Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Murray Gunn
Elliott Wave International

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Dennis Tubbergen:

Welcome back to RLA Radio. I am your host, Dennis Tubbergen. Joining me on today's program once again is returning guest Mr. Murray Gunn. If you are a longtime listener to RLA Radio, you'll recognize Murray as the head of global research at Elliott Wave International. Elliott wave is one of the world's premier subscription-based market and economic analysis firms. I follow their work and you can learn more about their work at elliottwave.com. And also a very interesting and unique science, socionomics. We'll talk about that in the second segment today with Murray. You can learn more there at socionomics.net.

And Murray, welcome back to the program.

Murray Gunn:

Thank you very much, Dennis. It's great to be here. And happy New Year to you and your listeners.

Dennis Tubbergen:

Well, thank you so much and happy New Year to you as well.

So, Murray, just jumping right in here for our listeners, we've got an ever-growing audience here. So, for our listeners that may not be familiar with what Elliott wave is, could you give them maybe just a one-minute primer on Elliott wave?

Murray Gunn:

Sure. Well, the Elliott wave principle is what we call a fractal-based model of the economy. And it was discovered by a man called Ralph Elliott in the 1930s. So, what he discovered was 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. And what he found was that these patterns repeat at every timescale. And so, it enables cycles of herding behavior, human herding behavior to be anticipated from the short term to the very long term. And what he did, he didn't come up with any sort of theory, he was an accountant by profession. So, he came with that sort of mindset, and he examined price data for the US stock market. And so, this empirical study discovered that these patterns could be labeled and identified, and that introduced a forecasting element to market analysis that was previously not really appreciated.

So, for example, if there's a triangular price pattern on the chart of the stock market, it's a fairly reliable indicator of what's going to happen next when the pattern is complete. And obviously the fact that these patterns repeat at every timescale means that the Elliott wave principle can be used to forecast price developments for the next few hours or even the next few years or even longer. So, if your listeners go to elliottwave.com, they can get a huge amount of resources, which explains our process in much greater detail.

Dennis Tubbergen:

Well, thank you for that explanation, Murray.

And if you're just joining us, my guest today is the head of global research at Elliott Wave International, Mr. Murray Gunn.

So, Murray, based on the fact that Elliott wave is a forecasting tool, there's a lot going on around the world when you look at things from a fundamental perspective and a geopolitical perspective. The BRICS coalition now has expanded, adding Saudi Arabia is probably the most interesting country that joined BRICS. So, what are your charts telling you? What is Elliott wave telling you as far as currencies moving ahead? Do you have any forecasts for our listeners?

Murray Gunn:

Well, strictly in terms of currencies, what the Elliott wave analysis is pointing to for this year really is a good chance of the dollar, the US dollar depreciating in value against many major currencies. The one pattern that really stands out is the dollar against the British pound. And obviously it doesn't really work very well on radio, but I can't show that chart, but if I can just describe, over the last few years, over the last decade, there's been a downward movement in sterling-dollar, so an appreciating dollar, and that actually traced out what we call in Elliott wave terms, an ending diagonal pattern. And what's really interesting about those patterns is that they normally end with some sort of dramatic event. And so, when the dollar appreciated towards parity with the British pound last year, that was when you had the... Well, it's become famously known as the Kami-Kwasi Budget from the UK government where they basically announced unfunded tax cuts, and the market panicked and the bond yields went up and there was a huge panic, and that marked the low point of sterling-dollar.

Also, actually, I should mention at that point there was the famous or what we call the BBC indicator, so that's the British Broadcasting Company, the national broadcaster for the UK. So, the fall in the pound had become the main headline on their news. And when that happens, it's usually a sign that it's gone to an extreme.

So last year we saw the extreme in the sterling-dollar and it's been rallying since and it really looks like it's going to continue to rally, meaning an appreciating pound and weakening dollar. And that's the same for really euro-dollar as well. So, an appreciating euro against the dollar. And dollar-yen, yeah, it looks like we've finished with a dramatic rise in dollar-yen over the last few years. Again, based on an Elliott wave pattern, we're looking at the yen appreciating versus the dollar.

Dennis Tubbergen:

So, Murray, would it be fair to say based on the Elliott wave forecast then if you are a US citizen listening to this radio program, if you're doing business every day using US dollars, do you have more inflation to look forward to?

Murray Gunn:

Well, it's certainly consumer price inflation, and that's obviously what people refer to as inflation. And it's actually it's not the strict definition of inflation. I mean, inflation really is in terms of money and credit in the economy. So, when the Federal Reserve, the Bank of England, and the European Central Bank were printing all these euros and pounds and dollars over the last decade and quantitative easing and after the pandemic, that was hyperinflation in many respects. But anyway, of course a lot of times, that feeds through to consumer prices as well. Now, that process is being reversed in terms of quantitative easing. So, money is basically deflating, which is having some sort of impact on consumer prices. But really the main driver of consumer prices we think over the next couple of years is probably going to be commodities. And it does look like commodities have actually only started their rise in many commodities.

You had that historic low in... If you look at commodities on an index basis, like the Commodity Research Bureau Index, it had reached an historic low just before the pandemic, and after that, it had this amazing rise. Now, from an Elliott wave perspective that rise, that rally in the advance occurred in five waves. And so, the advance can be broken down into a five-wave movement. And when that happens from a significant low point, that means that it's just the initial wave of a much bigger movement. So, we're getting this retracement now in a lot of commodities. They're going sideways to down, what we call a retracement. So, we're counting that as really the second wave, and then once that finishes, there'll be a third wave higher in commodities. So certainly, from that respect, there will be continued upward pressure on consumer prices.

Dennis Tubbergen:

So, Murray, when you talk about commodities, would it be fair to say that we're talking about agricultural commodities, we're also talking about metals like gold and silver. Are you expecting that we'll see increases in all those markets moving through 2024?

Murray Gunn:

Well, there are some differentiators. I mean, something like oil, from an Elliott wave perspective, we see oil more as kind of sideways to down. But things like copper, that looks long-term bullish, would obviously fit with the kind of green transition. And yeah, gold, are what we call our wave count. So, it's the Elliott wave analysis, the wave count on gold, at the moment, looks actually quite bullish. So, we expect gold and silver to move up during the course of this year.

And what's interesting about that, and certainly in terms of gold, is probably going to be the fifth wave of the pattern going up to what we call a higher degree, a longer-term pattern. And what happens with commodities often is that when you get a fifth wave that it can be really dramatic and extend quite a long way because the fifth waves in commodities, for things like metals and gold, they tend to be driven by... The psychology behind that tends to be driven by fear. It's not like in the stock market where you get a fifth wave in the stock market going up, that's kind of greed that drives that. The psychology driving that in gold on a fifth wave advance, it tends to be fear. So might tie in with other geopolitical things that we could talk about later in gold, but it certainly looks bullish at the moment.

Dennis Tubbergen:

Well Murray, we have about a minute and a half left in this segment. Where does your Elliott wave analysis see the major stock indices going in 2024?

Murray Gunn:

Well, there are exceptions, for example, in some emerging markets and some far eastern markets. But in general, for the major markets, we see stocks going down this year, and based on the Elliott wave analysis first and foremost.

But there's also something that's happening at the moment in the US stock market, which is very interesting. It's what we call a Dow Theory non-confirmation. And so, Charles Dow, when he was writing about the stock markets and his writings became known as Dow Theory, where he founded the Wall Street Journal, and he wrote about all the markets in the Wall Street Journal. What he discovered was that for the market to be healthy, that the Dow Jones Industrial Average and the Dow Jones Transportation Average, they have to be making new highs together. And what's happened now is that the industrials average has reached a new high, but the transports is nowhere near to making a new high. So that's why we get this what we call a non-confirmation, and that points to a kind of wonky market, an unhealthy market.

Now, the last time this occurred really was just before the 2020 crash in the stock market, and it also happened before the 2008 crash as well. So, it's certainly something to be cognizant of as we move through the next few weeks and months.

Dennis Tubbergen:

Well, my guest today is Mr. Murray Gunn. He is the head of global research at Elliott Wave International. The website is elliottwave.com. I'll continue my conversation with Murray Gunn when RLA Radio returns. Stay with us.

I'm Dennis Tubbergen. You're listening to RLA Radio. My guest on today's program is Mr. Murray Gunn. Murray is the head of global research at Elliott Wave International. You can learn more at elliottwave.com. And in this segment, we'll talk to him a bit about the science of socionomics. You can learn more about that at socionomics.net.

So, Murray, we closed the last segment with you mentioning that in the US stock market we've got this Dow Theory non-confirmation going on, which really preceded the decline of 2008, also preceded the decline of 2020. When you take a look at safe havens, when the market declines, often US treasuries have been considered to be a safe haven. When you look at the performance of long-term US treasuries over the last three, three and a half years, you might come to a different conclusion as interest rates obviously have gone up, US treasuries have not performed well. What does your Elliott wave analysis tell you about US treasuries moving ahead?

Murray Gunn:

Sure. Well, it's a little bit like the commodities pattern that I was talking about in the initial segment. So back in 2020 and 2021, we were alerting subscribers to the fact that the long-term decline in interest rates in bond yields was probably coming to an end. And we were certainly saying to subscribers in 2021, particularly with regard to the German, the Bund market and the US treasury market, that there was a bond bear market underway, meaning higher yields, declining prices. And of course, we had that dramatic move up in yields over the course of the last few years.

So interestingly, that initial movement has probably come to an end right now. And in fact, last September, just before the yield started coming down, we'd noticed a particular pattern, another ending diagonal, as I mentioned earlier with regards to the dollar. It was an ending diagonal in the German bond market, and we alerted subscribers to the fact that probably bond yields in general, US treasury as well would come down. That's happened. So, this initial movement down in yields from over the last few months, we think that is just the first wave of a correction lower in yields, meaning that once this correction lower in yields is over, we'll have another movement higher in yields probably quite similar to the one we saw from 2020 to 2023.

Dennis Tubbergen:

Okay. Well, where do you see then if the stock market's correct? If I'm interpreting what you're saying correctly, you expect that bonds could actually, after this countertrend correction, probably go lower, yields go higher. You could also see stocks go down. Do you think we'll have commodities then as the best place to be for 2024? Is that what I'm hearing you say?

Murray Gunn:

Yes. I mean, certainly some commodities, as I mentioned, things like gold would be a good place to be. Cash. Whenever the stock market is going down, you can't really get much better than cash. And people will say, well, you know certainly. Up until recently they've said, well, you know, I am getting nothing in cash. I get 0% or 1% in cash, obviously that's better. Now you're getting 5% in a T-Bill or 4.5 in a T-Bill.

But the way we look at it is if you actually took a chart of the stock market when it's going down and you flipped that on its head and you inverted that, that actually is your return on your cash, because as the stock market is going down, obviously your cash is becoming more valuable to eventually buy, it can buy more stocks. And so that's the way we look at returns on cash.

So yeah, I mean cash would be a good place to be. Some corporate bonds they probably have... It's going to be quite a stable year, I think for bond yields. There'll be an up and a down sideways movement in bond yields. So short-dated corporate bonds could be a good place to look at as well. But obviously, being cognizant of potential shakeouts and credit, because certainly this year is going to be a challenge for many corporates as they face this kind of wall of maturing debt over this year and the course of the next couple of years, they funded themselves basically free money during the pandemic and now that debt is maturing, so they have to roll over that debt at much higher interest rates. And so, a lot of people are hoping for interest rates to come down this year. So, if they stay stable much like we're expecting, then it's going to be a big challenge for corporates.

And we've already got default rates moving up in corporate bonds and junk bonds, so we wouldn't be surprised to see that happening. So, I would certainly say to listeners that if you are investing in corporate bonds to be very careful about the credit. And actually, just on that note, I mean obviously with the bonds being back as a viable investment alternative to the stock market, we've, at Elliott Wave International, just launched a new product aimed at people interested in bond and money markets, and it's called Global Rates and Money Flows. So please, listeners go to elliottwave.com to find out more about it.

Dennis Tubbergen:

And I should add, I go to elliottwave.com frequently and subscribe, and I would encourage the listeners to do that as well.

Murray, in the time we have left, socionomics is something so unique to what it is that you do. Could you take just a little bit of time here and just explain what socionomics is, then we'll get into some of the trends that you see?

Murray Gunn:

Of course. Well, so Robert Prechter's socionomic theory stems from evidence, that it's the social mood that determines social actions, not the other way around as most people think. So, most people would think that if something negative happens, then the mood of society then turns negative. But socionomic studies that we've done over the decades suggests that it's the negative mood trend comes first before the negative action, and of course vice versa for positive action.

So, for example, conventional thought would be that recessions cause businesspeople to be cautious, whereas this socionomic way of putting it would be that it's cautious business people who cause recessions. So, because the social mood is the driver of everything, it tends to show up first in the stock market. And so, the trends in stock markets can anticipate social actions, and also social actions can help us anticipate where we are in the stock market cycle. So now the thing is there's always going to be a mix of characteristics in society. And so, we have to be cognizant of that when concluding what social mood is really doing.

Dennis Tubbergen:

Well, thank you for that, Murray.

And based on that explanation, what would be one or maybe two of the things that you're seeing from a socionomics perspective that we might see as emerging trends in 2024?

Murray Gunn:

Well, what's interested us over the last 12 months as the social mood in the US has been quite positive, and you can tell that by the fact that the stock market is going up. The stock market's going up has been driven by a positive social mood. And you had this incredible year of Taylor Swift, so you can put her music in the genre of light pop. And what usually happens is that light pop, kind of fluffy pop tends to be in favor at market tops when it's been driven by positive social mood. And you can think of things like the Beatles in the mid '60s when there was a stock market top there, and the Spice Girls in the late 1990s, running up to that top in the 2000 top. And it flips. When we get bear markets, bear markets are driven by negative mood, and that's when you get darker genres becoming popular such as punk in the '70s and heavy metal. So, from that regard, if we are correct and the stock market is going to go down, then we would expect darker musical genres to emerge.

So, the other development that's been interesting is recently, in terms of socionomics, was the fact that the far-right party in Germany, the AfD party in Germany, won its first mayoral election in a city. And that is a function of the fact that social mood has been negative for the last 24 years, certainly in Germany. I mean, the German stock market is around the same level it was 24 years ago. And if you look at things like Spain and Italy, they're far lower than they were over the last couple of decades. So, bear markets have been going on a lot in Europe, and that's why you get this negative mood that drives politics towards the fringes. And you get this rise of populism on the far right.

But perhaps, Dennis, the biggest thing for this year that's really interesting us in terms of socionomics is what could happen in China. So, a couple of years ago, at the beginning of 2022, we noticed a price pattern in the Russian stock market. And we actually said to subscribers in February, the early February 2022, we said that this, because it was coming into the point of peak negative social mood, we said that it was probably a high probability that Russia would actually go into Ukraine. Whereas at the time, most people were thinking, well, they probably wouldn't.

Now, the same price pattern, a very long-term triangle is to be specific, has emerged over the last decade or so in China. And so, we're coming into that point of this price pattern where this negative social mood, which has been driving the beer market in China since 2007 is coming into its kind of peak. So, from that regard, purely from a socionomic point of view, we could say that we would expect increasingly negative social actions from China, and of course, Taiwan springs to mind. And perhaps I'm just guessing here, it's a year of a US election, they might take their opportunity when the US has their eye off the ball, but that's just conjecture. What is important is really the price pattern in China, and it's saying that there's a really high probability of negative social actions.

Dennis Tubbergen:

Well, my guest today has been Mr. Murray Gunn. He is the head of global research at Elliott Wave. The website is elliottwave.com, and the socionomics website is socionomics.net.

Murray, thank you for joining us today. Love to have you back down the road. I always get great feedback when you're on the program. So again, thank you for joining us.

Murray Gunn:

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

Dennis Tubbergen:

We will return after these words.