Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Dr. Robert McHugh
TechnicalIndicatorIndex.com

Date Aired: January 29, 2023

Produced by:

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. Joining me once again on today's program is returning guest Dr. Robert McHugh. Bob is probably one of the hardest working technical analysts in the business. His website is technicalindicatorindex.com. The website, again, is technicalindicatorindex.com, and I've been a longtime follower of Bob's work. And Bob, welcome back to the program. Always nice to catch up with you.

Dr. Robert McHugh:

Thanks, Dennis. Always great to be here with you, and great to be back.

Dennis Tubbergen:

So, Bob, as we're sitting here and the first month of 2023 is drawing to a close, as hard as that is to believe already, give us your assessment of the US economy. Are we in a recession, are we headed there? What's your take?

Dr. Robert McHugh:

Well, I do believe we're in one, and I do believe we're going to go into a deeper one. And I think that the problem is that the inflation rate, although they say mainstream media has been harping that, "Oh, we're in the right direction," and so on, it's still over three times greater than the maximum target that the Federal Reserve has set for inflation. It came in over 6%, their target maximum is 2%. We're a long way from getting there, which I think means that the Federal Reserve will continue its rising interest rate policy strategy, for a lot longer and a lot higher than anybody may be thinking at this time.

And the markets are kind of hoping that the worst is over. You can tell that they feel like the Fed has accomplished their goal. It isn't anywhere near accomplished their goal. And one of the problems is the Fed can raise interest rates very, very high, and all they're doing is reducing aggregate demand. It just means people have less money to spend on goods and services. They're going to have more financial hardship. Households are going to struggle more, because interest rates are higher. The real problem with this inflation is not about aggregate demand. The real problem with this inflation is about aggregate supply. There is a shortage of supply, of goods and services, for what people need and want at this time.

Dennis Tubbergen:

So Bob, I like your take, because I interview a lot of people on the program. And there seems to be, I won't say an even split, but an almost even split of those analysts and prognosticators that say that the Fed will stay the course, they'll continue to increase interest rates, even though maybe it'll be a little bit more gradually than they have in the past. And then there is another group, and I would probably be leaning more towards this group, that think as the recession intensifies, the Fed might throw in the towel on inflation and decide that the economy needs more stimulus, and they'll reverse and go the other direction. What's your take on where the Fed might go, if this recession does indeed intensify from here?

Dr. Robert McHugh:

Yeah, I guess I'm kind of straddling both sides. I think initially they'll start, continue to raise interest rates and disappoint the markets and it'll become evident that the recession's getting deeper. And at that point the recession will get pretty severe and then they will have to reverse eventually their policy, give up the inflation target so much, and go back to trying to stimulate the economy. But I think that period of time is pretty far off, unless we have an event very soon that would tank the market and the economy. I think that it'll be a gradual continuous rise in interest rates, longer and further than people wanted. The recession will become very evident, become very severe, and then they'll reverse. So, I guess I'm kind of straddling both sides.

Dennis Tubbergen:

Yeah, fair enough. So, when you look Bob at the US economy, it's dependent on consumer spending. And inflation has certainly robbed a lot of American households, particularly in middle class households, of their discretionary income. Doesn't this inflation that we've seen, and the price increases that we've seen, I mean, typically you don't give these prices back. Hasn't this damage, that really inflation has done, isn't a lot of it just permanent in your view?

Dr. Robert McHugh:

I do think it's permanent. I agree. I don't think you're going to see things drop in price, ever again. You'll see this maybe plateau out, and this'll be the new base. But I agree with you. I think that this is permanent damage, here.

Dennis Tubbergen:

Well, I'm chatting today with Dr. Bob McHugh, his website is technicalindicatorindex.com, I would encourage you to check it out. So, Bob, let's dig in a bit here. I read an article this past week that it seems central banks around the world are now accumulating gold. Seems like they're maybe trying to get assets on their balance sheets that may protect them from their own policies. What's your opinion on that? And then, where do you see precious metals markets going, as this recession intensifies?

Dr. Robert McHugh:

Yeah, that's a great question. What I see gold doing, it's stuck in a handle of a large, gigantic cup and handle pattern, which is a bullish pattern. It started back in 2012, the cup part of the pattern, it's now in the handle. It's been in the handle since 2020. And it's just an oscillating up and down series of moves, where it kind of ends up going nowhere. But the way these patterns work is, once the gold price rises above, out of the handle which means above 2100, then it'll explode higher, gold will explode higher.

So, something the charts are telling us, and I believe the charts are the accumulation of all knowledge on the planet, all said, in pricing. I believe that gold will head substantially higher, once we're out of the handle. But now this handle has been going on for almost three years, so it's going to require possibly some patience before this breakout. But once it happens, gold's going to go much higher. And it could mean there's going to be real trouble socio politically, geopolitically, throughout the globe, if that's the case because gold has been considered a safe haven. And like you said, they're building up inventories of it to back up currencies, and so on. So, I do think that it's headed much higher.

Dennis Tubbergen:

You know, Bob, when you look at some of the things that are happening around the globe. Saudi Arabia just very publicly announced that they were going to now consider selling their oil exports in currencies other than US dollars. If this really is the beginning of the end of the petrodollar, isn't that going to be, at least from a fundamental perspective, also very bullish for metals?

Dr. Robert McHugh:

Yes, it will. And that's what a lot of people think happened with the Iraq war 20 years ago, was it was really about Iraq threatening to sell their oil in a non-US dollar currencies, and it led to war. So that's a theory out there, I kind of think it might have been true. And if that's the case, if they're going to start selling oil outside of US dollars, there might be a response from the United States, and it could mean a geopolitical war.

Dennis Tubbergen:

So the BRICS countries, Brazil, Russia, India, China, South Africa, have very publicly announced also that they will be pursuing their own currency to use in trade, at least amongst those countries. There just seems to be this big move away from the US dollar, really in earnest since 2020. What are your charts telling you about the US dollar?

Dr. Robert McHugh:

Well, let's see, the US dollar... I'm going to have to go pull my chart up, here. The dollar is, right now, it's oversold. Now the dollar is interesting, because it moves in the opposite direction to the S&P 500. Its short term oversold, which means that it is due for a little rally here, more than a little rally. And the S&P 500 should move in the opposite direction. So that means that's bearish for the stock market. But it's dropped from 115 a dollar, down to almost a hundred, in the last few months. So, it's due for a rebound, but I do see it going much lower over the next year, year and a half. That it's going to track a wave two move down, but short term I think it could rally for a while. And that would be coinciding with a stock market drop.

Dennis Tubbergen:

And Bob, for listeners that maybe aren't familiar with the whole idea of the market moving in waves, which I believe is a theory put forth by Elliot, and I believe it's called the Elliot Wave theory, correct me if I'm wrong. But could you just give our listeners a bit of a crash course?

Dr. Robert McHugh:

Well, yeah. Elliot created a theory of market movement where stocks progressed in five waves, and then they correct that progression in the opposite direction in three waves. That's an oversimplification, but that's basically it, in a nutshell. And you just count the waves, you track them, and when you see an impulsive move and progression in a particular market instrument, you can count five waves almost every single time, and it goes very vertical. And then what happens is it reaches that fifth wave, the top of it, and then it will consolidate or regress, in the opposite direction, in usually three waves. It can be other patterns, but for most part, that. And then it hits the bottom of that three wave correction, then it continues again in the progression it originally started, in five other waves. So that's in a nutshell.

Dennis Tubbergen:

So, Bob, as the dollar over the long term, according to your forecast, as the dollar weakens, is there another currency that will be the beneficiary of this dollar weakening? Or do you see the beneficiary being metals, or is it some of each?

Dr. Robert McHugh:

The euro operates in opposite direction of the dollar. So almost, I did a correlation analysis in my last weekend report, and it's almost tick for tick. It's amazing. So, the euro and the S&P 500 are moving in the same direction, and the dollar moves in the opposite direction of those two. So, you'll kind of see a give and take correlation on those instruments, which is kind of interesting, and the euro right now is overbought, so it's due to decline. As is the S&P 500's overbought. So, it should be declining with the euro, over the coming months.

As far as gold correlation with the dollar, I don't know if it's going to be direct, I really don't. There could be some break-off. My concern with gold is, it's just stuck in this sideways pattern for three years, of this handle. And it just seems like there's a lot of forces at work that, it may even be manipulation, that are just causing a tug of war. I would think that it should have been exploding higher by now, with the inflation we had, with the over dollar accumulation that the Fed printed off, and it hasn't. It should have exploded it, and that tells me there's manipulation, and the pattern talks about sideways moves, like these sideways moves in this handle. So it's kind of where I lean toward the pattern, the technical pattern, for guidance. And I have to leave the fundamentals of it, at this point, in trying to figure out where it's headed next.

Dennis Tubbergen:

Well, a few years ago, those of us that said there was manipulation in the metals markets would've been branded conspiracy theorists. But now, there's been a couple of banks that have actually gotten caught with their hand in the proverbial cookie jar, so to speak. And we know manipulation does happen, and has happened, and probably is still happening.

Dr. Robert McHugh:

Yeah, that's right. Especially metals. Metals are, I don't know, it's strange. Some nation wants to back up their currency with gold, China or somebody, and they start buying the crap out of it. And it's kind of like, that's manipulation. It's just an over demand for a product that's got limited supply. So, it's kind of got a strange way about it, at this time.

Dennis Tubbergen:

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

Welcome back to RLA Radio, I'm your host Dennis Tubbergen. I have the pleasure today of chatting with Dr. Robert McHugh. If you're just joining us, Bob's website is technicalindicatorindex.com. Bob publishes an extremely extensive daily and weekend report on the markets. I have followed his work for many years, and always enjoyed catching up with him here on the program.

And Bob, before we jump back in, I know you have a platinum trading program that I've been following a bit as well, and frankly I'm impressed. You want to share a little bit with the listeners, as to what that's all about?

Dr. Robert McHugh:

Well, thanks, Dennis. What we have done is, basically because our subscribers wanted it, is a way to make an additional income stream off of the work that we do, tracking where the markets are headed and the projections and so on, that we have with our charts or indicators, and so on. So back in 2011, we started an options trading program, which also includes an ETF trading program. We call it our Platinum Program, where we do investing in options and ETFs to generate an additional income stream. And we share in real time what we're doing for ourselves with our customer base, who have become members of this program. And it's up to them whether they want to look at it as entertainment, whether they want to talk to their financial advisor and do something similar, or just look at it as education.

And we've been very successful, 10 years, we've made almost a million dollars in the program through this trading program, and we're continuing to operate it now and it's growing. People seem to like it, and we do our very best. Our success rate's about 75 to 80%. We do have some losses, from time to time, but so far it's been going pretty well. And it's a way, like I said, for people to try to get an additional income stream to whatever else they have going in their lives, right now.

Dennis Tubbergen:

Well, great. And again, the website technicalindicatorindex.com. So, Bob, when it comes to stocks, particularly US stock markets, it seems that even after last year, the majority of investors seem to have a buy the dip mentality. They believe that the Fed's not going to quit supporting the markets. And overall, correct me if I'm wrong, but overall sentiment still seems to be pretty bullish despite a pretty miserable year, last year. That usually means more downside for stocks. What say you?

Dr. Robert McHugh:

Same thing. I agree with you a hundred percent, Dennis. That's the way I see it. Sentiment should be more bearish. It has not been. The market fell for nine straight months, from January through the end of September, that was a big wave down. And then it's been correcting since the end of September, and early October, through now. So, you had nine months down. We have had four months up. The rallies from late October have been a lot of overlap, and that's one of your key signs that it's corrective. It's a lot of overlapping waves. It's probably extended a little longer than I thought it would, which means it's a larger degree correction than we originally might have thought. But it's set up to decline.

A very interesting thing, we came up with our charts. If you touch the tops of all the rallies, from last January through now, there's a beautiful perfect trend line that touches every single one of these tops. And it has stopped every single rally, so it's a very powerful resistance trend line, going down. And what's interesting right now is that the market just recently touched that top again, and this is evident in the S&P 500, in the NASDAQ 100, and in the transportation average. So, we're reaching that point now where there's a high risk, high probability, of a top here and another decline in the short run.

But we're at Grand Supercycle degree Wave 4. This thing, the Grand Supercycle degree Wave 3 topped last January, a year ago, and now we're in 4. And 4 is a major decline, it's not a shorty. It's bigger than the Great Depression. It's at a higher level of degree of trend. And so, this is a very dangerous setup, here. And the buying the dip mentality has been brainwashed, because of the last 10 years, that this is going to be successful. And it has been, from time to time. But this is a different ballgame, and at some point very soon, we're going to see an intermediate degree Wave 3 down, within this Grand Supercycle degree 4. And 3's are the worst waves, they're the most dramatic, so I'm looking for that to start in the not-too-distant future, in the next several months.

Dennis Tubbergen:

Bob, there was a lot in that last comment. So, if I could, I'd like to go back, and maybe drill down on it a little bit. You used the term Grand Supercycle degree wave, and you said 3 just finished, we're now starting 4. Can you explain to the listeners again what that means? What does Grand Supercycle degree wave mean?

Dr. Robert McHugh:

In doing your Elliot Wave work, you have what they call fractals. You have the largest degrees of trend that go back over several hundred years, and that's the Grand Supercycle. The Grand Supercycle Wave 3 started in the 1700s. It just ended a year ago. So, the correction of that Grand Supercycle 4 down, will be a proportional decline. So, it's going to be huge. The Great Depression was a degree lower, that was a Supercycle degree back in the '20s, the 1920s. That was a degree below the Grand Supercycle, that was a Supercycle. So, you have several levels of degrees within each degree, that create what we call fractals or subsets, within each degree. Think of it like a tree with branches, and each branch has smaller branches and each smaller branch has springs of even smaller branches. It's kind of that scenario.

Well, now we're talking with a big major branch, here. This is a biggie. And what we've seen in the last 12 months is just a tip of the iceberg of where this thing is headed, based upon this theory of Elliot Wave analysis. And based on pattern charts that I have, I mean, I have broadening megaphone tops that have been going on for a decade, for several decades, for 10 years, that are calling for a massive stock market decline that has not started yet. It's just basically beginning. And by the time it's ultimately done, we're going to see levels below what we saw back in 2008. But that's kind of how it's set up right now with patterns and Elliot Wave theory, two different theories, all saying the same thing.

Dennis Tubbergen:

Well, Bob, and that's a big statement, because if we're going to see levels below what we saw in 2008. I mean, from these levels, just doing some math off the top of my head. You're forecasting then, maybe as much as 80 or 90% more downside here, is that fair?

Dr. Robert McHugh:

Yeah, that's what the charts are telling me. That's exactly right. The charts have been right. These patterns and charts are almost always right. Yeah, they may be delayed a little bit further than what the original forecast might be, but they're right almost all the time. These patterns are very highly reliable. And yeah, that's the target. And what would cause that to happen? I don't know. Russia drops a nuclear bomb on Ukraine, scares the crap out of everybody. We go to war with these countries that are going to leave the petrodollar and go to their other currencies for oil exchanges. Some kind of pandemic that we don't even know about, that that's greater than what we saw before. Who knows? But the charts are saying, something's going to happen in the world that's going to draw prices down dramatically over the coming years. We're not talking weeks, we're talking years.

Dennis Tubbergen:

Well, Bob, when you look at just worldwide debt levels, fundamentally your forecast, certainly it's backed up by fundamentals. I think I read some data that at the time of the financial crisis, worldwide debt was a hundred trillion. It's now 300 trillion. So, the very problem that caused a lot of the issues at the time of the Great Financial Crisis have just gotten worse. So, I mean, the next bust really has to be worse.

Dr. Robert McHugh:

Yeah, that's a good point. And that's a good fundamental, economic reason for a continuous major decline. Yeah.

Dennis Tubbergen:

So Bob, let's shift gears a minute, because last year a lot of investors that owned US government bonds, which were presumably very safe, many of them lost a lot of money. What's your forecast for US Treasuries, moving ahead?

Dr. Robert McHugh:

Yeah, I think it was the greatest decline in the value of our Treasury notes and bonds ever, I believe if I'm right, in one year. So, it was caused by hyperinflation that shocked the system, and the Fed's aggressive action to try to raise interest rates at historically fast, rapid levels and grade levels. I believe that was also the highest ever, that they used. And again, all they're doing is taking out aggregate demand. The real problem is supply, the real problem is we have shortages. We can't get cars, we can't get houses. Food is up 50, 80%. The 6% they just reported is nonsense. Our electric bill just went up 50%, for crying out loud.

But as far as the Treasury, what we got here is, there's going to be a point where the Treasury yield reaches its peak, because it'll happen when the recession, the deepness of the recession becomes evident. And then it's going to rally. And we're going to see a robust rally in the Treasury. And I have a converging fan trendline pattern, that gives a target. Right now, the US Treasury 10-year, is at around 115. And this converging fan trendline pattern has a target of 140, which would mean substantially lower interest rates, but that's not going to come until the recession has already wiped out a lot of wealth in this economy. So that's a later development, maybe in two years, maybe a year and a half. So, I do eventually see interest rates dropping. Again, it's going to be part of the correction or the fix that they try to put on, for what the damage is being done right now, to everybody's household wealth, commercial wealth, and the recession that's building right now.

Dennis Tubbergen:

So as interest rates have come back up dramatically over the past 12 months, Bob, there's a lot of CD investors, a lot of investors that like time deposits, that are finally seeing some interest rates that are a bit more attractive. Certainly, they're lagging inflation yet, but do you see more upside for those types of investors? Are we going to see higher interest rates before this reversal comes? What's your take?

Dr. Robert McHugh:

Yeah, it's interesting. The 10-year Treasury has not been rising in tandem with the short-term interest rate rise that the Fed has put through. There seemed to have been like a bottoming here, and I have a converging fan pattern that kind of indicated yeah, it's bottomed. So, I don't know if we're going to see the 10-year rate rise, 10-year interest rate rise a whole lot more, because I think what's happening is the evidence of the recession is starting to kick in. Corporate earnings are dropping. I don't hold out a lot of hope that CD rates are going to rise a whole lot more. I think we might be close to a max here, but that doesn't mean everything's going to go great. The reason we're at a max is because everything's going to go poorly, in the economy, and then we're going to see a flip in the rates. But that's just what my charts are showing me on the bonds and the 10-year Treasury right now.

Dennis Tubbergen:

Well, my guest today has been Dr. Robert McHugh. His website is technicalindicatorindex.com, I would encourage you to check out his work. Bob, always a pleasure to catch up with you. Always appreciate your perspective, and certainly appreciate your hard work as well. And I'd love to have you back, down the road.

Dr. Robert McHugh:

Oh, thanks Dennis. I love speaking with you. I always learn a lot myself from you, and look forward to hearing back from you again, and being on your show. Thank you very much.

Dennis Tubbergen:

We will return after these words.