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 on today's program once again is returning guest, Dr. Bob McHugh. Many of you who are long-time listeners will recognize Bob as ... I'll describe him as the hardest working technical analyst in the business. Bob puts out tons and tons of analysis on the markets and the economy. You can check out his work at technicalindicatorindex.com. I follow his work, would encourage you to do that as well.

He also offers a Platinum trading program to subscribers that gives them ideas on how to make money, whether the market goes up or down, using options or exchange-traded funds, and if we have time, we'll chat with him about that. But first, Bob, welcome back to the program.

Robert McHugh:

Thanks, Dennis. Always great to be here.

Dennis Tubbergen:

Bob, we were chatting a bit. You, which is normal for you, have been doing lots and lots of research, and you mentioned that you've got five fundamental economic points that would make you ... I guess this might be an understatement but would make you not really an optimist for the economy and where we go from here. Can you expand?

Robert McHugh:

Yeah. Actually, what I see right now is that the markets and the economy are at a very dangerous place, and I think it's going to catch a lot of people off guard. Because of the mainstream media, and the financial pundits, and those that benefit from people investing, and so on, for their own self-centered reasons, are going to catch a lot of people off guard here.

What I have found is that every single time, 100% of the time that the Federal Reserve has had a strong rising interest rate cycle and then they stop, every single time since 1913 when they started, we have had an economic recession that was severe or depression, and a stock market crash start shortly thereafter. Well, we are there again now. They're about to stop raising interest rates. If they're pausing or they're stopping, then we are in that exact same position for the 10th time ... 12th time since 1913. This has been a repeating pattern of behavior over and over. I can't imagine why it would be different this time.

A second point was the Fed's balance sheet. The Fed's balance sheet has been declining $1.2 trillion in the last year. That's a lot of money being pulled out of the market. That's a lot of liquidity being pulled out of the market, and it can contribute to severe liquidity crises, liquidity problems throughout the economy, including the banking system.

The money supply is dropping the most it's dropped ever. We've seen four other instances ... three other instances where the money supply has dropped this much in a short period of time. We've just seen it drop 3.3% in the last year. The last four times that this happened were 1920-'21, 1929 to '33, 1937 to '38, and in the '40s. There were stock market crashes each time and there was an economic depression and recession.

Bank lending is down sharply. Bank credit lending is down 2%, which doesn't sound like a lot, but it's one of the most dramatic drops in bank lending we've seen ever. The last two times this happened, the stock market dropped 50% and we had an economic severe recession, the Great Recession of 2007, and the prior recession in the early 2000s. Those three events are happening all simultaneously right now, and so what I'm saying is that we have to be very, very careful about what we're looking at on the fundamental economic side of the equation.

Dennis Tubbergen:

Bob, let me just jump in. I was making some notes as you went through that. You said the money supply is falling and it hasn't done that ... In fact, I read a piece by Mises this past week that I think this is the first time in 28 years that the money supply has declined at all, much less to this extent. The timeframes you mentioned, if I was paying attention and caught it all, are all prior to the dollar having ... in the '20s, the '30s, the '40s, and we have a completely different banking system today, and the dollar is a total fiat currency today. So isn't it interesting that we have, really, a money supply decline of this magnitude when we haven't seen it in three decades or so?

Robert McHugh:

Yeah, it is. It's fascinating, and I think one of the problems is the banks have loaned up. The banking systems loaned up. Many, many banks ... If people take a look at the bank balance sheets of the banks, they're putting their money in, the loans are equal to or greater than the deposits. We saw that in March of this past year. Three or four of the banks went down the toilet because the ... irrational lending. In many cases, they loan more money than they have deposits, so that means they are dependent on borrowed money, and if the Fed is pulling money out of the system like crazy, which they are ... and it has nothing to do with interest rates. It has nothing to do with rising interest rates.

If interest rates go down right now, that's an independent event that has nothing to do with what I'm talking about here. The pulling of liquidity out of the system is very, very dangerous right now, and so I think that the fundamental change here is that the banking system is loaned up, and delinquencies are rising, and lending, it's just not happening like it needs to facilitate a growing economy and support the stock market.

Dennis Tubbergen:

Bob, I guess, I'd like your reaction to this because it seems to me that over the last three and a half years, with the exception of maybe this year, but really from early 2020 on, there was so much liquidity injected into the system, so much currency creation, to use that term, that it was really extreme. Now, as we're coming out of this artificial environment, doesn't the counteraction to that action have to be just as extreme?

Robert McHugh:

I think that's what we're seeing, yeah, and I agree with that. You're right. I really think you're right. When they pumped all that money into the system in a short period of time, a couple years, they grew their balance sheet like $6 trillion, which has never been done before. We're used to seeing a balance sheet of one trillion for decades, and all of a sudden, they jumped at six trillion up to nine trillion. What it did is it created the hyperinflation that we've been seeing, and their CPI numbers or PPI numbers are not correct. We know that.

Anybody that lives and breathes knows that prices have gone up 25 to 100% on everything across the board over the last couple of years. Well, we're not getting that back. That's here to stay. I mean, if inflation starts at 2% ... they get it down to 2%, the damage is already done. Prices are already up. They're not going back. The CPI would have to drop 50% to get us back to where we are with the purchasing power we had before this lockdown and reaction by the Fed occurred, so we're really not gaining anything, even with low inflation rates at this point.

Dennis Tubbergen:

Bob, we've got inflation. Certainly, when you see the money supply falling to the extent that you mentioned, that's deflationary, so what does this ultimate end game look like? Where does the economy end up in your view?

What does it look like and how might our average listener that wants to keep their 401(k) and IRA money growing for them aspire to a comfortable retirement, what does this look like down the road, in your view, for them?

Robert McHugh:

Well, it's going to be a challenge because, at some point, the stock market's going to realize that the economy is not doing well. The GDP numbers that come out, most of it ... a lot of that was government spending. It's just not in the real economy, so it's going to be tough to manage your 401(k) in a safe manner and make some money. Interest income on FDIC-insured deposits, maybe a little bit timing the market here and there, up or down, playing that, it's not going to be easy. That's why I think the economic recession possibility is very high because everything contracts when that happens. Incomes go down and wealth opportunity goes down, so it's going to be rough sledding at this point.

Dennis Tubbergen:

Well, I think you make an interesting point. In fact, I think it was Charles Hugh Smith that wrote a piece that said that just looking at groceries from 2020 to the present time, so going back three years, you need 34% more income just to have the same standard of living. So, if you made a $100,000 in 2020, you need 134,000 to be able to live exactly like you did then, and with 60%-plus of American households living paycheck to paycheck, that kind of explains why we're seeing these rising delinquency rates on subprime auto loans, why we've got bank lending pulling back, bankers are getting nervous.

In your view then, if I'm hearing what you're saying, this all really is just getting started. Is that a fair assessment of what you think?

Robert McHugh:

Yes, that's right. It is all getting started and that's what the technical analysis charts ... that's the other side of our work. We've been talking fundamentals here and then the technical side, which I do, it's the charts that are saying we're just getting started with what's coming. This is going to be a very, very deep, serious, long decline in economic growth, and in prosperity, and what we've all been used to for years. We're headed into some very serious times, and like you said, I think it's just getting started. We're at the tip here.

Dennis Tubbergen:

Bob, we have just a little over a minute left, a minute and a half left in this segment. Tell the listeners a bit about your work at technicalindicatorindex.com and tell them a little bit about your Platinum trading program.

Robert McHugh:

Okay, sure. Thank you. Well, we have a newsletter we produce every day, and an expanded one on the weekend where we look at all this that we're talking about. We look at where the stock markets and other markets, gold, and oil, and bonds and everything are headed using charts, technical analysis charts, but we also study the fundamental economics and try to merge the two to come to a conclusion of where things are headed.

We look at it short term, intermediate term, and long term so we can get a perspective of what's the big picture and what's the closeup picture. Then in our trading programs, we provide ideas. We provide alerts with ideas of, "Gee, let's play the market to go down. Here's a way to do it with options or an inverse ETF." Or "Hey, looks like the market's going to rally for a little bit, short term. Let's play the markets go up. Let's use some ... Here's some ETF ideas. Here's some options ideas on how to make money playing it to go up," so it's some market timing strategies to make some money that way.

Dennis Tubbergen:

Well, and again, the website is technicalindicatorindex.com. The clock says we have to end the first segment there, but stay tuned. Dr. McHugh will join me again in the next segment, and we'll get his forecast using his technical analysis. Stay with us.

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. I have the pleasure of chatting once again today with returning guest, Dr. Robert McHugh. Bob is, I call him the hardest working technical analyst in the business. I think that's true. He puts out a monstrous news letter every day, works, very, very hard, and he's uncannily accurate at what he does too, from my experience. You can check out his work at technicalindicatorindex.com.

Bob, you had mentioned in the last segment, just want to pick up where we left off here, that the technical side of what it is that you do is showing you that along with the fundamentals, we are in a dangerous place as far as the markets and the economy are concerned. Maybe very briefly, can you give us just a very fundamental definition of technical analysis for any of our new listeners that may not be familiar with it?

Robert McHugh:

Yeah. What technical analysis does is it really, basically, looks at the overall mood, psychology of the market. It takes all the information from all people everywhere in the world that know everything about anything, and the theory is that it all settles in price for products. Price for stocks, price for oil, price for gold, price for bonds, whatever market you're looking at, that when you see pricing that is clearly the accumulation of all knowledge, and it's human behavior study all wrapped up into a chart. The charts are fairly simple, and we interpret the chart.

The charts are basically telling us where the prices are headed next, ahead of time before they move, based upon the psychology of patterns and wave mappings, and other indicators that we have to measure that psychology. And so it's very helpful behind the scenes, kind of an invisible overall directive, independent of fundamental economics to say, "This is what's probably coming," and you can tell if it's severe, going to be severe or going to be mild, it's going to be short term, it's going to be long term, so it gives you the future trends ahead of time, which is nice.

Dennis Tubbergen:

Bob, based on ... Thank you for that. Based on your technical analysis, your work, and a lot of what you do is proprietary, where do you see U.S. stock market indices going, the S&P 500, the Dow, and so on?

Robert McHugh:

Well, the overall, overarching large pattern forecast is that it's headed down in a very big way. Short term, this can be influenced based upon euphoria, false information in the media, and so on like that, but eventually, it always ends up where the big picture's heading, telling you it's headed, and that is down, and down big, and down for a long time. It's in Grand Supercycle degree wave IV event, which is the largest we've had in centuries.

The Great Depression was a Supercycle degree wave IV. This is a Grand Supercycle degree wave IV. This is bigger than the Great Depression was, so it's going to be around for a long time and it's headed south, so-

Dennis Tubbergen:

Bob, can I jump in there for a minute, please?

Robert McHugh:

Yeah.

Dennis Tubbergen:

I think top to bottom, when you look at what the Dow did during the Great Depression, there was a 90% decline in stocks. Are you saying ... I just want to clarify. You're saying that this has the potential to be bigger than that or it will be bigger than that, in your view?

Robert McHugh:

It could be longer, but yeah, it could lose 90%, eventually. It could, yeah, but-

Dennis Tubbergen:

Wow.

Robert McHugh:

... it's going to be for a longer period of time. Yeah, mm-hmm. Because it's correcting a Grand Supercycle bull market, which was going around, going on for over a century, so this one is a big corrective decline that we're ... I think we've started it, or if we haven't, we're soon going to, according to the charts I have and the patterns, which have been very reliable for years, so I don't see why they wouldn't be right now.

Dennis Tubbergen:

Interesting. You see the Dow or the S&P then down significantly. We'll just say maybe because I think, what? The S&P now is at about 4,600 or so, so you could see the S&P go to under 1,000 then, as far as you're concerned?

Robert McHugh:

Yeah, the pattern's suggesting that it could go that low, eventually, whether that's five years from now, 10 years from now, two years from now, but yes, that's the eventual directed target, yes.

Dennis Tubbergen:

Okay. Tell me then, just to maybe shift gears for a minute if we could, if you take a look at gold. I know you track precious metals. From the end of October to just a couple weeks ago, gold was up, I want to say 13, 14%, something like that. It made a new all-time high. It's been pulling back here for the last week and a half or so. Will gold benefit as stocks get hammered, to use that term? How do you see gold playing out from here?

Robert McHugh:

That's what the charts are saying also. The technical charts are saying that gold is going to have a robust rally, a mega rally. As the stock market is struggling, gold will do well. It has bumped up against this 2,000 level about four or five times now over the past decade, and it can't seem to get through. There's enormous resistance, but once it breaks out, I mean this ... Gold could go sky-high. It could go farther than higher than anybody could probably imagine, which probably implies there's going to be some kind of a geopolitical event.

Something's going to happen to scare people into running to gold. As this deepens, as the bear market deepens, the Grand Supercycle, bear market deepens over time, gold should do well over the long run, so that is an option for somebody that wanted to invest in their 401(k) or something like that.

Dennis Tubbergen:

Bob, I want to circle back to that if I can, just to make sure we talk about it. If you look at a price chart of long-term U.S. treasury bonds or an ETF that tracks them, from March of 2020 to the most recent low, you saw long-term treasury bonds down 50% or even more, peak to trough, if my research is right.

Now we've seen a little bit of a bounce here in long-term U.S. treasuries but given the ... this is a fundamental comment again. Given the dire state of U.S. government finances, given that next year is an election year and we'll likely see a deficit again between, my guess would be two to three trillion. We've got a lot of long-term debt that's coming due that's going to have to be financed at much higher interest rates.

Fundamentally speaking, it just seems like this little bounce that we're seeing here in U.S. treasuries might be a bit of a counter-trend bounce and that, at least fundamentally speaking, it seems like U.S. treasuries are going to have to perform poorly moving ahead. Do you agree with that or are the charts telling you something different?

Robert McHugh:

The charts are showing me that there could end up being a flight to quality benefit for U.S. treasuries. As things darken, that we could expect treasuries to actually rally over the long term. We're talking long term here, several years. Short term, yeah, there's ... it just dropped five down, five-wave down, which usually is a bottom, so I could see a bounce up here for a little while, and then maybe another bouncing around down a little bit.

But long term, treasury bonds I have showing a pretty good rally potential, which probably implies a flight to quality situation from unrest, lack of confidence, and whether it will be bank lending ... I mean, bank depositing or geopolitical event, something may draw people to the bonds. Because of the military strength of the United States, it makes government bonds look somewhat secure to a lot of people when trouble comes, so that's what I'm seeing.

Dennis Tubbergen:

Okay. Basically, if stocks crash, if we see turmoil, certainly, the interest rates that we're now seeing on U.S. treasuries are much more attractive, but that will likely mean interest rates will go down again. So are the charts telling you that interest rates have maybe peaked here?

Robert McHugh:

They could have. They're close to it. It's very possible that interest rates will start coming down based on what I'm looking at, yes.

Dennis Tubbergen:

Interesting, interesting. Okay, so going back to your Platinum trading program and markets going up or down, is that typically a short-term approach, Bob, or is there an asset class that you really like, and you just say, "You know what? I'm going to buy it because over time, this is where I want to be?" Or are those days of investing behind us?

Robert McHugh:

I do both. I have very short-term trades, and I have a longer term, what you just described. I like the long-term trend, I'm locking in and I'm going to wait for it to happen positions, ideas.

Then I have the, "Well, you know what? Over the next two weeks, three weeks, three months, let's ... I want to think about doing this because I see there's going to be a bounce. There's going to be a decline." Right now, for example, I have a lot of technical charts for short, intermediate-term stuff that says this stock market's close to topping in a very big way. It's the most overbought stock market we've seen in five years on a daily, weekly, and a monthly scale.

We have an indicator here that's very tried and true. The New York Stock Exchange advance/decline line has a bearish divergence. It's declining while the New York Stock Exchange has been rising. Almost every single time that that happens, you're at a stock market top. Bullish sentiment is as sky-high as you'll see, and every single time bullish sentiment is this high, it's at a stock market top. It's a contrary indicator.

An interesting thought, nine out of the last 10 December, January periods, the stock market has topped and dropped. Nine out of 10. There's this myth that, "Oh, it's December and markets are going to go higher." Nine out of the last 10 years, the stock market has started a decline in either December or the following January.

The Elliott Wave charts I have are showing, concluding rising patterns and there's a Dow Theory non-confirmation pattern right now, which is warning that stocks are topping, so I think that we're very close to a stock market top, and that we could see this thing just start declining very soon, whether that's a week, two weeks, three weeks. But I think short term, that's a position ... Then in our programs, our ideas for trading, we do address that and set things up for that benefit.

Dennis Tubbergen:

Well, it's amazing how fast 12 minutes goes by, Bob, when we're chatting, but we're going to have to leave it there. My guest today has been Dr. Bob McHugh. His website, again, technicalindicatorindex.com. You can also learn about his Platinum trading program there. I would encourage you to check it out. Bob, best wishes to you and your family for a Merry Christmas and a Happy New Year, and I'd love to have you next year for an update. Thank you for joining us.

Robert McHugh:

Thanks, Dennis, and Merry Christmas to you and your family as well.

Dennis Tubbergen:

Thank you very much. We will return after these words.