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'm your host, Dennis Tubbergen. Joining me once again on today's program is the head of global research at Elliott Wave International, Mr. Murray Gunn. Longtime listeners will recognize Murray as a returning guest. You can learn more about Elliott Wave International and Murray's work at elliottwave.com, and when you go to elliottwave.com and check it out and I would encourage you to do that, there is a resources tab and under the resources tab there is the opportunity to get a free book about Elliott Wave, so I would encourage you to do that as well. Murray, welcome back to the program.

Murray Gunn:

Thank you, Dennis. Always a pleasure to have a chat with you.

Dennis Tubbergen:

Murray, let's just start, just so we know there's time to do this. When someone goes to elliottwave.com and they click on the resources tab and they request the free book, what can they expect to learn?

Murray Gunn:

Well, they'll be learning about our model that we analyze the markets from, and it's all about the Elliott Wave principle and that's a fractal, what we call a fractal based model of the economy discovered by a 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. The big discovery he made really was that these patterns repeat that every time scale, and so it enables cycles of herding behavior to be anticipated from the short term to the very long term, so that's why we think that the markets are driven by human beings and that's why we study human behavior.

Dennis Tubbergen:

Well, certainly human behavior is predictable, so I'd encourage the listeners to go check out that free book at elliottwave.com under the resources tab. Murray, just to kind of segue into the economy, I just read a piece that worldwide debt now is $305 trillion up from a hundred trillion at the time of the financial crisis, and believe it or not, that's now about 15 years ago. Where does this ultimately lead in your view and using the Elliott Wave model?

Murray Gunn:

Well, certainly you've put your finger right on the button of what is going to be probably the biggest issue over the next decade or so, and that is debt. Taking a really sort of big picture view here, just to reiterate what I said the last time I was on your show, Dennis, a few years ago, Elliott Wave International, we were telling our subscribers that 2021 was setting up to be potentially a very significant turning point in history, and we were basing this on time cycle analysis going back to the 1932 stock market low, and there was a confluence of cycles always running in on 2021. It is really absolutely fascinating that spanning that year we've had a once in a century pandemic, a still ongoing land war in Europe and one of the most dramatic bond bear markets in history, and that bond bear market is probably what is going to break, eventually break this debt issue that we're talking about, and we certainly think this is just the start of a new, very volatile era.

Dennis Tubbergen:

To what extent, Murray, do you see bonds declining? I mean, you just used the words an historic bond, a bear market in bonds. Is this going to be unlike anything we've ever seen before?

Murray Gunn:

Well, it already has been, really, the rise in yields. When bond yields rise, the bond prices fall, so the rise in yields that we've seen over the last few years, the speed of that has been the fastest in history, and so it really is we think just the start of another move higher in yields over the next couple of years. When we last spoke in March, Dennis, I think I mentioned that we expected the global economy to continue to slow down and enter recession. Well, the Eurozone and Germany are now officially in recession. The UK is close to one and there are so many indicators in the US pointing to a recession coming there. We've had manufacturing and industrial production contracting. The housing market is cooled a lot and of course the bond yield curve remains very inverted, so that means that long term, long dated yields are lower than short-dated yields, and when that's happened in history, that's always pretty much signaled a recession. But it's funny. It's a bit like we say, it's like the Godot recession, like the famous play Waiting for Godot and he never arrives. But certainly, we think that it will based on the ultimate leading indicator of the economy, which is the stock market, which we think is close to ending its bear market rally that it's been in since last October.

Dennis Tubbergen:

Well, Murray, what's your take on how deep this recession will be? I saw a statistic that I'd like your comment on along with the answer to that question and that is that when you look at M2 money supply, here in the United States anyway, it's contracted year over year at a rate not seen since 1929 and we all know the depth of what followed then. Are we in for something similar in your view?

Murray Gunn:

Well, we certainly could be and it might not be as dramatic as the 1930s, but what we're probably in for in this new volatile era is a series of rolling recessions, just a general malaise in the economy. Yes, you're absolutely right. This is the one thing that's a big, big change. People look at what's happened in consumer prices over the last couple of years and say, "Oh, the inflation is really bad." We've all been sucked into this segment of calling consumer prices and the rise of consumer prices as inflation, but actually real inflation is a monetary phenomenon and monetary and credit and of course you mentioned at the start there about debt and debt has been inflating out of control for the last few decades and since the great financial crisis in 1928, 1929, the money supply has been accelerating as well. When the pandemic hit, the rise in the money supply, certainly in the U.S., was completely off the charts. The question we asked is what did they think was going to happen about inflation, consumer price inflation? Yeah, they're obviously scrambling now to try and reverse that and that involves monetary deflation, so what we've got now is monetary deflation and we think that's going to feed through into credit and debt deflation.

Dennis Tubbergen:

Just for those listeners who may be joining us, I'm chatting today with Mr. Murray Gunn. He is the head of global research at Elliott Wave International. You can learn more at elliottwave.com. Under the resources tab at elliottwave.com, you can also request a free book. Murray, at a certain point, do you believe that central banks around the world will try to reflate the bubble again by resorting to more easy money policies and quantitative easing? If so, do you think they'll be successful?

Murray Gunn:

Well, I think there's certainly no doubt about it that if the stock market’s collapse quickly, and that's open for debate, but if they collapse quickly, then undoubtedly central banks will panic and probably look to ease monetary policy again. But their hands are tied, obviously. They've tied this hand, this rope around their hands to say that they want to try and control consumer price inflation, which ultimately, we think is futile because central banks really can't control anything. It's everything driven by human herding behavior, and actually the central banks follow what the markets are doing as we've shown our subscribers over the decades. But yes, we think that the central banks will probably continue to keep monetary policy relatively tight unless something dramatic happens in the stock markets.

Dennis Tubbergen:

Let's talk a little bit about stocks and the time we have left in this segment then we'll pick it up in the next segment. In past interviews you have offered quite a bearish forecast worldwide when it comes to stocks. Have you changed that view at all?

Murray Gunn:

No, not at all. In fact, it's playing out pretty much as the Elliott Wave principle would suggest it does. I mean, stocks topped out, a lot of stock markets topped out in 2021, and so the rally that we've seen in many stock markets since last October is what we call a corrective rally. The initial decline was the start of a bigger bear market and what we've seen since last October is a corrective rally, and we can tell that by looking at the sort of technical analysis of the markets. It's not been confirmed by increasing volume, and if it's a healthy advancing bull market, you want volume to be going up as well. That's not been happening. Has been well documented there's been very narrow breadth in the market and that means that the rally has been concentrated only in just a few stocks and certainly in the case of the U.S. market.

That is very consistent with corrective waves under the Elliott Wave principle. We've got bull sentiment at the moment is very elevated. The statistics have just come out for the Association of Individual Investors showing that bullish sentiment there is the highest it's been since the top I think 27 months ago, and so people think that the bull market is back and that's another aspect of corrective waves in the first part of an ongoing bear market. People think that the bull market is back because they don't want to think about a bear market and the point of realization comes in the third wave down, and so once this corrective wave is over and the third wave down starts, that's when we can see quite a dramatic turndown in the stock markets.

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. On the resources tab there you can get a free book that Murray's offering to the listeners today. Again, 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 are listening to RLA Radio. My guest on today's program is the head of global research at Elliott Wave International, Mr. Murray Gunn. You can learn more about Elliott Wave's work at elliottwave.com. There is a resources tab at elliottwave.com. If you click on the resources tab, you'll see there's an opportunity to get a free book explaining the Elliott Wave principles. I'd encourage you to check that out.

Murray, let's just jump in where we left off in the last segment. You had mentioned that it's your view that the current rally we have seen in stock since October of 2022 is a bear market rally or a counter trend rally, and you cited the fact that there has not been a lot of volume supporting this rise in prices. You mentioned that there hasn't been wide market participation from a lot of stocks, and you mentioned this sentiment is now extremely bullish, and then you explained that we're ready really for a third wave down, and I think there may be some listeners that aren't familiar with the wave principle that is really instrumental in interpreting market behavior under the Elliott Wave principle. Could you maybe explain a little bit in a little bit more detail what you mean?

Murray Gunn:

Well, sure. I mean, what Ralph Elliott discovered back in the 1930s was that the basic pattern of growth in the world, in the universe and the stock market occurs in a series of waves and these waves occur, we're thinking about the stock market in particular, in a five wave up, three wave down pattern. Within those waves we have smaller waves which have the same sort of patterns in them. As we think now, we've had, if we look back spanning centuries, we've had essentially we are at the top of a five wave up movement, so what we're looking at now is quite a large bear market occurring. Now that will probably occur in what we call an ABC correction. That's a three wave movement. But within those waves there will be a whole series of five and three patterns, and so within just this first movement down that we're seeing now since the top in 2021 for a lot of indices, that occurred down in October last year, and we think that is just wave one of a five wave movement down, which will eventually make up this much larger wave movement.

What we've seen since October is what we're calling a wave two movement, and when that is complete, the third wave down will occur, and third waves are generally the most powerful wave in the pattern, and like I alluded to earlier on, that's because certainly looking in terms of corrective waves in bear markets, as we've seen now, which are coming to the end of, people think the bull market is back, they will be disappointed when it's not and market starts to turn down, and at some point that's what we call the point of recognition occurs, and that's generally in the middle of the third wave down and that's when you tend to get very powerful moves.

Dennis Tubbergen:

Murray, I've got a couple questions regarding what you just said. First of all, this wave two corrective wave, you can correct me if I'm wrong, but by my calculations, looking at the major U.S. stock market indices anyway, we've retraced maybe around 75% or so of the down trend from December of 2021 to October of 2022. When you look at some of the technical indicators like the Fibonacci retracement levels, don't we have to be close to this wave two counter trend rally up ending?

Murray Gunn:

Yes, absolutely we are. You're absolutely right there, Dennis. The thing about second waves that they can be very deep retracements and that's again what I was alluding to just there is they tend to be deep because people... The first wave down comes as a shock to people because at the top of a bull market, everything's rosy, everything's fine, all the news is good, and the first wave down comes as a bit of a shock, and so the second wave, corrective wave in this bear market that we're looking at now, they tend to be quite deep corrective waves because people think that nothing's changed and people think this and the bull market's still back on, and so that's the reason why second waves in particular can be quite deep. Yeah, the 75%, 77, 78%-ish, that's kind of a nice turning point in terms of what you were talking about, Fibonacci levels.

But yeah, we think the turning point is quite soon, and one of the clues for that just we were looking at today, was looking at what we call the junk bond yield spread. Without wanting to get too technical for your listeners, but there's a big relationship between the performance of corporate bonds and the stock market for obvious reasons. If the stock market's going up, then earnings are good and debt can be serviced, et cetera. But it does look from particularly the junk bond yield spread that that's reaching a point now where it's going to turn probably over the next couple of months. We think that, yeah, into the end of this year we'll start to see some deterioration in the stock market.

Dennis Tubbergen:

Murray, given the wave one down was, I'm going from memory here, so correct me if I'm wrong, approximately a 25% decline and we've seen a retracement at this point of about three quarters of that, how low do you think stocks could go at the bottom of wave three?

Murray Gunn:

Well, certainly we would be looking at possibly a 50% decline from where we are right now. It really varies and we have to see how the waves develop. It could be quick, it could be slow. Generally it's probably going to be relatively quick given that it is probably going to be a third wave. Yeah. 50% down is not an unviable kind of target to have.

Dennis Tubbergen:

Murray, at the outset of the first segment today, you talked about the fact that the Elliott Wave principle's really rooted in the fact that human behavior tends to be predictable, and Elliott Wave also has pioneered a study that I believe you've dubbed socionomics. Could you talk a little bit about what socionomics is and then we'll get into maybe what it's telling you about what might lie ahead?

Murray Gunn:

Yep. Robert Prechter's socionomics theory stems from evidence that it's the trend in social mood that determines social actions, not the other way around as most people tend to think. We're conditioned to think that way. Most people think that it's if something negative happens, then the mood of society then turns negative. But what Robert Prechter's proven and others have proven over the decades is that socionomic studies suggest that the negative mood trend comes first before the negative action, and of course vice versa for positive actions.

For example, conventional thought would be that recessions cause business people to be cautious, and the socionomic theory just turns out on its head and says that it's actually cautious business people who cause recessions. Because social media is the driver of everything, it tends to show up first in the stock market, and so the trends of stock markets can anticipate social actions and also social actions can help us anticipate where we are in the stock market cycle in that way.

Dennis Tubbergen:

Murray, when you look at the science of socionomics and you apply it to where we are right now at this point in time in July of 2023, what are some of the more significant trends that you are observing?

Murray Gunn:

Well, if we are right and there is a huge supercycle term happening, which has been happening over the last few decades, to be fair. I mean, given the fact that Japan topped out in the 1980s, Europe topped out 20 odd years ago, China topped out in 2007, and so it's really just America that's been sort of the last man standing, if you like. If we are right, and so generally mood is turning into this negative mood trend era, then some of the things we're seeing right now are reminiscent of that. Globalization is in retreat for sure. I mean, if you look at the Inflation Reduction Act in the U.S., it's protectionist, and I think that is annoying and concerning a lot of countries, so the EU starting to do the same, and just this week we saw the UK doing the same with attracting manufacturing by the use of subsidies.

Globalization is dying off and that is part of the negative mood trend. We've also got in terms of politics, we've got, if you look at Europe for instance, it's certainly shifting more to the right, and what happens in negative new trends is that the politics goes to the pole, if you like, goes to the opposites, the extremes, and so there's more support for Europe, from Europe for the war in Ukraine, Europe's turning more anti immigration, and we've got the Spanish elections this weekend, which will likely show another shift to the right. We've also got labor market strikes going on all over the developed world at the moment, despite the labor market actually being quite strong, which is quite an interesting juxtaposition there. But perhaps the most worrying thing from my sort of geopolitical point of view is a pattern, I think we mentioned this the last time, we see in the China stock market, as I said, China stock topped out in 2007 in its stock market, and it is been in a bear market since then, specifically what we call is a triangle pattern, a kind of sideways movement in the stock market.

What usually happens at the end of these bear markets, which is driven by a negative social mood, you get a negative social action. It's not surprising therefore that Taiwan is becoming much more talked about within geopolitics, so it wouldn't surprise us in the least if something happened with China and Taiwan over the next few years based on socioeconomics and based on the Elliott Wave principle. But on a lighter note, if there can be a lighter note for this developing negative social mood, one of the things that's been interesting to us is this idea of this summer, in the Northern Hemisphere at least, is we look at pop culture and popular culture because it can be a big indicator of what's happening in socionomics.

You've got, in the movies at the moment, you've got this phenomenon that's happened called Barbenheimer. Where the Barbie movie's come out, which is obviously Barbie, light and fluffy, and Oppenheimer, which is completely the opposite, obviously, about the atomic bomb. You've got this kind of chase going on between the two, and that's kind of very reminiscent of what's happening from a socionomic point of view in terms of the changing mood that's going on because you've got these two computing elements. But actually, if you sort of dig a little bit deeper into it, it is interesting that Barbie, the Barbie movie itself is actually kind of anti Barbie, so it's a little bit negative in that regard as well. All of these things point to a developing a negative mood trend, which is consistent with the fact that the stock market's topped out two years ago.

Dennis Tubbergen:

Well, my guest today has been Mr. Murray Gunn. He is the head of global research at Elliott Wave International. I'd urge you to visit Elliott Wave International's website at elliottwave.com, and if you visit the website and click on the resources tab, there is a free book offer for the listeners. Murray, always a pleasure to have you on the program. Love to have you back down the road and get an update from you. Thank you for joining us today.

Murray Gunn:

Well, thank you, Dennis. It's been a pleasure.

Dennis Tubbergen:

We will return after these words.