Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Dr. Robert McHugh
TechnicalIndicatorIndex.com

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Retirement Lifestyle Advocates
961 Four Mile Road, NW
Grand Rapids, MI 49544

Phone: (866) 921-3613
Email: info@plplanners.com
Website: www.RetirementLifestyleAdvocates.com

Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. And joining me on today's program is returning guest Dr. Robert McHugh. Bob is the author of I think the most comprehensive daily newsletter on market analysis that I am aware of. And you can learn more about his work at technicalindicatorindex.com. The website again is technicalindicatorindex.com. And Bob, welcome back to the program.

Dr. Robert McHugh:

Thanks Dennis. It's always great to be back.

Dennis Tubbergen:

So no shortage of economic, financial, and investing stories, I should throw political in there too, in the news. And you look at markets using really very specialized analysis. Maybe we could just get started today, Bob, by having you explain to the listeners a little bit about your work and how you go about it.

Dr. Robert McHugh:

Okay, sure. What I do is what's called technical analysis that's of the markets, stocks, gold, metals, currencies, and so on. And what it really is based upon is the premise that markets are determined by group psychology, by human behavior, by greed and fear. And it tries to measure the mood, the general mood, of the markets of the full body of participants. And the theory is that the markets will tell us where they are headed next, that all information known by all people all around the planet is contained in the pricing structure of markets.

Dr. Robert McHugh:

By buying and selling and all the transactions all around the world people make decisions every day based upon what they personally know. So when you combine all this information together into the markets and study the markets, you get patterns and you get indicators. It's basically the market telling us where it's headed next. Is it going up? Is it going down? Is it going to have a prolonged sideways move? Is it a large move? Is it a smaller move? What trend? Is it a tiny trend? Is it a major primary trend?

Dr. Robert McHugh:

And so this is a body of science in the markets that we follow and work on to try to tell us, essentially help people determine, what are the probabilities that the market's headed higher or lower. And that hopefully is helpful information when they make their investment decisions.

Dennis Tubbergen:

So, Bob, I have a question for you. We'll just look at the Federal Reserve, the central bank of the United States. Given the massive levels of currency creation that's really been going on, to what extent has that skewed your work or skewed your analysis, if at all?

Dr. Robert McHugh:

Well, it certainly has to go somewhere. The money has to go somewhere. So it flows into pricing in the stock market and pricing of gold. It flows into the economy and into the markets primarily through Wall Street, of course. And it can cause the patterns to extend. It could cause them to become worse. It could cause them to become clearer. The Fed and their actions are part of the group psychology of all participants in the markets. They're a player. And so it's all built into the patterns that we follow and the indicators that we see and we develop.

Dennis Tubbergen:

So, Bob, well, let's just back up a minute. Give us your overview of US stock market indices at this point from a fundamental perspective. Using the Buffet Indicator, which measures total market capitalization divided by gross domestic product, stocks are near all time highs using that valuation measure. What does your technical analysis tell you about the health of US stock markets today?

Dr. Robert McHugh:

I think the best word to use to describe this situation right now in the markets is they are at a vulnerable period of time. They're vulnerable right now. They're in a situation where we have seen a lot of very bearish patterns and indicators evident or coming to conclusion that warn that the market is at risk of a serious decline. Whether that's extended another month or two or three or six is hard to tell because some of these patterns are extremely long. Some of them are 40 years long, 50 years long, some of them are 15 years long, but even the shorter term patterns are warning that there's a period of vulnerability here. And we have other indicators in addition to the patterns that are also confirming that this is a period where caution is warranted, whether because of government manipulation with the Fed and so on.

Dr. Robert McHugh:

Can you per get it to a precise point of when it's going to go down? No, but we feel that the overall body of our work here is saying, be careful, be careful at this time. There's an overabundance of exuberance of optimism, which can often be a contrary indicator. And we have some other things that are going on that are very serious, that need to be considered.

Dennis Tubbergen:

So Bob, in your work and I follow your work on a weekly basis, you had mentioned that there's something called a Hindenburg Omen that might be ominous for the future of stocks. Can you explain what that is and why you made that comment?

Dr. Robert McHugh:

Yeah, the Hindenburg Omen is something it's been around for quite a while and I've been tracking it for 20 years. And what it is, is basically identifying a situation in the market that is unhealthy, and that we have never had a stock market crash without a Hindenburg Omen on the clock. But every single stock market crash that has happened has always had a Hindenburg Omen or more on the clock at the same time. It's basically an indicator that says if you have a high number of new highs and new lows on a particular day at the same time, that's an unhealthy market. That's a dangerous market. If there's a lot of new highs and not a lot of new lows, that's a healthy market. You say, "Okay, it's going higher. It's a bull market." If you have a lot of lows and not many highs, you say, "Well, that's a healthy market because we know that it's coming to a conclusion, that the sell off was coming to conclusion."

Dr. Robert McHugh:

But when you have them both at the same high level, not just a small level, there's a threshold they have to be, if they're both over 2.2% of New York Stock Exchange's issues traded and there's the advanced/decline lines in the market are negative, there's a period here where over history correlations indicate that you're at risk. And right now we have two on the clock at the same time. One was generated in August. It has a life expectancy to December warning us. Another one was opened that occurred on October 4th, that has a warning period out til February of 2022. And to have two concurrent ones at the same time is rare. We did have two concurrent ones on the clock just before the March 2020 plunge. And so now we have that situation again for the first time since that plunge.

Dr. Robert McHugh:

So that's just another flag, a red flag saying, be cautious, be careful. It doesn't mean there's a crash coming. We don't always get a crash when there's a Hindenburg Omen, but it tells you that we're in an environment where there could be one. And when we don't have these Hindenburg

Omens there's never been one. So you feel like it's a little bit all clear sign. But right now we're on a warning from this indicator saying, be careful.

Dennis Tubbergen:

Well, if you're just joining us, I'm chatting today with Dr. Robert McHugh. You can learn more about his work at technicalindicatorindex.com. And Bob, what do your charts tell you a correction or a plunge could look like? How low could stocks go?

Dr. Robert McHugh:

Well, there's a lot of our work here that's indicating we may be about to start a large bear market and it'd be a bear market that would be correcting a bull market of a couple hundred years. So this could be a very large bear market that we're seeing developing and is coming. Whether it comes now or in a month from now or six months or a year, it's coming. And this could take the stock market down eventually more than half of its value, probably three quarters of its value by the time it's done. Now, this could be a very long term bear market. It could last 10 years, something like we saw in the 30s, maybe even longer, 20 years, because it's a higher degree bear market than we saw in the 1930s. But by the time it's done, it's going to have an awful lot of damage done.

Dr. Robert McHugh:

And bear markets they plunge, then they bounce back, they plunge, they bounce back. There's a series of plunges. It's not going to be just one crash and over like you saw March of 2020. This would be something where it's like a set of steps going down, down, up, down, up, down, up, but the lows are lower, the highs are lower and it's a progression over years. And that's what we see starting fairly soon. And the first kickoff to this thing, maybe it'll be a 10% decline. Maybe it'll be 15, but there's going to be something that there'll be pain and people will feel it. And these bear markets generally have very violent rebounds, very violent rallies in them like we're seeing today in today's stock market, it's up 500 points, the Dow. This is typical of a bear market rally. They're very dramatic. But when you look at the overall charts, you say, "Well, we didn't really get anywhere. We're at the same level we were last week." They never really got back up above new highs.

Dr. Robert McHugh:

So that's the kind of thing you're looking for to identify when this thing is getting its legs and getting some downside momentum. And we do wave counts, Elliott Wave counts to try to determine when the sweet spot of a decline is coming. And that usually is a wave three. Declines come in five wave intervals. Waves one, three, and five progress lower. Two and four are corrective bounces within a declining trend. And the next trend to come down, the next wave that's due is a three wave. So there could be a dramatic decline coming over the next month or so that would push the markets down, could be 10%, could be 15%. And this at this first leg of this developing huge bear market.

Dennis Tubbergen:

Well, my guest today is Dr. Robert McHugh. His website is technicalindicatorindex.com. I'd encourage you to check it out. I'll continue my conversation with Dr. McHugh when RLA Radio returns. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen. You are listening to RLA Radio. My guest on today's program is Dr. Robert McHugh. Bob is I think the hardest working technical analyst that exists. I enjoy his work and I would encourage you to check out his work at technicalindicatorindex.com. And Bob in your market commentary on the 13th, Wednesday October 13th, and just for our listeners' reference we're recording this conversation on Thursday the 14th since the lot of the things we're talking about really are time sensitive. You note that hyperinflation is starting to show up in the government's data. And I noticed that I think it was the Atlanta Federal Reserve bank president said that, this inflation probably isn't transitory. It's probably here to stay. What's your take?

Dr. Robert McHugh:

I agree with him. It's here to stay because we have a serious, serious problem in this country that I don't think is going away anytime soon. And I don't think anybody knows how to fix it. And it's a new development. It's a new development. And that is that there's a labor shortage in America yet there's plenty of workers, but they're not willing to work. They don't want to work for whatever reasons. And as a result of that, we have tremendous amount of labor shortage, which everybody's heard about by now I'm sure. But it's causing a problem. It's directly causing inflation. If you don't have sufficient amount of workers, then you're not going to produce a sufficient supply of products. You're going to find shortages. And if you find shortages, but yet there's still demand, Economics 101, it causes prices to rise.

Dr. Robert McHugh:

And that's exactly what we're seeing right now is prices are rising to an extraordinary degree on just about everything. Because you go in a supermarket there's just shortages everywhere, basic products, ketchup, cars, houses, you name it, light bulbs. You can't get stuff. You order stuff on Amazon and they ship you the wrong stuff because they don't have what you really wanted, and what they were telling you they were selling you. And this is a serious, serious problem.

Dr. Robert McHugh:

The real problem here is how do you get people to want to go to work? They've handed out so much cash, so much cash. The Fed prints way too much for the pandemic, way too much. Treasury Department handed out money all over the place, and now they've added fuel to the fire by putting a mandatory injections required for you to work gainfully. So that just adds more to the labor shortages as workers are quitting, refusing to work, hospital workers are saying, I'm not taking the injection I'm out of here. So that just created more labor shortages, which exacerbates the problem even more.

Dr. Robert McHugh:

There's a touch of socialism in the cause here. And back in again, Economics 101 we were told socialism equals shortages. And that's exactly what we're seeing right now. And there's a few other things that are happening with the shortages thing. There's a dynamic called the gamma bull market trade, and it's bizarre, but there's a generation of people primarily younger people who are plugged into websites like Reddit, and they have realized there's power in numbers. And that they have gathered together under the advice and guidance of gurus on Reddit saying, hey, let's all go buy this stock. Or hey, if we all go buy together, we'll buy this stock, and then we're going to buy call options on the stock. And that forces the writers of the call options to have to go buy the stock. But there's a limited amount of the stocks, so the stock prices rise and go higher and higher and higher. And they're just sit sitting at home on their couches instead of working and playing the game of trade bull market call options, day trading game.

Dr. Robert McHugh:

The problem with this is if the whole sea level of the market drops for outside reasons than their purchases, they're going to have margin calls, because they're doing all this on margin debt. And when the margin calls come in as the market's going lower, prices of the collateral of the lenders is dropping. This type of trading is going to get their clock cleaned. It forces more trading, more selling, I should say. And that could cause a cascade in the decline of stock market prices.

Dr. Robert McHugh:

So that's another problem here tied in kind of connecting labor shortages with the stock market. And it's not going to end well as the patterns and the indicators, and we almost have a Dow Theory bear market signal on the clock, very close to getting one of those, which is a very dangerous indicator. It's a real mess. And how do you fix this? Is the Fed going to print more money? And hand out more money? That's not going to make people go to work. That was the problem that started this thing. How do you get people to go to work? There's a problem here. It's brand new. I've never heard of it of anything I'm aware of in the history of America, whenever that we had a situation like this before. So it's new turf and it's dangerous.

Dennis Tubbergen:

So Bob, you use the term Dow Theory, primary trend, bear market signal. If I recall that correctly. Can you expand on what that is and explain to the listeners, why is that dangerous? And is there precedent for that?

Dr. Robert McHugh:

Yes. This goes back to some of the original work of Charles Dow. Of course the Dow Industrials are named after him, and then his proteges Hamilton and Richard Russell was a big Dow Theory guy for a long time. And what it basically says is for a healthy stock market, both the Dow Transportation Average and the Dow Industrials Average must be aligned and in sync. And when they are not aligned and not in sync, there's something seriously wrong. Materials that need to be transported before they're turned into products, which is marked by the transportation average, and then materials need to be delivered to the buyer after they've been produced by the industrials. So transportation's important as an indicator of what's going on. But if there's a disconnect between manufacturing, the industrials, and transportation, something is seriously wrong. And we have seen that the transportation average has been plunging quietly, unnoticed for the past four or five months and the industrials were going way up. So there's an enormous non-confirmation there.

Dr. Robert McHugh:

And then the theory goes into some technical aspects, which I don't want to bore the readers with or the listeners with, but bottom line is if the industrials drop below 33,200, then we will get a confirmation of the transportation averages decline. In other words, the transportation averages warning the decline will be the primary direction of the market, and the industrials are headed to follow. And we have a head and shoulders top pattern in the industrials, which is telling us that it's going to drop below 33,290. It's going towards 32,000. And once that happens, this theory signal will come up. And it's had a great track record. It's not perfect. But when you get these bear market signals again, it's one of these stand up, take notice, be cautious, be careful. Bad things can happen once you see this signal.

Dennis Tubbergen:

Bob, let's go back. And there's a lot in the news about cryptocurrencies and a lot in the news about inflation. So just going back to your analysis, what do you see as far as the future of the US dollar when you look at your work?

Dr. Robert McHugh:

I am very much probably in the minority here, but I don't see the problem. I don't see the dollar going away, and I don't see cryptocurrencies taking over for the dollar anytime soon. I know it's a fad. It's big, popular, especially among young people. They love the technology. They love the cryptocurrencies and so on, but the regulators are starting to speak out against it. Regulations are coming. The head of the SEC for the United States, he's spoken out against it. Foreign countries are now banning it. Some countries are banning it. They won't accept trade with it. I don't quite totally understand it because there's no regulation of it. There's no accountability. Who's monitoring this? Who's watching over this? And you can't buy or sell much with it. You're going to go into the grocery store and and give them Bitcoin? So at this point, I don't see it as a threat to the US dollar. The dollar is the currency of transactions. It's convenient. It's widely accepted. I don't see it's death anytime soon.

Dennis Tubbergen:

So Bob lets in the time we have left talk about precious metals. Let's talk about gold and silver. Certainly with all the currency creation we've seen by the Fed it doesn't seem that from a fundamental perspective gold and silver prices have reacted as one would expect. What are your charts, and what is your analysis telling you about gold and silver at this point?

Dr. Robert McHugh:

This is a great question, and it's really important. Gold has been forming what I call as a cup and handle pattern, a really well defined pattern. It's been very successful to predict the market. It started in 2011 and the cup part of the pattern just finished about a year ago. And now we're in the final handle pattern, the handle will be on the right of the cup. And that's a decline usually, it's a declining part of the model. And once the handle ends, you see an enormous burst northward. You see enormous price appreciation in gold in terms of the dollar. And we're close to finishing this handle and it's tying in with golds picking up on inflation right now. It's seeing that all the dollars that were printed weren't managed well enough that just keep things balanced. It got out of balance. There's too many dollars. And so gold is now reacting very positively the last couple days. And it's about to burst out of this handle, and silver will follow as well.

Dr. Robert McHugh:

And so I think gold could be headed to 3,000 over the next several years from its current 1,800-ish area, as it breaks out of this pattern. And it's going to be because it's picking up the hyperinflation that we're seeing for the reasons we talked about earlier. Silver will do the same thing. Mining stocks are difficult to follow because they're both an operating company and they're also metals. They're hybrid. So they may track the stock market, the whole stock market down for a while, but then they'll turn around and bounce. Their metals aspect will turn around and take them up higher as well. So they may not rally as high as gold initially, but they should catch up over long term.

Dennis Tubbergen:

Well, my guest today has been Dr. Robert McHugh. I would encourage you to check out his work at technicalindicatorindex.com. Bob, it's amazing how fast a couple 12 minutes segments go when we start chatting, but very much enjoyed our conversation today. Very insightful. I know the listeners appreciate it as well, and I'd love to have you back down the road.

Dr. Robert McHugh:

Thanks, Dennis. I love being on your show, and I appreciate it. And would love to come back. Thank you.

Dennis Tubbergen:

We will return after these words.