



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. My name is Dennis Tubbergen, your host. Joining me on today's program is returning guest Mr. Murray Gunn. Murray is a lead researcher for Elliott Wave International. You can learn more about Elliott Wave International at elliottwave.com. Whenever Murray is on the program, I always get terrific feedback. And Murray, thank you for joining us again today and welcome back.

Murray Gunn:

Well, thank you for having me on again, Dennis. It's great to be here.

Dennis Tubbergen:

So, Murray, just for our listeners that may not be familiar with Elliott Wave, it's been about six months since you've been on the program. Maybe just a quick overview of your work and just a description if you could please.

Murray Gunn:

Sure. Well, the Elliott Wave principle is what we call a fractal-based model of the economy. And it was discovered by man called Ralph Elliott in the 1930s. And 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. And what Elliott noticed was that these patterns repeat at every time scale, and so it really enables cycles of herding behavior to be anticipated from the short term to the very long term.

So, what specifically he did, because he lost a bit of money in the 1929 crash and took the data from the stock market and made an empirical study of what was actually happening. And he discovered that these patterns could be labeled and identified and crucially introduced a forecasting element to market analysis that was previously not really appreciated. So, for instance, if there's a triangular pattern present 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. So, it was a big discovery in market analysis and as I say, introduced this forecasting aspect which was underappreciated over the time.

Dennis Tubbergen:

So, Murray, given that you said stocks are a leading indicator and taking a look at what stocks have done, really the conclusion that you reach would maybe depend a lot upon the timeframe. If you go back to the end of 2021 to the present, stocks are up slightly. If you look at the last six months, stocks are up at a level that is 30 to 40% depending upon the index. What's

your view of stocks, presently, and then what does that tell you about the economy?

Murray Gunn:

Well, it's really interesting because, I mean obviously there are many indices that we can look at in the world. But if you look at the World Stock Market index specifically the ticker is VT, which is the ETF that we look at for this. It is hovering around the highs, just above the highs, like you mentioned, reached in 2021. And our thesis using Elliott Wave analysis is that the rally since 2022, the low that was made then is the second wave of a three-wave correction from that 2021 high. Specifically, it's what we would call in Elliott Wave terms, an expanded flat pattern. So, the market makes a move down, it then corrects that move to make a marginal new high, but it's still part of the corrective process. And so, what we call wave C should be coming next. That's the third wave down and that should be a decline to below those 2022 lows. So specifically, with the World Stock Market index, we're talking 50% down, at least, and there's lots of indicators around to say that we are reaching that sort of top in the stock market.

Dennis Tubbergen:

So, Murray, the analysts that were jumping up and down and celebrating when the market made new highs suggesting that the bull market is back, you'd have a differing opinion.

Murray Gunn:

For sure. One of the things. If this rally from the 2022 low has been what we call a B wave rally in an ABC correction. Then one of the ways we can identify that is by what we call market breadth. And what you tend to find is when in a B wave rally in an expanded flat, sorry, I'm getting a bit technical here, but when the market makes a new high and like you suggest everyone jumps around, if you actually look into the internals of what's happening there, it's not a healthy new high because the breadth of the market and not just the S&P, which is famously really open to Mike's Seven and Nvidia represents a third of the S&P's gains year to date, I think. But it's all over some of the Western markets, this narrow breadth. That's a sign we're only a few stocks are fueling the rally, and our sectors are fueling the rally specifically just technology, big tech.

It's a sign that the market overall isn't healthy and that is tied up as well with another classic indicator that we look at. And this goes back to Dow theory, Charles Dow, of which Elliott was a big fan and actually introduced the forecasting element to Dow theory that it lacked at the time. But one of the most important aspects about Dow theory is looking at what we call

confirmation. So, if it's a healthy bull market, the industrial average and the transportation average should both be making new highs together. But that's not been the case. In fact, there's been a yearlong divergence where the Dow industrials have been making new highs and the transportation average has not. And interesting the last time that such a long divergence took place was from about 2018 into the end of 2019, start of 2020, just before the big crash there.

But there's lots of other indicators to suggest that we are at an extreme of bullishness. If you look at volatility, for instance, Dennis, the VIX is obviously relatively low, but if you look at the ratio of the S&P to the VIX, it's at all the time highs, meaning there's all the time complacency in the market. Another indicator to suggest extreme complacency is looking at the ratio of consumer discretionary sector to the consumer staples sector. That's towards its all-time highs as well. So, there's lots of indicators. We look at cash as well. Cash as a percentage of assets in equity. Mutual funds is an all-time low. And I don't want to hit everyone with statistics, but the percentage of U.S. Households wealth invested in equities is at an all-time high near I think 35% and that's above where it was in the end of the 1990s before the dot com bubble burst.

Dennis Tubbergen:

So, Murray, what do your charts... What does your Elliott Wave analysis tell you about U.S. treasuries? We've seen a really rough few years in U.S. treasuries as the Fed has been increasing interest rates even with no action. The yield on the 10-year U.S. treasury risen from the end of last year. Certainly, the U.S. is not the greatest credit risk. Its credit rating should be deteriorating by the day. What does your analysis tell you about where U.S. treasuries go from here?

Murray Gunn:

Well, what's really good about Elliott Wave analysis is it can give you an edge and give you that forecasting element, particularly when you look at the structure of patterns coming off all-time highs or lows. So obviously, bond yields were at all-time lows, decade lows, near 0% roughly with the 10 year. And since then, since 2020, we've had what we call an impulsive rise. And when see an impulsive rise in yield, we mean that it's occurred in a five-wave pattern. And so, once we see a five-wave pattern occurring off an all-time low where it can be pretty confident that there's going to be a three-wave correction, an ABC correction, which we think that's the stage that we're in at the moment.

So, we're correcting lower in yield from the previous highs, probably coming into wave C of that correction, lower in yield now, but the most important aspect is that once this temporary move lower in yield is over, then according to Elliott Wave analysis, we should see another extreme movement higher in yield. And when you think about it, you alluded to it there, that could be consistent with what's going on. Obviously, there's an increasing focus on the national debts in the U.S. I mean it's \$35 trillion now in public debt. I think \$1 trillion per annum is being spent on interest payments alone and that's higher than the defense budget now. And people have done some studies looking at history, and when that happens, when countries start spending more on interest payments than on defense, it is not a good sign for the credit worthiness of the country as you see.

I mean the U.S. is immune, really, from this at the moment. If the U.S. didn't have the world's reserve currency, then the U.S. treasury market would not be nearly as popular. And we can see that coming through in what we call the credit default swap market. Sorry to get too technical again, but basically, this is a market which allows investors to hedge against the risk of a country defaulting on its debt. And if you look at the relative CDS, credit default swap of America, it is really showing some deterioration in confidence in the U.S. treasury market.

Dennis Tubbergen:

Well, my guest today is Mr. Murray Gunn. He is a lead analyst at Elliott Wave International. You can learn more about their work at elliottwave.com. I'll continue my conversation with Murray when RLA radio returns. Stay with us.

Welcome back to RLA Radio. I'm your host Dennis Tubbergen. I'm chatting today with Mr. Murray Gunn, a lead analyst at Elliott Wave International. The website to learn more about Elliott Wave is elliottwave.com. Another area of, I won't say specialty, because I believe, Murray, Elliott Wave and Bob Prechter and you invented the science of socioeconomics. We're going to talk about that in this segment. If you'd like to learn more about the science, you can go to socioeconomics.net. And Murray, for our uninitiated listeners, can you define the science of socioeconomics?

Murray Gunn:

Sure, Dennis. Well, Robert Prechter's socioeconomics theory stems from evidence that it's the trend in 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 turns negative. But socioeconomics studies that Robert Prechter has done over many

decades, and the socio-economic issue has taken that up as well, suggest that 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 the socio-economic thinking would be, or logic would be that it's cautious business people who cause recessions. So, because the social mood is a driver of everything, it tends to show up first in the stock market. And so trends in the stock market, if we look at trends in the stock market, we can anticipate social actions and also social actions can help us anticipate where we are in the stock market cycle.

So, a way to think about it is in terms of causality as well. So, another conventional thought would be that looking at the world would be to say that war makes people angry, whereas a socio-economic thinking would be that angry people make war. And what tends to happen are extreme lows in markets as you tend to get conflict at extreme highs in markets driven by positive mood. On the other hand, you tend to get more reconciliation. So socio-economics can really help us determine where we are in the markets and by looking at the markets, we can anticipate social action.

Dennis Tubbergen:

So, Murray, we were chatting a bit before we started actually recording this segment, and there's a lot of interesting politics going on now in Europe with the elections in France, some upcoming elections in the UK. Talk a little bit about socio-economics and let's do so in context of what you see going on in politics.

Murray Gunn:

Well, if you look at what's happened this century, it's been really interesting. It's really over the last twenty odd years, there's really just been one market in the world that's been keeping the global economy up and that's been the U.S. market. I mean, Japan topped out in 1989. It's just made a new high after 34 years of a bear market there. China topped out in '07 and has been going sideways to down. And most European stock markets have gone sideways since the turn of the century. So, what this has resulted in is a severe under performance of the European stock markets, and that's been driven by this aspect of negative social mood. And so, by looking at this, it was kind of using socio-economics thinking this trend towards far-right politics in Europe, it was quite forecastable. And so, what we've had now, of course, it's not just the Eastern European countries, but we've now got far-right, politicians in charge in Italy.

It looks like judging by the French elections that are going on at the moment, it looks like, obviously, the far-right in France, they're going to be a significant player there. And yeah, you mentioned the UK election, which is coming just in a couple of days time here. So maybe the results will be out by the time your listeners are listening to this. But what's really interesting is it looks like the incumbent conservative party are going to be, according to the polls at least, they're going to be decimated perhaps as badly as the Canadian conservatives were in 1993 when I think they went from 156 seats down to two in Canada. And so, again, the negative social mood has resulted in these shifts in politics that we're seeing.

So, the conservative party here in the UK is probably going to be replaced by Labour because we have a first-past-the-post voting system. But the other big story that your listeners might be interested in from a socioeconomic point of view is that even in the UK there is a big shift to far-right politics because there's a small party called Reform. They've been growing quickly, and it looks like they're going to take a lot of votes away from the Conservatives. So, the shift towards far-right politics in Europe has come about because of a negative social mood, which has been obvious for a couple of decades, at least with this under performance of the stock market.

Dennis Tubbergen:

So, Murray, when you look at what's going on around the world, no shortage of geopolitical tensions. What does socioeconomic tell you about how some of this may play out, if that's a fair question?

Murray Gunn:

Well, there's a couple of aspects there certainly with, like I mentioned, the only market in the world holding the global market up has really been the U.S. So, with this malaise that we've seen over the last, certainly the last 15 years since the great financial crisis. What we can see obviously is happening is a movement away from the trend of globalization and we're going much more against that. Much more to isolationist geopolitics. And that's a negative social mood trend. When there's a positive social mood trend, people come together, and you have that trend towards globalization. When there's a negative social mid-trend driving the world, you get the opposite effect and that's what's happening just now. But specifically, looking at China, what's really interesting about China is... I mentioned it, the stock market topped out in 2007 looking at the Shanghai Composite Index.

And since then, we've seen a very clear Elliot Wave pattern, which we call a triangle, which is a bear market, basically sideways market. And of course, China, as your listeners will know, has been suffering economically the last number of years, and that's been a result of this negative social mood trend. But what's really interesting now is that that pattern looks like it's reaching its extreme, which means two things. It means that one, looking forward five years or so, then China is probably going to be back into a positive social mid-trend because it's reaching the end of its negative trend at the moment. But what that also means is that as this negative trend reaches the extreme, which is now the risk of negative social actions from Japan is quite high. So obviously, there's a lot of focus on Taiwan, what might happen there so we're watching that very carefully.

Dennis Tubbergen:

So, Murray, a lot of the listeners to the RLA radio program reside in the United States. While we're on the topic of politics, do socionomics give you any insights as to what may play out here in the U.S. this year politically, since this is an election year?

Murray Gunn:

Well, it's interesting, the socionomists did a study a number of years ago looking at whether incumbents stay in office or get kicked out based on the performance of the stock market in the run up to the election. And certainly, then the results were that if the stock market is positive leading up to the election, then incumbents more often than not tend to stay in office and the opposite is true if the market is down. And just what I mentioned about positive social mood versus negative social mood. I mean, if the mood is positive, people are thinking, well, why change it? If the social mood is negative and they're driving the market down because of that negative social mood, then more often than not, they'll think it is time for a change. So yeah, it's going to be a very interesting few months and this year has been especially interesting in terms of elections, with the elections for over 50% of the planet or the voting population of the planet so it's been a great year for democracy.

Dennis Tubbergen:

Well, my guest today has been Mr. Murray Gunn. You can learn more about Elliott Wave at elliottwave.com. You can learn more about socionomics at socionomics.net. Murray, always a pleasure to catch up with you. Thank you for joining us today. Love to have you back down the road.

Murray Gunn:

Very much enjoyed it as well, Dennis, and always a pleasure to come on and look forward to the next time.

Dennis Tubbergen:

We will return after these words.