Transcript of Glenn Neely Interview

The GOLD Market: Glenn Neely discusses the continuation of Gold's ongoing bear market

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Interviewer: Hello, I am Bud Fox from GreedAndMoney.com. I have the privilege today to be speaking with Glenn Neely, the expert in NEoWave as well as Wave theory. Today we would like to talk about an interesting subject: the Gold market. Precious metal has been a hot topic for the last two years, both when it was close to $2,000 an ounce last year as well as with the recent, scary drop all the way toward $1,000. Glenn, what do you think about the Gold market?

Glenn: Gold is on such a large-scale pattern right now that I had to go way back into the 1970s, and the data that I had couldn't get quite back to when the government had locked in the value of Gold at $35 an ounce. That was a little bit before this chart started. You have another hash mark on that scale. If you went down one more in the middle of the next hash mark, that would be $35 an ounce. It's starting around $45 or $47 an ounce.

The Gold market is off by a little on the beginning of Wave 1, but Wave 1 should be a little longer, which means the green rectangle would be a little longer. Still, Wave 3 is comfortably longer than that. This would make Wave 5 almost exactly the same length as Wave 1 in the real world.

We have a situation that appears as if we have relative equality of price action between Waves 1 and 5, the third Wave being the extension, not by the normal 161%, but a decent amount.

Then we have no overlap between the range of Wave 2 and the range of Wave 4, which is the way a typical five-Wave move should develop. We have the last Wave, Wave 5, which appears to be this expanding, terminal pattern, which is about as bad as it can possibly get.

The excitement of the Gold market was pretty high over the last few years, especially when it was near $1,900. I was trying to figure out a Wave count that would allow us to at least have some kind of top in that range. As I went back further in time, I realized how serious this top could actually be.

If this is the end of a five-Wave move, you would expect this typical minimum to move back down near the range of Wave 4. Even though that doesn't look like a big drop on this chart, on a numerical base, if not a logarithmic basis, that's pretty substantial. We're talking about a 50% reduction in the price of Gold from current levels. Actually, it could even be more than that. Wave 4 is around $500, and may even be slightly lower than that. That would be a massive drop in Gold to get to that point.

Interviewer: Glenn, it's really interesting that your chart for this big picture of Gold starts around 1970. Isn't that the time where we actually abandoned the Gold standard? I believe it was during the Nixon presidency. Would you mind exploring how that affects the price of Gold, and also the NEoWave analysis?

Glenn: Any time a government sets a price on something, it creates an artificial market. There was a tremendous amount of pent-up demand waiting for them to release the Gold standard so Gold could pursue a more natural market price.

Of course, if it's at $35 an ounce and it was completely non-profitable to mine it, then nobody was mining much Gold. People weren't interested in doing it because they weren't going to make money if they did.

Since Gold is an indestructible element, the amount of Gold in the world basically stays the same all the time, except for small amounts being added to the supply.

Most of the Gold in the world at that time was probably stable. With no one having incentive to find more, it stayed there. Then as the price started rallying, I'm sure it gave miners and entrepreneurs much greater incentive to start mining Gold.

That started the next phase of the bull market. I think it was in the late 1960s that it was around $35, but I can't remember exactly. That low probably was Wave 2, an even larger formation going back to the beginning of the 1900s.

In the early 1900s, Gold was around $5 to $10 an ounce. (This is off the top of my head. I saw the chart a long time ago that was put out by the Foundation for the Study of Cycles that had a multi-hundred-year chart of Gold. I haven't seen that chart in a long time.) It looked like we had a first Wave up, and then the government locking Gold in at $35 created this super-long sideways period for Wave 2, which went on for a few decades. Then there was this explosive move up from the early 1970s up to 1980. That was the third Wave with that bigger pattern.

Now I think we've recently finished the fifth Wave. There could be a little bit of interpretational difference depending on how accurate my longer-term data is. If I had that data going back to the early 1900s, it might affect how I structure this pattern a bit.

It could be that the low in the late 1960s was Wave 2 and the whole move up to $1,000 was Wave 3. The sideways action since then is Wave 4. That might make a bit more sense because Wave 2 on this chart is very small compared to Wave 4, which makes me a little uncomfortable. If I had that long-term data, I might count this a bit differently.

The crucial element of this chart is the movement up from around 2005 and 2006 where Wave 4 is located. We're moving Wave 4 up to Wave 5 because that appears to be a terminal, five-Wave move. It's expanding and has all the character traits of a terminal with overlap.

The first Wave is shortest. The third Wave is bigger. The fifth Wave is the longest. Everything is corrective. Then the recent decline was really big; it shocked a lot of people and came out of the blue.

Any time you get a massive market move that doesn't really change the perspective on the market much, that's a really bad sign for that market. Gold dropped from $1,900 to $1,300. Even though it shocked a lot of people, we really didn't see any massive shift to bearishness long-term on Gold. That's a sign that this has a much longer way to go.

If you want to move down to the next chart, that one is going to blow up just the fifth Wave itself. It's crucial to note that this Wave is over, what kind of pattern that is, and what that implies for the future.

If we go to the six-month Gold chart, this is just a simplified version of that super long-term monthly chart. You can see the five-Wave move very easily and that it follows terminal characteristics.

You can see that Wave 1 looks like a three-Wave. Wave 3, even though there are five segments, doesn't follow the rules of impulsive pattern because there's no extended Wave or alternation. That would be a corrective rally also.

Wave 4 retraces way too much of Wave 3. Typically, in a standard five-Wave move, there's overlap between Waves 2 and 4. Then Wave 5 is clearly also a very complicated corrective rally.

This produces a terminal pattern with an expanding bias. That's the psychology. Any time you're in an expanding pattern, there's a tremendous amount of doubt that occurs early on.

People keep doubting until you get close to the end. Then all of a sudden, they start thinking, "This is real. This is going to be the beginning of something huge." I remember around the high, I started reading about people predicting $5,000 Gold and $10,000 Gold. The optimism was getting really extreme.

From being in this business for 30 years, I can tell you that the most reliable indication of a market from top to bottom is this: When people start doubling, tripling or quadrupling their upside targets or halving or quartering their downside targets.

Interviewer: Plus, we are seeing a lot of Gold commercials.

Glenn: That was just fuel to the fire. It added to everything. The real sense of the culture for me was when I started seeing TV programs about Gold diggers. I thought, "That's the end of this trend." That implied the popularity was so great that there were enough viewers to watch shows about people digging for Gold because everybody had Gold and wanted to see their Gold go up in price. They were invested in the outcome.

The huge break you see when you go back in time is that that was the largest drop in Gold to take place since the beginning of Wave 5. I'm going to measure it really quickly here. It's actually a teeny bit larger than Wave 4.

If you measure from the highest point down, it's by far the largest drop in Gold we've seen on a percentage basis and absolute numerical basis in decades. The magnitude of that move guarantees that this five-Wave move is over.

If that five-Wave move is terminal, as I have listed, then that means the five-Wave move has to be the end of an even bigger pattern because terminals don't happen at the end of normal situations. They only happen at the end of larger situations. It has to be the end of an even bigger pattern. That's why I call them a terminal pattern. It's not just the end of Wave 5 and this bigger five-Wave move, but it's the end of something even larger.

That's why the forecast going forward is so bearish. That red dashed line shows we need to have complete retracement of this entire terminal pattern. It should occur even faster than I have it drawn in, because on that chart it would allow that to occur over five years or so since the high. It could easily be as little as three or maybe even four years.

Generally speaking, you should retrace a terminal between 25% of the time it took to form and 50%. I've found that when it's around 25%, usually it's a contracting terminal where the first Wave is the longest. Around 50% is usually when the fifth Wave is the longest. I'm looking for the retracement to be maybe a bit sooner than what's drawn on the chart but something close to that, maybe three or four years, all the way back down to about $500. That's not quite 60% or 70% reduction in price from current levels.

Interviewer: My biggest question for someone interested in getting to know Gold is how the price pattern is supposed to go forward. You mentioned this fifth-Wave extension terminal is essentially a termination of even a larger bullish pattern.

My question is this bearish pattern that's in the larger scale now, is that some kind of way you're going down to retrace this 1, 2, 3, 4, 5 Wave pattern or is it something even more severe?

Glenn: Let's go back to the long-term monthly chart, the first chart we looked at. This II that I have at $100 in the late 1970s, it's possible that Wave 2 goes in the early 1970s and that the whole Wave moves up was Wave 3 in 1980 and everything since then is Wave 4. No matter which one of those is correct, the decline that we're in should at the very best-case scenario trace them back to the lows of Wave 4.

If this five-Wave move is correct, it's possible we could go back down to $100. I don't want to predict something that ridiculous, because I think that's a little outlandish. More likely, if I had 100-year data instead of just 40 years of data on Gold, most likely Wave 2 would be at the early 1970s low, which means this whole pattern would be the end of some larger five-Wave move. That would be Wave 1, 3 or 5 of a bigger pattern.

Since I don't know what that is, I can't predict how big the decline is going to be ultimately. I can only say minimally what it needs to do. Minimally, it needs to get down into the range of Wave 4. I think a drop to around $500 is almost certain. Possibly down into the $300 range is possible. It may be $200, and $100 is the outside chance. But I think we can easily count on it getting down to $500, no matter what the bigger picture is.

Interviewer: Essentially you're saying this is some kind of Wave 2 correction, from an Elliott Wave and NEoWave perspective.

Glenn: It's a Wave 2 or 4. If it's Wave 4 then we may not drop as much if it's a Wave 2. Either way, both of them should get at least to $500 and could go down to maybe $200 or $300.

Interviewer: Right. Wave 2, the average is between around 50% to 61% retracement. That should even break the Wave 4 area. Isn't that right?

Glenn: It could get below the Wave 4 low. Since I don't know for sure what those much larger timeframe structures are and how this fits into it, I'd rather just predict the part that's relatively certain. It's still pretty dramatic and far lower than where we are now.

Interviewer: Absolutely. I understand that identifying a low is challenging. Still this bull market of Gold has been around since 1972. You're looking at 40 years forming this bull market. For a bear market, can you enlighten the reader and the listener, even if it's Wave 2 what the timeframe is for that? And if it is Wave 4 retracement, what the timeframe for that is? My understanding is Wave 4 is longer.

Glenn: No, it just depends. It doesn't matter whether it's Wave 2 or Wave 4. Any correction of one bigger degree has to take more time than Wave 4 took from high to low. If you measure from the high Wave 3 to the low of Wave 4, we're talking about 20 years. The minimum time for this correction will be 20 years.

We could see theoretically Gold going from almost $2,000 down to $500 or $300 and then back up close to $2,000 and back down to $500 or $300. How we do that who knows, but that's what the current structure would imply.

Interviewer: Wow. That's really shocking!

Glenn: I would say that's just a minimum. It could be 40 or 50 years to do all that.

Interviewer: The majority of the masses were so in love with Gold just last year when it was around $1,900 an ounce. Now you're predicting that we might be in a prolonged bear market for Gold at potentially anywhere between 20 to 40 years. That's really shocking.

Glenn: Yes. I think that we should talk about how this is possible because most people think, "The feds print money. The government is going bankrupt. There are all kinds of problems around the world. How in the world is this possible?"

Interviewer: Yes, how is this possible?

Glenn: I think we should cover that. There are several things. I think we've talked about this a little bit in the past. The majority of this run in the price of Gold was probably the last 100 years, or at least almost 100 years since the Federal Reserve was set up in 1913. The US government's ability to borrow was increased more and more because of the existence of the Federal Reserve.

A perpetual expansion of credit has occurred as the US government has grown and as the Federal Reserve has facilitated that growth. It was back in 1913 that they set up a whole new type of banking system.

In the past, even going back to Germany's hyperinflation, banks would just print money. The money circulation would become worth less and less. Over time people would realize it's worthless, would give it up, move onto something else and go back to Gold standard. They'd essentially give it up and go back to paper. This has been going on for thousands of years.

The banking system, the international cartel or whatever you want to call it, realized that they had to create a better system that wouldn't ultimately always lead to hyperinflation, the destruction of the banking system and having to restart and move back to a Gold standard or some kind of standard again. They wanted more stability.

That's when they created the US Federal Reserve. They designed it around what's called the Mandrake Principle. That means creating money out of nothing, but that also means borrowing money out of thin air, so to speak. When it's paid back, it disappears into nothing.

The whole structure is based on a system that constantly expands and contracts based on demand. Instead of there being real money on the line that bankers and people put up and are risking, they have depositors putting money into their bank. With that money, they then can start leveraging it and then lending out more and more money on a scale of almost 10 to 1, leveraging that original cash. As demand requires it, the money supply expands. As the economy contracts, the money supply contracts. It expands and contracts naturally with the growth and contraction of the economy. Whether it's good or bad is a different issue, but that's just the way it works.

When the Federal Reserve was created, I think personally there's not much information about all the behind-the-scenes shenanigans that were probably going on. Based on studying this for more like 40 years, thinking about it, thinking how everything works and noticing the operation of banks and so forth, it's my opinion that it was a calculated collusion between the banking system and the US government that the banks said, "We will lend you whatever money you want as long as you give us the exclusive right to run a central bank."

They make money off of lending money. For the US government and the people who are politicians that don't have the money but want the money to have power, have access to power and have the ability to spend and do things that they couldn't do otherwise, they created an alliance. One feeds off the other.

The politicians get what they want. The US government gets what they want. The banking system gets what they want, which is interest on the money.

This system is now set up. What's been happening over the last 100 years is that as the US economy has grown, the wealth of the country has grown. The amount of money on deposit with the Federal Reserve and all the banks in the country has grown, which allowed this perpetual increasing leverage of the financial system.

I think that leveraging came to an end probably around 2005 or 2006. That's when the real estate market crashed. We had the Great Recession starting. The price of Gold topped out about two years ago. That was more of a speculative binge based on the assumption that we're on the old style of hyperinflationary monetary system, but we aren't.

People don't realize that once you're in this Mandrake structured system, you only can borrow money into existence and can only then pay it off or write if off back out of existence. This means that you always eventually get a contraction back to close to zero, potentially zero or toward zero.

We've gone through this massive expansion for 100 years. Based on Wave theory, we're going to go through a contraction for 20, 30 or maybe 40 years that started in 2000.

We're only 10 years through this 20, 30 or 40-year period. During this period, we should see a continuous contraction of the economy and of the amount of money in circulation, which is why the US dollar has been going up. It's becoming worth more and more as more debt is being paid off.

You have the correlated event of the baby boomers reaching their Golden years and getting past the point where most people buy their most expensive homes and spend the most money, which is around age 46. Most baby boomers are in their mid to late 50s. They're now past the point where they need their largest home. They're starting to downsize, pay off debt and live on less.

All of this is going to cause a perpetual and probably multi-decade-long contraction in the money supply and credit, which will cause an increase in the value of the dollar, which is directly correlated to the value of Gold.

As the dollar increases because fewer dollars are in circulation, the value of Gold has to decrease in relation to that increasing dollar. That's the explanation and logic that I have to explain how it's possible.

That second chart, which is a six-month Gold chart, can actually pan out over time because we're going to go through a massive deflationary period where there's a massive contraction in the money supply and a massive increase in the value of the US dollar.

I think it has already begun. Once the Fed stops loaning the US government and buying bonds on the open market and that process comes to an end, then all of this has to start reversing.

What they're trying to do right now is prevent the deflation that they know is coming, delay it as long as they can, hoping that things can get better before it's too late.

There will be a point where the US government can't borrow any more money because the open markets in foreign countries won't give it to us anymore, and the whole thing will have to stop.

Once it's clear that that has to stop, all of this will start going in reverse and we'll see a massive contraction in the money supply with debts being paid off and written off and a massive decline in Gold as a result of the dollar going up in value. That's how I see this whole thing panning out.

I don't know how bad it's going to be for individuals. Did we talk a while back about how this may be a new-world kind of phenomenon?

Interviewer: We did. We talked about that this is going to be the greatest equalizer in the last 50 to 100 years. Due to the value of Gold and inflation, the rich get richer and the poor get poorer.

Glenn: That's in an inflationary environment.

Interviewer: That's right. Most rich people tend to have appreciable assets, while poor people don't. In this case because it's going to be in a deflationary environment, most appreciable assets become depreciable assets.

Glenn: That's right. They become a burden. Instead of an asset, they become a liability. That's the upside-down world that's probably going to happen as deflation takes stronger and stronger hold and as the US government is unable to borrow more and more because our credit rating has been declining.

It's going to get worse. Then at a certain point, people just aren't going to lend us the money, or they're going to lend it to us at higher interest rates, which will automatically start causing huge burdens for the US government.

We're starting to see some of the impact of this already. A long time ago, I had done an interview. It was probably three or four years ago. I mentioned briefly that I thought that because of the Wave structure and the economic circumstances being in a prolonged correction and deflation on the way that we'd start experiencing for the first time cities, states and regions of the US starting to go bankrupt.

We're just now starting to see this a few years after I predicted that. Detroit has filed for bankruptcy. I think California is probably coming, and maybe a few other states will come along the way. A lot of municipalities, cities and towns will probably have to do the same thing.

The reason this is going to occur is because, as the value of the dollar goes up if this deflation period occurs as I think it will, all of a sudden all of the contracts that are written with absolute numerical terms will be impossible to pay out.

If someone buys a house for $100,000, now the dollar is worth twice as much. That $100,000 is twice as hard to pay off. On the open market, the house is only worth $50,000 because the dollar is worth twice as much.

We're going to have a whole bunch of people with a whole bunch of contracts that they're not going to want to deal with anymore because they're going to realize they're upside-down and are never going to get out, and they're just going to walk away.

That's exactly the situation that the Federal Reserve is trying to prevent. In my opinion, they're not concerned about the US citizens or the US economy, despite everything they say. They're really concerned about saving contracts that all of the banks around the world and in the US have, which will be destroyed. People won't want to pay off their debts because they'll realize it's not worth it anymore – they're trying to avoid that.

Eventually, they won't be able to stop it anymore. That's what I think is coming and the reason I think they're doing it. It's going to eventually backfire. Tey can't stop the eventual phenomenon. They're just doing it as long as they can.

Those who own a lot of land and property are going to suffer a great deal. For those who don't, it probably won't hurt them a lot. It may even help them a lot.

Interviewer: Glenn, that goes back to another question then about the reason why the stock market has reached an all-time high and people seem to feel like things are getting better. Even housing prices have started to go up. That confidence is based on that we have the federal government, both the physical and monetary policy, to continue to pump all of that money into the system. What you're saying is that it's going to come to a day, which is actually sooner than later, in the next few years, that suddenly we cannot borrow from other countries for the treasury.

Glenn: Not at the rate we've been borrowing. Clearly, these countries in borrowing are going to start making the US government adhere to more stringent financial austerity measures just like we've done with other countries. They're going to start doing it to us because a lot of countries have debt in the US. We're going to be forced to stop having all these free government giveaway programs. Food stamps will be hurt. Welfare will be reduced.

Everything across the board for decades will see reductions in the government everywhere. That's going to be the process. There's going to be no way to stop it in my opinion.

Interviewer: Don't you think that it's going to cause an even bigger panic compared to 2008 when everybody thought that the banking system was collapsing? The US government is the final backstop. They're coming to say, "We're going to borrow you billions of dollars to do some things to get you back together." What you're saying is that the US government might not be there this time.

Glenn: They won't be able to help in the way they have in the past. I don't necessarily think the banking system is going to collapse. I think that being a banker is not going to be profitable like it was for so long. Then there's not going to be any way out.

They won't be able to get bailouts this time around. I think their time is coming and that it's just a matter of all of these factors coming into play.

I think it's also possible that some of the foreign countries with these emerging markets are not doing too well right now. China is slowing down. India is slowing down. If that gets to where their growth gets close to zero, that could really start to impact things. It may even be that China suffers quite substantially due to mass central planning and overbuilding. I don't know if you saw the recent *60 Minutes* show.

Interviewer: Yes.

Glenn: In China they have entire cities that were built from scratch. Nobody is there or came to buy anything. They assumed people were going to move to this city. They didn't. It's this massive ghost *city*, not ghost town, with huge skyscrapers and everything.

They could be on the verge of what we experienced in 2008. If they go through that, that's going to drastically impact us because they might not be able to lend us the money that they've been lending us, along with other foreign countries. It could be a more international downturn where everyone suffers, not just some like Cyprus and some of the smaller countries.

Interviewer: With everything you just said, it's kind of scary. When China gets to slow down to 6% or 7%, everybody in the United States is freaking out. What you're saying is that it's possible that they're GDP growth can go below 5%.

Glenn: Yes, it could go close to zero.

Interviewer: That will be a shock to the global stock market for sure.

Glenn: That's right because that's the biggest country in the world. That will definitely change things a little bit. There are a lot of changes coming. I'm not looking for the collapse in the banking system or the economy. It's not the end of the world. It's not going to be like the Great Depression, but I do think it's going to get pretty bad again and that it's potentially going to happen pretty fast. I'm not sure if it'll be as fast as the crash in 2007 to 2009. It's probably going to be slower, but it could be longer, more drawn out and more painful to more people.

Interviewer: Yes. Glenn, I guess the best way to navigate through this very challenging time is to utilize your expertise with Wave analysis to foresee what might come in the Gold market and stock market. Right now, for the next few years, the key is capital preservation. Isn't that right?

Glenn: Absolutely. Just having cash will be almost like an investment. If I'm right about the deflation, if you have $100,000 in cash, it might be worth $200,000 of spending power in a few years.

That could be the only really good investment, where everything else might be declining in value. There could be a very strange, upside-down world for a while.

I personally have most of my wealth in cash right now or in various short-term investments and things that I can control more easily because I'm worried about this deflationary period.

Interviewer: Thank you very much, Glenn.