Downtrends and deflation:
Glenn Neely and Ike Iossif discuss current conditions and impending moves for Gold and the S&P

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Introduction: Welcome to MarketViews with Ike Iossif and Friends. The show that not only reveals and analyzes the inside story on today's market news, but also uncovers the areas where investors can make money right now.

Ike Iossif: Oh, it's a very good evening, Ike Iossif, your host for MarketViews here with my very good friend Mr. Glenn Neely. Glenn, I'd like to congratulate you for being the number-one Bond Timer for the last 3 years, on the S&P Honor Roll, and on the Gold Honor Roll in *Timer Digest's Special Annual Report*.

Glenn Neely: Appreciate it. According to *Timer Digest*, you were the number-one Gold Timer for the last three years, so you're making me look bad!

Ike Iossif: Well, I think Gold can manage to make everybody look bad! When we talk about being number-one in Gold, I always treat it with extreme humility. Glenn, let's talk about the Gold market. When it got up to 1300 in January, I thought that it was going to turn down. In fact, I thought a few months later it would be lower than where it was at the time. However, one thing that did take me by surprise is that for eight straight weeks it went down, without mounting any credible bounce whatsoever. That I have to admit I never really expected, but the readings that were generated going into the top in January were suggesting to me that, although we would go down, we would still see a bounce. It never happened. What are your thoughts on Gold?

Glenn Neely: Structurally it's a little confusing right now. The big picture, if I look at six-month charts, is clear that the high in 2011 – which I think both you and I were warning was the top – that timeframe was clearly a major turning point in the Gold market. That big crash we saw in late 2012/early 2013, was probably the first phase of a very prolonged decline. We've been consolidating ever since that point with a slight downward drift.

So from a six-month high/low chart perspective, I'm expecting a pretty big selloff before the end of this year. I do expect Gold to break 1000. When that selloff gets underway, especially once we break 1000, that's when finally the public will realize that things are really different – and changing in a strange kind of way that most of us have never experienced before – which is a deflationary environment.

I've been saying this for years, and you know Gold keeps going down and sideways. The talk of deflation keeps growing, especially with oil dropping in half, and I think this coming event later this year is really going to put the nail in the coffin. It's going to be very clear we are going through international deflation, not just U.S. deflation, and that's going to affect the entire economic landscape in ways that aren't what we're used to. It's going to be a very strange world in my opinion.

Ike Iossif: You said that the big story, at the moment, is kind of murky and I agree. Let's try to dissect that a little bit. We are close to the bottom of the range between 1140 and 1200 in cash Gold.

Glenn Neely: The bottom of the range for the last few years.

Ike Iossif: Yes. Can we expect the small bounce we had after 1150, 1140 to continue – at least in the next four weeks – before we see a bigger wave unfolding on the downside?

Glenn Neely: Well, when I look at the six-monthly charts I can't determine that. I can just say the trend is mostly sideways or down. If I move to a monthly timeframe, it allows for a bounce of almost a hundred dollars, without any problem to the structure or change in the overall perspective. It's not required, but it's likely that we're going to get some kind of bounce along those lines.

If I move down to even more detail, it gets really difficult to figure out exactly what's happening. If I had to take a guess based on just behavior, not structure… . When I say *behavior* I'm talking about which direction the market's moving the fastest (from doing this for 33 years now, I can tell you with zero doubt and zero hesitation, that the direction the market moves the fastest is always the trend) – even if that fast move is completely retraced, it's still the trend.

Let's say you have a really fast decline of a hundred dollars, and it gets retraced 100% really slowly. That means the trend is still down. But you're just in a correction, and you're still waiting for the next move back toward the previous low, so it'll just be like an ABC flat kind of structure.

Looking at Gold behaviorally, we have the rally back in January and it was pretty fast. It rallied about 120 to 140 points in just a few weeks, right above 1300. Since then we've declined more, but it's been slower.

That suggests we're in an uptrend since the low of January, but that uptrend is very weak and weakening. The current balance that we started at the low in March is going to top below the highs of this year, but it still could get close to 1300. It'll take a little bit longer, and then when that's finished we're going to start a massive collapse in Gold. That's what it looks like to me on a more detailed basis.

Ike Iossif: Okay, any other thoughts on Gold, before I ask about equities?

Glenn Neely: No, I think the most important thing for customers to realize is that the probabilities are extremely high that Gold is going a lot lower before the end of this year, and that this means anything done denominated in dollars is going to decrease in value.

The dollar should increase in value. Ike, I think you and I have been talking about that for about a year. And the dollar's gone up a lot in value in the last year or so.

So things are going the way that we've been predicting, but I think the next shoe is going to fall later this year, and that's going to be the shock to the system. That's going to really start to change the whole way the world looks at current economic conditions. Then it's going to cause problems with the banks. It's going to be a very, very strange world. I think the best place to be is in cash, or not too heavily invested in tangibles, or even in equities, because most things will probably decline in value except the dollar itself.

Ike Iossif: Okay. Let's turn our attention to equities. Over the weekend I was looking at some of my intermediate-term indicators that have to do with inflows and outflows in the equity markets and specifically the S&P 500. Since November, when the S&P for the first time crossed the 2000 mark, we have spent five months moving pretty much 80 to a 100-point range from 2000 to 2100.

Glenn Neely: Right.

Ike Iossif: Now looking at my inflow-outflow indicators, what I can say is this: First of all, the inflows are still positive, however, each time the market has pulled back and then moved back up toward the top of the range, the inflows have gotten lesser than the previous time.

To put it all together, this tells me that in the short term, the market could be vulnerable to a sharp pullback based on whatever news may cause it. But in the intermediate term, meaning until mid-summer or late summer, the S&P market still has enough fuel to move toward the 2200 mark. Glenn, what are your thoughts on the S&P?

Glenn Neely: Well, this gets back to what I mentioned earlier. The most important thing to realize about the S&P is the speed of movement on long-term charts. If you look at my six-month high/low chart, the drop from 2007 through 2009 was the largest, fastest decline I think in decades, maybe since 1929, and that's on a price and percentage basis.

So everything since then has been larger, but much more slow, detailed, and complicated. Independent of the fact that we've rallied another 20, 30 or 40% higher than the highs of 2007, the whole rally would be under Wave theory a countertrend, because it's going a lot slower.

This puts the S&P at great risk. At almost any point, it can be very difficult to predict exactly when, especially right now because weight structure isn't quite finished on shorter-term charts, but it puts the S&P at risk of a very large decline, similar to the one in 2007 through 2008 and 2009, but it would be slower. It might be similar in magnitude but slower.

So I think you're right, that we're at risk of a big decline. When it's going to start, it doesn't look like the market's quite ready for it. When I look at six-month charts, I can't tell. I just know that we will get it. When I looked at monthly charts, it's a little shaky there too.

Weekly charts are starting to get somewhat clear, and suggesting that this pattern could be finished by about summer, give or take a couple of months. Two, three, four months from now, it could all be finished, and we could start the largest, fastest decline we've seen in the stock market in years. Not bigger than 2007 through 2009, but a very large decline that would probably shock a lot of people. I would say it's possible we could drop 1500, 1400, or maybe even 1300 within a pretty short period of time, causing a huge scare. Then the market might recover for a while from there and eventually top below whatever high we make this year.

The bottom line is that I think we're getting close to a top on a multi-year basis, even a multi-month basis, and that downside is far greater than the upside. A huge decline could take place over the short-term later this year, and a much larger decline could take place into the end of this decade, pushing below 1200, maybe even getting down to a 1000, but based on the evidence I see now I don't think we're going to break the 2009 low.

So we're going to be in for a big, very unpleasant multi-year decline starting sometime this year or early next year.

Ike Iossif: Glenn, anything else you would like to add?

Glenn Neely: No, but I definitely think we should talk in about a month, because this is getting more serious every month.

Ike Iossif: Glenn, thank you, and great talking to you again.

Glenn Neely: Thanks Ike.