Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Murray Gunn
Elliot Wave International

Date Aired: March 28, 2021

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:

I'm Dennis Tubbergen. You are listening to RLA Radio. My guest today is Mr. Murray Gunn. Murray is a first-time guest here on the program. He is the head of global research at Elliott Wave International. Couple of websites you can check out. I'll give these again by the end of this segment. The first is elliottwave.com. The second is socionomics.net, and that's a topic we'll chat about as well. Murray, welcome to the program.

Murray Gunn:

Thanks Dennis, good to be here.

Dennis Tubbergen:

So let's start, maybe Murray, by talking a bit about the path you took to arrive and become the head of global research at Elliott Wave International.

Murray Gunn:

Okay well, I've been in the financial markets now for a little over three decades, mostly working on the fund management side with companies like Standard Life and the Abu Dhabi Investment Authority. But in the last decade, I've been engaged on the analytical publishing side, working as the head of technical analysis for HSBC, and for the last few years now, with the Elliott Wave International. So, like most people, I started as a conventional analyst, reading economics at the University of Dundee in Scotland, then I started my first job thinking in the markets, so it'd be the rules of the economic textbooks I'd been reading about. Of course, it took me about a week to realize that this wasn't the case at all. Why I thought if all the news was good and the balance sheet was healthy and earnings were positive, why would the stock price go down?

Murray Gunn:

And of course, vice versa, why would stocks go up if the news and the stats were really biased? So it became pretty obvious pretty quickly that something else was going on, and I thought, so that led me down the path of behavioral aspects and technical market analysis. So I got qualified through the Society of Technical Analysts in the UK, and I've been engaged in that. Still considered to be the unconventional analysis of the markets for the bulk of my career. So technical market analysis is a broad field, which not all your listeners will be familiar with. It encompasses everything from what we would know called corps, all the way to things like seasonal psychoanalysis, but in the early 1900s, the bedrock of Western technical analysis became Dow Theory, named after Charles Dow and his writings in Wall Street Journal, which he founded. Then along came the Elliott Wave principle, which gave Dow Theory a significant enhancement and made the

Elliott Wave principle probably the purest form of a market analysis that there is.

Dennis Tubbergen:

So Murray, just for our listeners, maybe, that aren't familiar with Elliott Wave analysis. What is Elliott Wave? Can you just briefly, and I know that's a tall order, but can you, as briefly as you can, just explain the premise of the principle?

Murray Gunn:

Sure, the Elliott Wave principle is a frontal based model of the economy discovered by a man called Ralph Elliott in the 1930s. And he discovered that the human handling behavior causes markets like the stock market, which is a leading indicator of the economy to exhibit certain identifiable and repeatable patterns. So he found that these patterns repeat at every timescale. And so it enables cycles of herding behavior to be anticipated from the short term to the very long term. So he examined price data for the US stock market. And he went through this pedicle study to discover these patterns. And he discovered that could be labeled and identified and not introduced a forecasting element to market analysis that was previously not appreciated. So for example, if there's a triangular pattern present on the chart of a stock market, it's a fairly reliable indicator of what is going to happen next when the pattern is complete.

Murray Gunn:

So maybe these patterns repeat every timescale. The fact that they've repeated every timescale means that the Elliott Wave principle can be used to forecast price developments for the next few hours to the next few years or even longer. I mean, back in the early 1980s when almost everyone was bearish, Robert Prechter who phoned Elliott Wave international, use the part in recognition of the Elliott Wave principle to forecast the booming multi-year boom market. Not that interesting aspect, about the Elliott Wave principle, which people find fascinating is that there's a mathematical basis to what Elliot discovered in that much of market structure is related with regard to the so-called golden ratio of 1.618 and it's relatives. And of course, this is really fascinating for many people because if we believe as we do that markets aren't driven by balance sheets or profit loss accounts or whatever it is, markets are driven by human behavior.

Murray Gunn:

Then with humans being part of the natural world, it begins to sort of make sense that markets can exhibit a structure, which accords with our mathematical phenomena as seen all over nature and the universe such as logarithmic spirals, seen in sunflowers, shales, galaxies, to name just three of many. There is a bit of a fun game. I think I should point out to your listeners, Dennis. So in mathematics, two quantities are in the golden ratio. If their ratio is the same as the ratio to their sum of the larger of the two quantities.

Murray Gunn:

So here's a fun game for your listeners to do. So think of any two random numbers and write them down next to each other and then add them together to get a third then add the second and third number to get a fourth. Repeat the process another nine times and finally divide the last number in the series by the second last number and your answer will be 1.618. And so it's amazing and it's evidence that there really is actually underlying order to what we think is chaotic at first, such as the stock market.

Dennis Tubbergen:

So Murray, just to ask a question here, I mean, you certainly, and this is really a question as it relates to what's going on fundamentally in the economy, but the last dozen years or so since the financial crisis, we've had a very loose monetary policy, we've had very aggressive quantitative easing, we've seen massive expansion of the money supply. To what extent has that affected if any, your technical analysis using Elliott Wave?

Murray Gunn:

Well, it certainly has affected it in the sense that we are consistently doing what we're doing. I mean, we, it hasn't really affected the fundamentals of technical analysis. It's just made it a heck of a lot more interesting because of the fears of the cycle that we're in. I mean, I don't think there's any doubt that we're living through one of the most incredible periods of financial and economic history. And I know many people are referring to what is going on as the latest industrial revolution with all the amazing changes that are happening to technology and robotics. And then maybe a lot of truth in that. But our analysis of the objective data, which is the technical analysis of the Elliott Wave principle tells us really that we want to tread carefully at this current juncture. There's a clear pattern for us and the price data of the US stock market since the 1932 great depression low, which according to the Elliott Wave principle is warning that a very significant top in the stock market could be at hand.

Murray Gunn:

I know as you alluded to Dennis, that the fact that the last decade has also coincided with the greatest experiment in monetary policy history, in the form of money printing and quantitative analysis, it definitely adds credibility to our observances that there is a speculative mania in almost everything right now. Whether it's penny stocks, call option, buying stocks, real estate, Bitcoin, junk bonds, digital art, you name it. There are so many warning signs around it. This is a bubble fees of the economy. There's usual leverage with margin debts, at its highs and cash to assets and its lows. And of course, you've got the record IPO of last year of the last 12 months, which is asymptomatic of a tail end of a bull market.

Murray Gunn:

When the private owners are cashing in the chips, it's a saying that changes probably in the air. But it's not just the technical analysis. Your looking at the conventional valuation models, they're off the charts as well. Look at the stock market as a percentage of GDP or the so-called Warren Buffet indicator that is at all-time highs. We've been looking at something that was produced by the global macro, from Crest Capital, which they've done some great historical analysis. And the conclusion is that 11 measures of valuation, such as price to book price to sales, et cetera. They're most expensive in 120 years. So, of course bubbles can endure for longer than we might think possible, but this is where the Elliott Wave principle gives us an edge. And the evidence we're looking at suggests that this year in particular, it could be a seminal year because 2021 coincides with an amazing cluster of golden ratio related cycles going back at least a century.

Dennis Tubbergen:

Well, if you're just joining us, we're chatting today with Murray Gunn. He is the head of global research at Elliott Wave International. You can learn more at elliottwave.com and I've got just under a couple of minutes left in this segment. Murray, can you briefly tell the listeners what are you forecasting both near term and maybe longer term for stocks?

Murray Gunn:

Well, our thesis is that the debt bubble, which has been built up over the past few decades is that as a precursor to debt deflation. And we think that the US is the next to experience the blob of deflation has been moving around the planet for the past 30 years. I mean, it's amazing to think that the Japanese stock market topped out 31 years ago and the European market topped 21 years ago, and the Chinese market topped to 14 years ago. So yet still the idea that the US market can have a prolonged bear phase seems to be anathema to almost everyone, especially the fed, which seems obsessed with trying to keep the stock market up so we certainly see a real risk of a prolonged bear phase in the US market, the European stock market are similar on the price patterns. They are suggests that they are likely to outperform in the next bear market and the same with Asia. Asia and some emerging markets have a more bullish tinge to them. So they'll probably outperform in a, in a general bear market.

Murray Gunn:

We see a big risk in bonds, especially in the credit markets. And the one thing we've been highlighting recently as the webpage treasurydirect.gov and for people to search for two year FRMs are floating rate notes. So we view that as a safe hedge against a rising interest rates.

Dennis Tubbergen:

Well, my guest today is Mr. Murray Gunn. He is the head of global research at Elliott Wave International. I would encourage you to check out his work at elliottwave.com as well as socionomics.net. And I'll continue my conversation with Murray when RLA radio returns.

Dennis Tubbergen:

Welcome back to RLA radio. I'm Dennis Tubbergen. I am chatting today with Mr. Murray Gunn, who is the head of global research at Elliott Wave International. You can check out his work at elliottwave.com and you can learn also more at socionomics.net. And we'll be talking about socionomics in this segment. Before we get to that topic though, Murray, I would like to jump back in where we left off at the end of the last segment. You had mentioned that you see big risk for bonds. And certainly when you look at the US treasury long bond, we've seen interest rates in the last year ago from like 0.9% on the 30 year bond to over two and a half percent. That's a big move, more of the same coming in your view?

Murray Gunn:

Well, we certainly see that as a risk. As I mentioned in the previous segment, our thesis is that there's this huge debt bubble that has been built up over the past few decades as a precursor to debt deflation and debt deflation is in our view the proper definition of deflation and an increase in debt as a proper definition of inflation. But of course, everyone thinks of inflation and deflation in terms of consumer prices. And of course, people are really focused on consumer prices at the moment and this is one reason why people are saying that it's a coincidence with the bond markets selling off. And we actually see solid evidence that some commodities have established long-term lows. Certainly the advance in the CRB index over the past year could be evidence that there could be further advances to come, but here's the crucial point.

Murray Gunn:

The Elliott Wave principle allows us to acknowledge that markets don't move up or down in straight lines. So commodities have had a very strong run over the past year, but the rally, at least in the interim looks to be quite mature and a correction could be very deep. So in bond markets, super correct about stock markets coming off and going into a bear market, than credit markets should come under increasing pressure. The rise and use this year has meant that if you look at investment grade bonds, they've had the worst start to the year and up to a year in decades. And it was an interesting aspect of credit markets, right at this moment because junk bonds seem to be holding up relatively well with regard to relative to investment grade. And some of this to simply be down to the fact that with humans in general saw lows still given the rise still saw people still feel compelled to invest in anything with a yield greater than 4%, no matter their risks.

Murray Gunn:

So that certainly doesn't sound to us like a healthy reason to be invested in things like junk bonds. So if the economy moves into debt deflation stage as we think likely junk bonds would seem to be an accident waiting to happen.

Dennis Tubbergen:

So Murray, before we get into the topic of socionomics, I'd just like to get your take on this whole inflation deflation argument. And I ask all my guests this question, and you have a somewhat clarified how you would define inflation and deflation, but do you see that the fed is going to be able to stave off this debt deflation? Or can you envision a scenario where we have debt deflation? And yet we have consumer prices increasing because the devaluation of the dollar, where do you come down on this whole discussion?

Murray Gunn:

Well, we certainly saw something like that in the 1970s. And I know that some people are thinking that way in terms of what you would call stagflation. So, so sort of weak, stagnant economic growth accompanied with rising or ever rising consumer prices. For us, it really all goes down to confidence because it's the mood of society which drives everything. And so once confidence disappears, then asset prices should deflate and on debt should deflate as well.

Dennis Tubbergen:

So Murray, that's a perfect segway into talking about the socionomics topic that we want to talk about. And if you're just joining us, I'm chatting with Murray Gunn. He is the head of global research at Elliott Wave International. You can learn more about his work at elliottwave.com and socionomics.net.

Murray, for our listeners that may not be familiar with the term. Can you define socionomics?

Murray Gunn:

Of course. So Robert Prechter socionomic theory is a field of study conducted under the hypothesis that waves of social mood motivate the connector of social actions. Not the other way around, as most people would believe. Most people would believe that its social actions, which determine social mood. So socionomics is the waves of social mood drive the stock market. And so the stock market is our gauge of social mood or sociometer as we would like to call it. You know, our historical research has, found that positive social actions, such as peace, inclusion, and what you would call consensus. They tend to proliferate with a positive social mood and a rising stock market. And on the other hand, your negative social actions, such as war, exclusion and disharmony tend to proliferate with a negative social mood and a declining stock market.

Dennis Tubbergen:

So I remember when I interviewed Mr. Prechter on the program many years ago, that one of the forecasts he made was that we would see a relaxation as far as the legalization of certain drugs. And he based that prediction, as I recall on his studies of socionomics. That turned out to actually be the case. So what trends do you see using the science moving ahead, as far as societal moods are concerned?

Murray Gunn:

Well, it's fascinating what's going on in politics at the moment, because it ties in with our thoughts about social mood and I'm where we are in the cycle. Really. So when social mode is positive, politics tends to gravitate towards centrist beliefs and ideas, along with the consensus or the idea of consensus building and togetherness. And when the positive one is waning and turning negative politics moves to the extremist, be that both left and right and divisiveness tends to be the main theme. So also during such times, radical theories can start to take hold and, such as the modern monetary theory, MMT, or as everyone likes to call it these days, the magic money tree. The argument that the deficits don't matter, and that our government like the US can print as much money as it wants without any consequences.

Murray Gunn:

So we don't it well, but I mean, yeah, turned out to be correct. But the main point for us is it's such a radical theory as being considered. And this all ties in with social mood becoming more extreme, into more negative. And this is kind of putting a unit to where the rise of nationalism over the past decade, whether that be in Spain, Eastern Europe, or the UK. So it seems to us that consensus politics is a bit of a distant dream for many societies. And if we are correct, and many store markets are topping out the device of politics that we've seen may become even more intense.

Dennis Tubbergen:

So to what extent does the study of socionomics really hinge on or rely upon the fact that human behavior is pretty predictable and these things just cycle and these cycles repeat themselves over long periods of time.

Murray Gunn:

Very much, very much true. Socionomics differs from social economics, which is a study of the effects of economic environments on society. Socionomics rather identifies the probable trainer's social mood, so that we can determine likely social outcomes. The way that we would like to think about it is in terms of causality. So a conventional way of looking at the world would be to say that something like a war makes people angry. The socionomic way of looking at it would be to say the angry people make war, so your kind of turning the world a little bit upside down and likewise, conventional wisdom might say that recessions make business people cautious. We would say that cautious business people cause recessions.

Murray Gunn:

So again, setting us apart from conventional analysis, we don't ask ourselves, what is the news? We ask ourselves, why is this news happening? No, because the character of social events and news will be determined really by the trend in social mood. And so we know that trending social mood, which is manifested by the train in the stock market, we can anticipate what sort of events and news to expect. So for example, history tells us that wars and conflicts often occur after a period of negative social mood, and a declining stock market. And peace treaties tend to come after a period of positive of social mood.

Dennis Tubbergen:

So in the time we left Murray, given a social mood that exists presently, what is your forecast for an economic recovery? Do you see a recovery? Do you see a repeat of the 1930s? Where do you have things based on your study of socionomics?

Murray Gunn:

Well, I mean, there's always going to be a mix of characteristics in society. So we have to be cognizant of that when concluding what social mood is doing. And I know it's a bit like knowing when things, we have things like, divisive politics on the one hand, but other aspects such as celebrity endorsement spikes, which is a sign of extremely positive social mood, they're tending to give kind of mixed messages. But the conclusion we come to is, that we put these forces together, as well as others, it tells you that positive social mood is probably a waning. So in that regard, we look to see that social mood, we be going into a declining or a negative trending phase, which means bear markets in stocks. And we probably see that being quite a prolonged bear market in the US, in particular, as I said earlier, Japan, the Asian markets and Europe are really, really hard. They're the being multi-year bear markets in the US, really hasn't, so that's what we would see.

Dennis Tubbergen:

Well, the clock says we're going to have to leave it there. My guest today has been Mr. Murray Gunn. He is the head of global research at Elliott Wave International. You can learn more at elliottwave.com and socionomics.net. Murray, pleasure to chat with you today. Love to have you back down the road and thank you for joining us.

Murray Gunn:

Thank you, Dennis. Pleasure.

Dennis Tubbergen:

We will return after these words.