Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Dr. Robert McHugh
TechnicalIndicatorIndex.com

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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 returning guest, Dr. Bob McHugh. Dr. McHugh has the website technicalindicatorindex.com. He is perhaps the hardest working market analyst I know, producing a daily newsletter that I can only describe as voluminous, lots of information in it. He also has a platinum trading service that we will talk about a bit as well. Bob, welcome back to the program.

Dr. Robert McHugh:

Oh thanks, Dennis. Really great to be here again.

Dennis Tubbergen:

So, Bob, here we are about a week and a half ago the Fed met, they talked about the need to increase interest rates, they talked about the fact that they need to now tighten, and they said they would do so at the appropriate time. From what I read and what I saw, there were no specific timeframes mentioned, it's just that they're going to do it when they think it's right and they're going to be humble and nimble about it. So, what do you read into all this?

Dr. Robert McHugh:

Well, I think they got spooked in December when they saw the year-over-year fastest rate of growth in inflation year-over-year in 40 years in December. And I think they got spooked by that. They had a nice gig going where they would print money at will and buy U.S. Treasury debt at will, buy mortgage debt at will, which was artificially lowering interest rates. And they were getting away with it for a while, but the inflation caught up to them. I mean, the balance sheet grew from 2 billion... I'm sorry, 2 trillion back after the Great Recession of 2007, 2008, and 2009 to 8.8 trillion, and it grew like 4 trillion in the last year and a half. They're not supposed to have a balance sheet like that. It's not kosher.

Dr. Robert McHugh:

And they went ahead and did that, kind of playing the game of quantitative easing, and they got burned. They saw the inflation rate go up to 7% year-over-year, fastest growth in inflation in 40 years. So, I think they just said, "Okay, we better at least give the impression to the markets that we're going to tighten. We're going to hold back the money supply and let interest rates rise a little bit and let some of the money that we have on the balance sheet run off to try to temper inflation." But I don't honestly believe that it's going to work. I don't believe they're really that serious. And I think that the stock market dropping like crazy in the last month, or actually couple months, will give them the fuel they need to delay their tightening, to make sure that they can continue with their monetization of debt.

Dennis Tubbergen:

Well, Bob, I would tend to agree with that because it seems to me that if you were really serious about fighting inflation, that you would make an immediate policy change versus saying, "We're going to do it at some appropriate time." So, this in your view then is just more talk than it is actually substance?

Dr. Robert McHugh:

Right. And we've seen a crash in three major stock indices in the last two months. The Transportation Average, Dow Transportation Average has crashed 19.1%. The NASDAQ 100 technology sector has crashed 18.1%. And the small-cap Russell 2000 has crashed 21%. All of these crashes from their November tops through the end of January. And that's fuel for the Fed to hold back on raising interest rates and hold back on shrinking their balance sheet. It kind of gives them a little bit of room to continue the game they've been playing in the monetization of debt, which has not been fruitful for our economy at all. It did pump the stock market up a little bit for a while. But the real growth in wealth and income isn't there because cost of living is so high. I mean, people are just barely breaking even if you net the gains in the stock market with the cost-of-living increases, housing, cars, so on. People aren't really getting ahead.

Dennis Tubbergen:

So, Bob, this gets into your work, and we'll get into that in a little bit more detail, but those are big declines in the three indices that you mentioned. How do you see stocks performing through 2022? What's your forecast?

Dr. Robert McHugh:

I believe that they're going to continue to decline, with the occasional rally, corrective rise in the market, which will retrace portions of the prior decline, but it'll be a stair step lower. Like right now, the last week or so, we've seen the market up a little bit, and that's just to ease off the selling pressure that was going on. It got a little oversold. And once the market has worked off its oversold condition, it should continue down lower. And the reason I'm thinking this is because of the patterns that we study, and we chart are very bearish. These are incredibly bearish charts. The long-term charts and even the shorter-term charts are all warning that this is a new paradigm we're seeing, a paradigm shift in stocks that is just beginning. It's going to be a rough year.

Dennis Tubbergen:

So, Bob, there's a lot of investors out there that think the Fed will come to the rescue. In 2018, when the Feds started to tighten markets, didn't quite react to this extent, to this extremely, but certainly it was a tough year for investors. Do you think the Fed has the ability through currency creation to pump up another stock bubble or do you think that they've used up all their ammo?

Dr. Robert McHugh:

Oh, I think they're using up their ammo because what they were getting away with before is they didn't see hyperinflation. They didn't see hyper cost of living increase, so they could get away with monetization and printing money and funneling it into the stock market. But that game is over. They've been called on the carpet. The cost of living and the inflation rate is, like I said, the highest, fastest rate in 40 years. They cannot continue to monetize without inflation going further higher. Lord knows how long; how high it could get. But the cost of living is going to be a mitigating factor for what they can monetize, I think.

Dennis Tubbergen:

Well, if you're just joining me, we're chatting today with Dr. Robert McHugh. His website is technicalindicatorindex.com. And Bob, for our listeners maybe that aren't familiar with your work, you mentioned just a moment ago that many of the charts that you're reviewing are extremely bearish. I think maybe you said bearish across the board, although I don't want to put words in your mouth. So, for our listeners maybe that aren't familiar with the kind of work you do and the types of charts that you're looking at, could you just give them a very simple, 30,000-foot overview of your work?

Dr. Robert McHugh:

Oh, sure. Basically, it's a science approach to studying the markets. It's a science that recognizes the behavior of people, the group psychology of people, and that all information all around the world, by all people and their moods and their thinking is all reflected in pricing in the stock market. And this reflection of their collective information and mood forms patterns in the stock prices. And you can actually identify patterns that have been used for over a hundred years now by different technical analysts that are predictive.

Dr. Robert McHugh:

In essence, the stock market predicts itself. It tells us where it's going next based upon the patterns that it produces, based upon all the information and the mood and the behavior of people that set the prices of all markets. So, it's a very interesting merger of transactions with human psychology. And it's very predictive and it's very reliable and it's been so for many, many years. So that's what we do here. We interpret the patterns, explain what they mean and give out the forecast that the market actually is giving us through this information and these patterns.

Dennis Tubbergen:

So, Bob, tell me, do you have a forecast for maybe where stocks go at an ultimate bottom? Did you have a thought as to where we might end up?

Dr. Robert McHugh:

Yeah. I mean, we have long-term, short-term charts. So short-term, over the next year, we could see the industrials, let's use that as a tool, they could be headed down another 15, 20%. Maybe even more because the larger-term charts that we have are warning that the industrials could go down 60%, 50%, 60%, 70% over the next three or four years. But this year, for the time we see now, we're looking at probably another 20% to 30% decline in the stock market from where it sits today throughout the rest of the year.

Dennis Tubbergen:

So, Bob, you talk about a lot of different technical signals, and I'd like to maybe just touch on those. On your website, technicalindicatorindex.com, you note that the stock market has three official Hindenburg Omens on the clock simultaneously. And you note that that's a dangerous warning for the stock market. So, can you explain what is a Hindenburg Omen and why is it so dangerous?

Dr. Robert McHugh:

Sure. A Hindenburg Omen is a rare event where it's a situation where the stock market is unstable. And whenever it's unstable, it's at risk of a large decline. What it is, it basically evaluates the new highs and new lows of the New York Stock Exchange and compares that to the total issues traded on the New York Stock Exchange. An unhealthy market is where you see more than 2% of new highs and more than 2% new lows simultaneously. Now that may not seem like anything, but when you study the history of that event, when we have simultaneous new highs and lows, it presents a situation where the market is very unstable. If there's a lot of new highs and not a lot of new lows, the markets are in good shape because it's in a bull market, things are going fine. When it has a lot of new lows and not a lot of new highs, it's also in pretty good shape because it means that a decline is continuing, it's orderly, there's a bottom coming and then it'll bounce off.

Dr. Robert McHugh:

But when you have new highs and new lows approximately the same, over 2% of issues traded, that unstable condition is something that presented itself many, many times over the last 50 years just before stock market crashes. And it's very unusual to have three on at the same time. And we have three on the same time, we've had three on the same time for the last month or so, it basically predicted the crashes that we just saw in January. These three Hindenburg elements. It's rare to see them. There's only been about maybe one every two years over the last 50 years. So, when you get three at one time, it's a heads-up, make you sit up straight in your chair, open up your eyes and pay attention, there's trouble ahead. And that's exactly what happened.

Dennis Tubbergen:

Well, Bob, in the time we have left, the outside of this segment, I mentioned that you have a platinum service as well as a silver service to help people get some information on how to trade. Can you explain a little bit about that work?

Dr. Robert McHugh:

Sure. I mean, what we do is we present what we're doing for ourselves in trading options on the major stock indices using ETFs to track the major stock indices, that's the platinum program. We also have a trading service where we show what we're doing trading exchange traded funds on the major stock indices. And also, we trade gold, silver and mining stocks as well with the programs. And it's an educational service in the sense that people can learn through it. And hopefully, they can apply that to their own financial trading platform and make some money using our information.

Dr. Robert McHugh:

We've had a very successful history on it since 2011. We've had about 85% winners on closed trades, which is pretty nice. And we're to the good about almost a million dollars over that period of time. And in the last year, we've done pretty well. We've made about 300,000 over the last two years trading the market with options and ETFs. And again, it's a way to fight inflation. It's a way to create an additional income stream. If somebody's lost their job, they retire or the cost of living's going up, they're frustrated that they're not making enough in their wages, it's a way to try to get independent of your employer or whoever your income source comes from and add an additional income source. We try to make sure that we make the point that people be very careful and not overinvest, that they keep their dollars at risk at a very low amount. And like I said, it's educational. We explain a lot with it and people can hopefully use it to help their own income streams.

Dennis Tubbergen:

All right. Well, the clock tells me we're going to have to leave it there, but I will return after these words with my special guest, Dr. Robert McHugh.

Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. I'm chatting today with Dr. Robert McHugh. If you're just joining us, I would encourage you to check out Dr. McHugh's work at the website technicalindicatorindex.com, that's technicalindicatorindex.com. And Bob, let's just jump in again and talk about stocks and maybe kind of pick up where we left off. You had mentioned using the Dow Jones Industrials as an example that you thought we could see a 20% to 30% further decline this year, with a larger decline over the long-term. What do you see for U.S. Treasuries, which are typically a safe haven when stocks decline?

Dr. Robert McHugh:

Well, I feel that the long-term Treasury rate will be low and Treasury bonds, the pricing, will rise. Because as we go deeper into a cataclysmic stock market decline and economic recession/possibly depression, that's just starting now, Treasuries are going to be a safe haven that's going to be drawing money because people will be pulling their money out of the stock markets. And our charts are showing long-term bullish trends for Treasuries. Although right now, of course, we're in a short-term decline, which means a short-term rise in Treasury rates. I think that's going to reverse fairly soon, actually, as the stock market continues to drop. And we'll start seeing interest rates drop and bond prices and Treasury prices rise.

Dennis Tubbergen:

So, Bob, given the state of U.S. government finances this past week, I think the official U.S. government debt just surpassed $30 trillion for the first time, there has to be a lot of people listening to your forecast for U.S. Treasuries being bullish that might say, "Well, wait a minute. How can that be with a debt level that's so high? It cannot ever possibly be paid." How do you square that up?

Dr. Robert McHugh:

Manipulation by the Federal Reserve. They buy the government's debt. We had just hit $30 trillion of Treasury debt the other day, it announced. And there's a hyperinflation that comes with that. And the only way for the federal debt to be reduced is to hyperinflate the economy. And in order to hyperinflate the economy without causing higher interest rates, the Federal Reserve has to buy the debt from the government. And so, while the balance sheet is at 8.8 trillion right now at the Fed, and they said they're going to start letting it run off, ultimately, as these events unfold, a falling stock market, hyperinflation, they're going to have to keep interest rates low because the federal debt has to be refinanced with interest rates they have to pay. And they're not going to pay 18% interest on Treasury debts.

Dr. Robert McHugh:

So, the Fed will buy the debt. Fed will buy the debt, monetize the debt, push money into the economy, which will hyperinflate the economy, which will reduce the real impact of debt because the dollars become less valuable. The instrument here that gets killed is the U.S. dollar. U.S. dollar will be the valve that explodes and it's going to drop. The dollar has to drop through this scenario. And I think that's what the charts are showing here, and I think that's what we'll see. The pressure valve will be the dollar.

Dennis Tubbergen:

You know, Bob, I read an article this past week that the Central Bank of Russia now has more reserves in gold than in U.S. dollars for the first time in history. As the dollar fades and becomes even more less desirable than it is now, do you see gold and silver becoming currency again? Do you see that they're going to be used in commerce and trade or how do you think that plays out?

Dr. Robert McHugh:

I'm looking at a pattern here in gold, which is extremely bullish. We're tied up right now in a trading range for gold and silver, too. Silver will follow gold, and so will the mining stocks. But we're in a trading range in gold in what I call a handle of a cup and handle pattern that has been in place since 2012. It's a big pattern, it's a long-term pattern. The handle's been in place since 2020, and it's stuck at a trading range. But once gold can rise above the upper boundary of this handle of this pattern, it's going to fly higher. And gold will respond to the hyperinflation that's coming with substantially higher prices over 3,000, maybe up to 4,000 or 5,000. In gold, I see that over the coming years. As the long-term drop in stocks occurs, as the long-term rise in Treasury prices rise, as the dollar declines, gold is going to fly high to deal with all this hyperinflation and the stock market plunge.

Dr. Robert McHugh:

And will it be currency? It's hard to say because it's just impractical to transact with, but it certainly is a good hedge for the inflation. And it also is important for when things start looking chaotic, people tend to turn to it for stability and security. So yeah, I think it's going higher.

Dennis Tubbergen:

So, Bob, really what you're describing here, and correct me if I'm wrong, you're describing a devaluation of the dollar, so that really translates to more inflation. And you're also seeing stock prices probably decline. I mean, that's really the worst of those two worlds, isn't it? Is that really what you're forecasting?

Dr. Robert McHugh:

Yes. That is what I'm forecasting. I think we have a shot at falling into a very serious recession, possibly even an economic depression, which I think is starting right now, actually, because of these dangerous events that are going to unfold here in markets.

Dennis Tubbergen:

So, Bob, with gold and silver moving higher, talk a little bit about gold and silver and their performance as it relates to mining shares, and give us your opinion as to where people should probably look to play this bull market you're forecasting.

Dr. Robert McHugh:

Well, there's exchange traded funds if they don't want to handle gold itself, you can use them to try to play them to rally. Mining stocks are a hybrid between a stock operating company and also metals under the ground. So, mining stocks may not track gold dollar for dollar, moment by moment, minute by minute, but ultimately, I'm looking at a chart for mining stocks that is also going to be very bullish. The importance of the metals that they bring up under the ground will outweigh the fact that they're a stock in an operating company and they'll have the challenges that other stocks do. And so, I think they're going higher eventually. And they're in a correction as well. Like I said, the gold was in a handle correction in this cup and handle pattern. The mining stocks are also in a corrective phase right now, which soon should be ending and then they can resume a pretty strong upward rally to follow gold along the way.

Dennis Tubbergen:

So, Bob, we talked about the dollar and the fact that you're forecasting significant devaluation will continue moving ahead. As you look around the world at other fiat currencies, do you see any safe havens or are you pretty much just recommending gold and silver as a safe haven?

Dr. Robert McHugh:

Yeah. I'm not really looking at other currencies. Because I've noticed like the Australian dollar, they're deflating that. We track some of these dollars, other currencies in our international newsletter that we report once a week. The Euro is going to operate probably opposite of what the dollar is to some degree, but when they're faced with the same situation we are here, they're probably going to devalue that as well. So, I am not interested in playing the currency game, one country versus another. I would not do that personally. I would rather look at something that's completely opposite of man-made, man-manipulated, government-manipulated paper and look at something more like gold as a hedge.

Dr. Robert McHugh:

Like I said, one of the reasons I did this trading program is that's a hedge. I'm trying to play the ups and downs and make money that way as a hedge to take advantage. I mean, if the market goes down, you can make money if it goes down by playing the market to go down with the ETFs or appropriate ETFs or options. So, I would not recommend one currency over another. Does that mean that they will work opposite of each other? Sure, they could. One nation may have a different backing of their currency than another does. Maybe one's backing theirs up with gold, another is not. But I would not play that game too much myself.

Dennis Tubbergen:

Well, Bob, this may go a little bit outside the work you do. And I didn't warn you that I was going to ask this question, but what's your take, what's your opinion on cryptos: Bitcoin, Ethereum and others? They certainly had a rough go of it of late. Do you think these ultimately provide an alternative to world fiat currencies?

Dr. Robert McHugh:

I know I get a lot of people angry when I give my answer to that because I think, especially, there's a group of people that like new, they like technology and they believe in it. At this moment, at the evolution that it's in, I see it as a collectible. I see it as something like art or a car, an antique car, it's a collectible. I don't understand it. I don't think anybody does. Where did it come from? Who created it? Who's adding more, who's not? Who's regulating it? What can you do with it? It's not really a means of exchange. I can't go to the store with it. So, at this phase of its development, to me, it's a collectible.

Dr. Robert McHugh:

At some point does that evolve into a new currency of some type. Possibly. At this point, I know that the SEC is not happy with it. There are certain federal agencies, government agencies that are not happy with it. And so, without the government support, I'm not sure what kind of a life it can create for itself at this stage of the game. So, at this point, I just say it's a collectible. I stay away from it. Because in a collectible, how do you tell what's going up or what's going down and when? To me, that's how I look at it, so I stay away from it.

Dennis Tubbergen:

Well, my guest today has been Dr. Robert McHugh. His website is technicalindicatorindex.com. That once again is technicalindicatorindex.com. I'd encourage you to check it out. And Bob, always a pleasure to catch up with you. I'd love to have you back down the road and certainly appreciate your perspective.

Dr. Robert McHugh:

Thank you, Dennis. I really enjoy being on your show, and I appreciate you as well.

Dennis Tubbergen:

Well, thank you very much. We will return after these words.