Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Murray Gunn
Elliot Wave International

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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 our RLA Radio. I'm your host, Dennis Tubbergen. Joining me on today's program is returning guest, Mr. Murray Gunn. Many longtime listeners will recommend, or will recognize rather Murray as the head of global research for Elliott Wave International. He is a very busy guy. So Murray, thank you for taking time out of your schedule to chat with us today.

Murray Gunn:

It's a pleasure to be here, Dennis. Thank you.

Dennis Tubbergen:

So, Murray, for our listeners that may not be familiar with Elliot Wave, can you give us just an overview as to Elliot Wave and what its use is?

Murray Gunn:

Sure. So, Elliot Wave International is the largest independent technical analysis firm in the world with the Elliott Wave Principle as our core model. So, the Elliot Wave Principle is what we call a fractal-based model of the economy. It discovered by a man called Ralph Elliot in the 1930s. 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. What was his big discovery was that these patterns repeat at every timescale, hence the use of the word fractal. So it enables cycles of herding behavior to be anticipated from the short term to the very long term.

Dennis Tubbergen:

So, Murray, when you take a look at what's happened worldwide since the great financial crisis and certainly since the pandemic, we have had extreme monetary policy to use that term. We have had currency creation, quantitative easing, whatever you want to call it, it means the same thing. So, when you have something that is taking place that is so out of the ordinary like quantitative easing or currency creation, does that affect or impact the Elliott Wave model?

Murray Gunn:

Well, if anything, it enhances the usefulness of the Elliott Wave model because the extremes of price movement that we've been seeing over the last 10, 15 years have been well suited towards price pattern recognition. So it's interesting that since we spoke last October when I reiterated the view then that this historic bond bear market, which you've been seeing which

Elliott Web International had anticipated, it was really changing the face of the financial markets, and it continues really to do so. I was thinking about it the other day, Dennis, and two years ago we were telling our subscribers that 2021 was setting up to be potentially a very significant turning point in history.

We were basing this on time cycle analysis based on the Elliott Wave Principle going back to the 1932 stock market law. There was a confluence of cycles almost zoning in on 2021, and so essentially, it's fascinating that spanning that year. As you mentioned, we've had a once in a century pandemic, a land war starting in Europe, and like I just mentioned there, one of the most dramatic bond bear markets in history. This higher interest rate environment is really starting to affect everything, though, from stock markets to property to corporate borrowing. The fallout is really just only the beginning.

Dennis Tubbergen:

Murray, when you look at what happened last year to bonds, I'm sure there were many shocked investors that found that you can lose double-digit on a percentage basis. You can lose on a double-digit basis over the course of a year in government bonds, and that's a phenomenon we really haven’t seen in over 40 years. So, are you expecting that that will continue, and how bad do you think it gets for bond investors?

Murray Gunn:

Yes, we do. Our price pattern analysis points to bond yields rising further, and that will continue to lead central banks into continuing to hike short-term rates. Most people think that central banks lead the markets, but we've shown over the decades that this actually central bank policy merely follows what the bond market prices are doing beforehand, but the bond market prices were selling off in the U.S. treasuries and bond yields were going up well, well, well before the Fed started to eventually hike rates. So, we certainly expect the bond markets to continue to come under pressure in price terms, rising yield and in particular, the corporate bond market. We think that the corporate bonds are really the next shoe to drop.

What's been fascinating and that fact that during the last year, corporate bonds have really held in quite well. They've not underperformed as much as they have done historically during times of recession. I appreciate we're not in a recession just yet, but we are heading towards one. So, what you've got coming up is that lots of corporations during the pandemic, they took advantage of basically 0% money for nothing to fulfill their debt obligations.

Those debt obligations now are coming due, so they'll have to roll that debt over starting from this year and into next year, and they'll have to reset at higher rates. So that's going to be a big shock for the corporate bond market.

Dennis Tubbergen:

Murray, you made a comment that I made a note of as you were talking. You said that central bank policy follows markets versus markets following central bank policy. I think there's a lot of listeners that heard you say that that said, "Well, wait a minute, I thought the Fed here in the U.S. set interest rates. But you're saying that central bank policy follows markets. Can you expand on that a little bit? I found that interesting.

Murray Gunn:

Sure. In a way, it's not as fascinating as it probably sounds because if you think about you get the bond markets, interest rate markets, they are trading every day of the week. So, the global financial markets are setting interest rates by buying and selling and doing nothing because people are doing nothing in the markets. That in itself is an active decision. So, the clearing price of interest rates is set every day by the bond markets themselves, and it's the market's responsibility, it's the market's job to look forward in time. So, they generally anticipate what the central bank is going to do.

So bond yields will generally, especially at the short end, what we call the short end of the money market, of the bond markets like the two-year yield or lower, the one-year bill rate that was starting to rise in price and historically has risen in ... Sorry, in yield rather than price, risen in yield and the central bank, the Fed have followed by hiking rates. The opposite happens when they're having an easing cycle as well. It's always the money markets that trade every day that they change their prices and the Fed and yields, and the Fed just follows, and other central banks do exactly the same.

Dennis Tubbergen:

So Murray, along those lines, when you take a look at the just debt that exists on the balance sheet of governments around the world, and I'm most familiar with the U.S. government, almost $32 trillion in debt with rising interest rates, it seems that there is this potential for a perfect storm in that as interest rates continue to rise, given that a lot of this debt is financed over the short term, we are going to reach a point in a very near future, at least in my view, that we're going to consume a very large percentage of tax revenues just to service the debt. This trajectory, just from my perspective

anyway, seems like it can't continue. So, I'd like your comment on that and how do you see this playing out?

Murray Gunn:

Yes, that's a very good point, Dennis. Debt isn’t really a problem until it becomes excessive. There was a very good and famous Elliott Wave aficionado called Hamilton Bolton and he years ago did a study on debt markets and found that actually it's when debt becomes excessive, that's when you have debt deflation coming in, and that's really what we are expecting. The point you make is absolutely fantastic that the fact that it's being able to service that debt as interest rates are rising, the straw that breaks the camel's back. As I mentioned about the corporate bond market, they're having to reset their bond borrowing this year and next, and a lot of them will suffer because of that.

Commercial banks are already tightening lending standards as they always have done before recessions hit. A number of large companies, or sorry, the number of large companies that are filing for bankruptcy is already at the highest level since the great financial crisis. So, we certainly expect the global economy to continue to slow down and enter a recession. Given how inverted bond yield curves have been, meaning that the longer duration bond yields are lower than the shorter duration bond yields and the track record that that metric has in anticipating recessions, it would quite frankly be a miracle if there wasn't a recession coming in the next couple of years.

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, and if you go to the resources section of the website, there is a free book on Elliot Wave. I'd encourage you to check it out. Again, the website is elliottwave.com and there's a free book offer under the resources section, so check that out. I will continue my conversation with Murray Gunn when RLA Radio returns. Stay with us.

Welcome back to RLA radio. I'm your host Dennis Tubbergen. I have the pleasure of chatting today with Mr. Murray Gunn. Murray is the head of global research at Elliott Wave International. The website is elliottwave.com, and if you visit the website and click on the resources tab, there's a free book on the Elliott Wave concept that you can pick up there. Again, elliottwave.com is the website. So, Murray, we talked about in the last segment your forecast is that we're going to see interest rates higher moving ahead. We're going to see a global recession. Give me your

assessment of stocks worldwide and then to the extent you're comfortable, some of the U.S. stock indices.

Murray Gunn:

Sure. Well, the Worldwide Index that we look at is an ETF in particular, a VT, it is the Vanguard Total World Stock Index. That's what we look at to first and foremost to decide or look at what's happening with the global stock market. What's really interesting by looking at that, the technical analysis on that chart at the moment is that the rally since October, not just in Elliott Wave terms and the price pattern looks like it has been what we call corrective. In other words, we've had the first decline and then this advance that we've had since October has been a corrective, what we call a corrective free wave pattern.

But really interestingly and increasing the probability that we're going to see another decline coming is that the rally since October in that particular ETF has not been confirmed at all by volume. So, what you want to see if it's a healthy advance in price. You want to see volume expanding on that movement, and that has actually done the opposite. Volume has contracted as this rally in price has taken place. So that for us is a really, really good clue that the rally's been corrective and we're going to see another decline. That analysis stands with some of the U.S. stock indices as well is certainly the S&P 500, the NASDAQ, the rally since October have been very corrective in terms of our model.

Dennis Tubbergen:

So, do you have an ultimate forecast per se, the Dow or the S&P 500, Murray?

Murray Gunn:

Well, we don't really engage in putting just direct numbers on a forecast for say six months or one year. What we try to do, because the markets change every day, we try and gauge the direction and given the extent or given where we are in the Elliott Wave cycle as we call it, where we're likely to actually go eventually with that movement. So certainly, with regards to the U.S. stock market, we think this is at least what we call a cycle degree turn. That means that we will probably be declining at least another 40, 50% over the next year or so from here.

Dennis Tubbergen:

So, you're expecting a lot more downside in stocks?

Murray Gunn:

Yes, we are, and there's various signs that we're looking at that's giving us confidence with that. One indicator that's been a good lead indicator of tops in the stock market, U.S. stock market has been when foreign investors have started piling into the U.S. stock market. The data shows now that once again, foreign investors have been really rushing into the U.S. stock market. Also, we've got share buybacks, they're back at record levels as well. Over history, that's been consistent when share buybacks have been in vogue, that's been consistent with tops in the stock market. So, we're expecting another turn there. The other thing we're looking at, Dennis, interestingly, which has been in a bit of an explosion recently, we've had a lot of the flame outs of the spike load of activity like SPACs.

They've obviously gone down a lot in price since they had their bubble. But the latest bubble, and this has been consistent with this rally since October, this bubble that has come back is in what are called zero days to expiry options, meaning that there are options that have basically they expire today and that the trading and those instruments has exploded. For us, that's a sign that speculation is once again rife, again, consistent with a top in the stock market and also increases the chance because the market makers involved with these options, they have to hedge the risk that they have, it increases the chance of a volatility accident happening. So, we are watching the VITs very closely at the moment.

Dennis Tubbergen:

Murray, I want to shift gears if we could please, in the time we have left, we've got about five-and-a-half minutes left. You mentioned that Elliott Wave is really based in the fact that there are repeatable patterns in the market and there are repeatable patterns because human behavior is predictable. Along those lines, Elliott Wave and I believe Robert Prechter, the founder of Elliott Wave, also founded something called the Socionomics Institute. Whenever you're on, I always like to, just for our listeners that maybe aren't familiar with that science, just to discuss it. So could you just briefly give the listeners an overview of Socionomics?

Murray Gunn:

Of course. Yes, Robert Prechter's Socionomic theory stems from evidence that it's the trend in what we call 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 our socioeconomic studies suggest that it's the negative mood trend which comes first before the negative action. Of course, vice versa for positive actions. So, for example, conventional thought would be that angry

people ... Sorry, the conventional thought would be that wars make people angry, whereas, the socionomic way of looking at it would be that angry people make wars.

On that same line, the conventional thought would be that recessions cause business people to be cautious, whereas, the socioeconomic thought would be, well, the causality would be that it's cautious business people who cause recessions. So that kind of flips conventional thinking on its head. Because social mood is a driver of everything in our model, it tends to show up first in the stock market. So it's the trends in stock markets that can anticipate social actions, and also social actions can help us anticipate where we are in the stock market cycle. So for instance, like I mentioned, wars and conflict and violence there, they generally happen after a period of negative social mood. So that means that they generally happen after the stock market has declined.

Dennis Tubbergen:

So, Murray, given everything going on in the world, there's wars, there is talk of recession, there's rising interest rates, what would your study of socionomics suggest lies ahead from a social action perspective?

Murray Gunn:

Well, there's a couple of things we're looking at the moment, Dennis, consistent with the talks in the stock market that we were just talking about there. We recently, I think it was last week we had the new ETF launched, the Jim Kramer ETF, obviously the famous CNBC Mad Money presenter That, for us, is a socionomic indicator of what we call equity culture. So everyone's obsessed by equities, everyone, the zeitgeist of the people are, Jim Kramer and equities are really, really popular at the moment. Compare that with where, for instance, the famous Business Week article from 1979 at the end of a bear market where their headline was The Death of Equities, because nobody was interested in equities at all at that time. Of course, that was the time to buy equities. So the thing is now with these little indicators like this, socioeconomic indicators, it is another piece of evidence which suggests that it's the top of the stock market.

Another thing that we're looking at is more of an international perspective on that same note is that when social mood is positive, you tend to have agreements, you tend to have politics going to the center. So it's interesting that we've had this bounce in stock markets from October. Last week we had the European Union and the United Kingdom coming together agreeing on a way forward for the Norman Island issue, which had been stuck since

Brexit. Also, you have Brazil and Argentina seemingly to wanting to propose a currency union. So once you get these international agreements and kind of peace, then it's generally a sign at the top.

The great example of this was at the end of the 1990s when there was lots of peace agreements taking place then, and we had the launch of the euro and things like that. On a more lighter note perhaps, but it's still very socionomically relevant, is the fact that there is a genuine relationship between hemlines in women's fashion and the stock market. So history would suggest that as the stock market is going up, then hemlines get shorter, and as the stock market is going down and hemlines would get longer. So it's interesting for us socionomically at the moment that the current trend seems to be for long hemlines.

Dennis Tubbergen:

Well, that is a perfect place to end it. My guest today has been Mr. Murray Gunn. He is the head of global research at Elliott Wave International. I'd encourage you to visit socionomics.net to learn more about socionomics, and to learn more about Elliott Wave visit elliottwave.com. On the resources link you can click there and there's a free book offer that Murray is making available. Murray, always a pleasure to catch up with you. Thank you for taking time out of your schedule to chat with us today and love to have you back down the road.

Murray Gunn:

Many thanks, Dennis. It's been a pleasure.

Dennis Tubbergen:

We will return after these words.