Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Murray Gunn
Elliot Wave International

Date Aired: January 23, 2022

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 am your host, Dennis Tubbergen. I have the pleasure of chatting once again today with returning guest, Mr. Murray Gunn. Longtime listeners probably recognize Murray as a market analyst with Elliot Wave International, and Murray, welcome back to the program.

Murray Gunn:

Thank you, Dennis. It's good to be here.

Dennis Tubbergen:

So, Murray, I should point out that your offices are in the UK, and it's just as cold there as it is here in West Michigan, as I'm talking to you this morning. But, that said, for our listeners maybe that are not aware of what Elliot Wave is and what your organization does and a bit about your mission, if you could, please.

Murray Gunn:

Sure. Well, today Elliot Wave International is the largest independent technical analysis firm in the world with the Elliot Wave Principle as our core model. So, we cover every major financial index in the world around the clock, and many of our publications have won awards in their category. And what really differentiates us from everyone else is that we don't really take our leads from Federal Reserve policy, news headlines, presidential elections, or the latest economic statistics. In fact, we forecast the forces from the markets that produce those outcomes. So, we and our subscribers can expect them to happen.

Dennis Tubbergen:

So, Murray... And I should mention also that for listeners that would like to learn more about the Elliot Wave Principle, they can go to elliotwave.com, and you have graciously offered to give any listener that would like it a free book on the topic. So again, that's elliotwave.com. So. Murray, as we are now moving into 2022 with almost a month in the books, it seems to me just looking at this, that stocks may be beginning to break down in earnest. What does your analysis tell you?

Murray Gunn:

It certainly points in that way for certainly for the U.S. indices and for the European indices. The Asian indices are a little bit more mixed, but our view in general, Dennis, remains that the bounds in the global stock market index, of which the U.S. is a dominant weighting from the 2020 pandemic long term, lowers it. Our view is the final rally in a multi-decade bull market and that 2021 could really have marked an historic juncture in that topping process. I think I maybe mentioned the last time, our main thesis is that the global economy has been going through an incredible period of change over the last couple of decades. And global leadership has really been changing from west to east. And that may sound a little bit strange given that the performance of the stock markets, but the Supercycle talking processes involve different stages.

Murray Gunn:

And of course, China's been changing a lot over the last year, as your listeners have been aware, but I think all of this sets the stage for what's coming next. And it's worth reminding the listeners that the Japanese stock market topped out 31 years ago, and that's 30 plus years of a bear market. I mean, can anyone really imagine that happening in America? Our view is, "Why not?" because it happened in Japan, so why can't it happen in America or Europe? In fact, if you look at the European markets, the Euro Zone stock market has essentially gone sideways for 21 years, and the Chinese stock market peaked out 14 years ago. And so, over the past decade or so, it's really only been America that's been the last man standing, so to speak, in what we think is a great Supercycle top. But if our analysis is correct, then that's about to change because the U.S. Stock Market is close to turning down. If not, it's turning down already into a bear trend, which could be quite dramatic and result in a period of what we think is coming as debt deflation.

Dennis Tubbergen:

So, Murray, when you use the term a Supercycle top, can you explain what that is in the context of your Elliot Wave analysis work?

Murray Gunn:

Sure, so the Elliot Wave Principle is a Frankl-based model of the economy discovered by a man called Ralph Elliot in the 1930s. And he discovered that human herding behavior really causes markets like the stock market, which is a leading indicator of the economy. The OECD used the stock market as one of their key components in the leading indicators. So, the leading indicator for the economy, what he discovered was that these patterns of herding behavior, they exhibit certain identifiable and repeatable patterns, and that these patterns repeat at every timescale. And so, it enables cycles of herding behavior really to be anticipated from the short-term to the very long-term. So, what he recognized was that there are various time cycles involved, and so a very short-term cycle would be something if you're looking at a minute-by-minute chart, and a Supercycle would be something that lasts maybe decades or even centuries.

Dennis Tubbergen:

So, Murray, you mentioned earlier that we are likely nearing the end of a multi-decade bull market. So, as we enter this deflationary period that you're forecasting, what do stock markets look like moving ahead in your view?

Murray Gunn:

Well, it's going to be very effective for them, and of course, the last year has been... The focus really has been on consumer and producer price inflation, which has been the focus of last year. But in many ways, that's a function of the insanely negligent policies of Central Banks' service and the global financial crisis of 2008, but in many ways before that. So, the stock markets have a problem with that aspect, but in deflation, certainly with asset prices coming down, we can expect to see a bear trend in stock markets in the U.S. and Europe, and that involves other asset markets as well, such as property.

Dennis Tubbergen:

So, Murray, you used the term "insanely negligent" just a minute ago to describe Central Bank policy. Certainly, you'd get no argument from me. There are those guests I have on the program that suggest we are headed for a hyperinflationary outcome to this policy. It sounds like you might differ with that opinion. Can you clarify that and just let me know why?

Murray Gunn:

Sure, Ben Bernanke, back in the financial crisis joked that the Fed could always drop money from helicopters in a bid to avert deflation. And that's actually what's happened with the stimulus checks that were mailed out to the American households. There weren't any choppers in the sky, but there were certainly mail vans on the road in that regard. And so, what these stimulus checks did was a form of debt cancellation, a kind of Debt Jubilee, as it's known, when debts are simply canceled. The stimulus checks have allowed U.S. consumers to reduce their credit card bills, for example. And this is the issue, the amount of debt in the world is simply way too large now for it to be anything but a drag on growth.

Murray Gunn:

And that's why the Central Banks led by the Fed are actually... No matter what they say, they're actually pleased to see consumer price inflation so high because apart from debt cancellation, it's one way of deflating the debt. But we think the policy is not going to succeed. Already you see the bond markets beginning to push back on the Fed. They're forcing the Fed, and they'll force other Central Banks to raise rates, a short end of rates, at least. And that will not cause the fall of the stock markets because that's caused by a turn in social mood. But really it will be adding to the fuel to the fire of the bear market. And when we come on to socionomics later, but from a socionomist point of view, where we look at things slightly differently and in terms of the market, it's like I said, leading the Central Bank, a socionomist would not put credit or blame the Fed for the change in trend that we're seeing at the moment in the stock market, perhaps.

Murray Gunn:

But we'd point out as socionomists that it was at the very top of the broad market index in the U.S. and the top of the NASDAQ in November, where the Fed finally became optimistic enough to risk announcing a program of raising interest rates.

Dennis Tubbergen:

Well, I'm chatting today with Mr. Murray Gunn. The website to get to learn more about Elliott Wave is elliotwave.com. You can visit the website and get a free book on Elliott Wave as well. And Murray in the next segment, I want to get into socionomics. It's a fascinating topic. We have time to have one more quick topic in this segment. You mentioned that the bond markets are now reacting to Central Bank policy. We're seeing interest rates move up as of the first of the year. What's your forecast for government bonds worldwide, in particular, the U.S.?

Murray Gunn:

Well, we see bond yields continuing to rise. That's the trend. That's been the trend for a few months, and we certainly see that in the Elliot Wave patterns that we're looking at. It was interesting, some people, I think, at the moment are quite... Taking notes if you will that they like corporate debt, and the particularly junk bonds and that's the thing it's worth looking at because they say it does well in an accelerating consumer price inflation environment like that we're in at the moment. The theory is that the higher consumer price inflation means that companies can increase prices, thereby increasing revenue in normal terms. And at the same time, though, they might have debt that the company always buy bonds remains the same, thereby decreasing its real value and making it easier to service. So, it's a win-win situation, and that's the same with governments. That's why Central Banks are happy to see inflation because they think that they can inflate away the debt, but we don't think they're going to succeed in that.

Dennis Tubbergen:

Well, my guest today, as I said, is Mr. Murray Gunn. You can get a free book explaining the Elliot Wave Analysis Process by visiting elliotwave.com. There's another website you should visit called socionomics.com. I'll be talking with Murray about that topic in the next segment. when RLA radio returns. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen, your host. You are listening to RLA radio. My guest on today's program is Mr. Murray Gunn. If you are not with us for the first segment, he is offering a free book to our listeners today explaining the Elliot Wave Analysis Principle. You can go to elliotwave.com and get your free book. Also, another site you should visit socionomics.net. And Murray, let's just jump in on that topic for our listeners that may not be familiar with socionomics. I believe that is really a science that Elliot Wave perhaps invented. Could you explain?

Murray Gunn:

Of course. Robert Prechter, the founder of Elliott Wave International, his socioeconomic theory is a field of study conducted under the hypothesis that waves of social mood motivate the character of social actions. It's not the other way around as most people believe, so the waves of social mood drive the stock market. And so, the stock market is our gauge of social mood or socionometers, as we call it. And our historical research has found that in positive social actions, such as peace, encouraging, consensus, they tend to proliferate with a positive social mood and a rising stock market. And on the other hand, negative social actions, such as war, exclusion, disharmony, they tend to proliferate with a negative social mood and a declining stock market.

Dennis Tubbergen:

So, Murray, when you look at the last couple years, we've had worldwide reactions to COVID 19, many of these reactions involved lockdowns. How is social mood affected and how do you square that with a rising stock market?

Murray Gunn:

Well, it's certainly an interesting time to be alive at the moment with regards to the COVID pandemic. And what's interesting is part of our research from a number of years ago in the Socionomics Institute, they realized that actually pandemics, global flu pandemics can emanate from a negative social mood. And if you look at... I know there's a debate about this, about whether it actually emanated from China, but if you look at the Chinese social mood that was in a negative social mood for the last... As I said, mentioned for the last, some of the last 14 years now, but when the pandemic started for the last, for 12 years. So, with China's social mood, having been in a 12-year negative trend, it kind of fits with the socionomic aspect that social mood makes society more susceptible to flu pandemics or flu epidemics.

Dennis Tubbergen:

So, when you look at socionomics, and you just analyze social mood now, worldwide, what do you see?

Murray Gunn:

Well, there's various topics at the moment. And, of course, there's always going to be a mixture of negative and positive manifestations taking place at the same time. So, for instance, China had its own thing going on a couple years ago. But if you look at something that's generic for the world at the moment in relation to, say, socionomics like the global stock market, as I said, dominated by the U.S. weighting. But the global stock market index has been in a boom market from the last decade at least.

Murray Gunn:

But if we look at something like what's happening with the Green Revolution and the boom in ESG or environmental, social, and governance, as it's known, that sort of soft capitalism where people are saying, "Well, actually, we want to take back the kind of ethos of capitalism, and we want to make it all cozy and cuddly." This happens at the top of markets, top market cycle and the top... It comes after a period of positive social mood. It encourages people to feel this way, and so I think that that's a certain manifestation and an indication that positive social mood has reached such an extreme where even we've got millionaires and billionaires now saying, "Well, please tax us more. We want to be taxed more, based... Maybe we see the rise of inequality." And that's another aspect which is consistent with a top in the market. The last time, really, we had this kind of wealth gap globally between the sort of 1% and the rest, that was in the late 1920s.

Dennis Tubbergen:

Interesting that you bring that up, Murray, the late 1920s, because there seems to be a lot of parallels from a social mood perspective between the Roaring Twenties and what we're seeing now. Do you anticipate that stock markets, given that socionomics can predict the stock market or vice versa, do you anticipate a decline in the markets based on your socionomics research on par with what we saw from 1929 to the mid- thirties?

Murray Gunn:

Well, certainly sentiment is just as bullish, if not more so than it was at the end of the 1920s. I mean, if you look at what's happening with sentiment fund or sentiment indicators, fund investment, fund cash allocations are all time lows. Household exposure to financial assets is all time highs. These are leverage and debt in the financial markets, it's all-time highs. Sentiment services are at extremes, and retail trading has been at an extreme as well. And more money was poured into global equity funds in 2021 than over the past two decades combined. And so, the fact that that's occurring after a decade long rise in the global stock market indexes, a sign of speculative excess. But specifically talking about 1920, I think one aspect, which I was chuckling on the other day was when I was actually getting my hair cut. And the 19-year-old barber was asking my opinion about investing in non-fundable tokens, which is part of the whole crypto bubble. So, I thought, "Oh, here's the sort of 2022 rhyme with the shoeshine boy analogy of 1929."

Dennis Tubbergen:

Exactly what it is. So, let's talk about sentiment because I think that's an indicator that many times other analysts really don't focus on. But talk a bit about the market turning points and sentiment and just the historical predictability of that, if you could please.

Murray Gunn:

Sure. Well, I mean there's... If we look at fund cash allocations, we look at things that have historically happened in the past. I think things that the SPACS bubble, which is deflated a wee bit already, which is a warning sign. But the SPACS bubble has echoes of what happened three hundred years ago in the South Sea and Mississippi Bubbles, when IPOs for nothing, for no schemes at all were booming. And the famous one, of course, particularly involve someone telling the crowd in London during that time in 1720, during the South Sea Bubble, that he was raising money for an undertaking of great advantage, but nobody to know what it is, which is basically just what a SPAC is these days, and so this is the modern-day equivalent. But also, there's an interesting aspect with regard to technical analysis and sentiment, and there's a huge warning sign coming from the market now, and that's to do with the, what we call the breadth of the rally.

Murray Gunn:

So, it's really only a handful of stocks which dominate the Dow and the S&P 500 which have held those indices up. And if you look under the hood, the vast majority of stocks are already in bear markets. And so, it's this narrowness of the rally, which is a classic end of trained technical analysis warning flag. So that's from the sort of particular data, but there's another aspect which we're looking at just a few weeks ago, which we think could be the cherry on top of the icing on the cake, really, in terms of sentiment. So, what involved is something called the Magazine Cover Indicator. And so, this was found by a man called Paul Macrae Montgomery, and what it is was he realized that he used Time Magazine for his initial studies.

Murray Gunn:

And you realize that whenever a theme or a firm reaches the cover of Time, it usually marks the end or a significant pause in the mania. So, Elliott Wave International's Peter Kendall has written a lot about this indicator over the years, and there's three criteria which must be met. Firstly, the magazine must be a mainstream publication, not a specific financial product. The subject really must be to do with the sort of current zeitgeist reaching a climax. And the last one is there has to have been significant asset price gains in the period immediately prior to the magazine cover appearing. So, one of the most famous occurrences was the end of 1999 when Time Magazine featured Jeff Bezos on its front cover as its Person of the Year. And of course, in the two... In the years prior to that happening, I think Amazon was up eight and a half thousand percent or something like that.

Murray Gunn:

The mania of the dotcom mania was reaching a crescendo. And of course, that appeared in December, 1999 just before the crash. And, of course, people forget that that crash took out 95% of Amazon's value over the next couple of years. But you fast forward to where we are now, December, 2021, and, of course, Time Magazine releases its Person of the Year is Elon Musk, adorning the front cover. And of course, the proposal for the delivery of Teslas advanced by, I think, forty-one thousandish percent from 2011. So, it definitely tells us that from that specific indicator point of view, in terms of sentiment, it could be more evidence that a top is definitely in the making.

Dennis Tubbergen:

Well, my guest today has been Mr. Murray Gunn. If you would like to get a copy of a free book explaining the Elliot Wave Analysis Theory, you can go to elliotwave.com. And if you'd like to learn more about socionomics, you can go to socionomics.net. Murray, always a pleasure to catch up with you, and I appreciate you taking time out of your schedule to chat with us today, and I'd love to have you back down the road.

Murray Gunn:

Many thanks, Dennis. It's been great.

Dennis Tubbergen:

We will return after these words.