure. Well, Robert Prechter's socionomic theory is a field of study conducted under the hypothesis that waves of social mood motivate the connector of social actions, not the other way around as most people believe. Most people believe that it's actions that happen in society that cause the mood. So the waves of social mood drive the stock market. So the stock market is our gauge of social mood or sociometer, as we like to call it. Our historical research has really phoned that positive social actions such as peace treaties, inclusion, centrist politics, consensus, they tend to proliferate with a positive social mood and a rising stock market. On the other hand, negative social actions such as war, exclusion and disharmony, these tend to proliferate with a negative social mood and a declining stock market.

Murray Gunn:

So the way to think about really is in terms of causality, and this is what really got me hooked in the first place. So a conventional way of looking at the world would be to say that war makes people angry, right? So the socio-economic way of looking at it would be to say the angry people make war. Likewise conventional wisdom might say that recessions make business people cautious, and we would say from a socionomic point of view that it's cautious business people, which cause recessions.

Dennis Tubbergen:

Well, thank you. That's a terrific perspective. So let's go back to the forecast in the time we have left. Taking the US stock market indices, do you have an ultimate forecast for, say, the Dow Jones industrial average?

Murray Gunn:

Well, we let the market tell us as the waves are unfolding what the actual ultimate number is going to be. But certainly given the fact that we're reaching the end of a, at the very least, a multi-decade rise in the stock market then we can see the stock market very much lower in terms of percentage terms. Eventually perhaps we wouldn't even realize a 50% fall in

the stock market over a period of years. But we let the waves determine as we go what the actual numbers going to be. So we encourage your listeners to look us up on the website. But from a sentiment point of view, we think that the sentiment is so bullish at the moment that the intensity of the bullishness will actually move that down. So the zeitgeist that we're experiencing in the moment is that people are expecting a repeat of the roaring 1920s. Indeed some people are saying, "Well we'll get the roaring 1920s in the 2020s. But without the slump and the depression at the end."

Murray Gunn:

So that's just a sign of how intense and bullish people are at the moment.

Dennis Tubbergen:

So do you see given the debt levels, which you mentioned in the first segment Murray, do you see this ultimately playing out to look deflationary on a very intense basis, like the 1930s?

Murray Gunn:

Very much sure. It was the Clinton advisor, wasn't it? Jim Carville who said that when he died he wanted to be reincarnated as the bond market because the bond market can intimidate everybody. And it's true. The bond market is the key really to what's going on. So that's why the Fed was so keen to effectively underwrite the corporate bond markets last year, because the Fed knows that many companies are effectively bust already. So the level of private debt, specifically on public debt obviously now in major economies is beyond extreme. That's why central banks are still keen to inflate it or try to inflate it away. Meaning that as prices rise, the level of debt in relative terms will go down. But we think there's more chance of the opposite happening so that deflation will actually result in the debt becoming even more of a burden causing companies and even governments to be forced to default.

Dennis Tubbergen:

So Murray given that we have emerging inflation here and ultimately that probably turns to deflation in your view, where should someone who has some assets they're managing look for some refuge?

Murray Gunn:

Well, for us the ultimate safe haven has always been cash and good quality lower term bonds. So bills or bonds up to one and a half years of really good quality issuers. But also we've recently been thinking about if interest rates might rise, not because the central banks want them to, but actually short-term interest rates rise because the market pushes short-term interest rates higher because perhaps maybe a lack of confidence in governments, then

one investment which is worth looking at is a floating rate note. Which is a bond which adjusts it's coupon based on how interest rates are going. So as interest rates rise, then the coupon on the bond actually rises with that as well.

Dennis Tubbergen:

Terrific. Well, when you're talking about bonds, and I look for example at the US government bond market, that in my view would obviously be very artificial being propped up somewhat by the Fed also. So would you be bearish on most government bonds as well?

Murray Gunn:

Well, certainly where we see the biggest risk is in the corporate bond sector and lower rated bonds like junk bonds are the greatest risk as asset price deflation takes hold. But bond yields across all sectors should rise as well. That will make the level of debt even more burdensome. So that's why the Fed and other central banks are also keen not to raise interest rates because they know that the world is so indebted that it can't really live with higher rates and higher yields. But as Mick Jagger once famously sang, you don't always get what you want.

Dennis Tubbergen:

Well, that's a good place to end our conversation. My guest today has been Mr. Murray Gunn. He is the head of global research at Elliott Wave International. The website is Elliottwave.com and I'd like to remind the listeners who maybe are just joining us, that we are posting a link to a free resource that Murray has graciously made available today to the listeners. So visit our website at retirementlifestyleadvocates.com. You can click on the link and get access to a free Elliott Wave resource. So, Murray, thanks for making that available. Thanks for taking time out of your schedule to join us today.

Murray Gunn:

Thank you, Dennis. It's been a pleasure.

Dennis Tubbergen:

We will return after these words.