The Swiss Association of Market Technicians

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Ron William, ***Vice President, Geneva chapter of SAMT***
hosted an interview in February 2014 with
Ian McAvity, of Deliberations on World Markets, Toronto, Canada
Ian passed away on 15 March 2016

Ian McAvity, Toronto, Canada, provided innovative technical research with historical studies covering more than 75 years of historical relationships between Gold, Gold Mining Shares and US and Canadian equity markets in his newsletter, Deliberations on World Markets. His technical work included various inter-market relationships, published continuously since 1972. He was a featured speaker at most global gold related conferences, and major technical analyst societies in Canada, Europe, USA and South Africa at various times over the last 45 years. He was one of the founders of the original stock-exchange tradable gold & silver bullion proxy in 1983 that now holds in excess of US$5.0 billion in physical gold and silver in Canadian bank vaults in three specialty entities. He served as lead director of Central Fund of Canada Limited (NYSE/ARCA: CEF) that preceded the now popular listed gold and silver bullion ETF's by more than 20 years. He was also Lead Trustee for Central Gold-Trust (NYSE/ARCA: CEF) and Silver Bullion Trust (TSX: SBT.UN). There are few active participants in the world of gold today with a comparable depth of experience in the evolution of modern markets, dating from 1961 as a banker, stock broker/technical analyst and independent entrepreneur since 1975.

Ian passed away unexpectedly in Toronto on 15 March 2016.

Ron William: *Welcome back to Switzerland! On behalf of our Swiss members, it would great to share the extent of your travels here and what you like most about the country?*

Ian McAvity: This is my 31st year of skiing in Zermatt. During the talk that I give I start with a picture from table 82 at Chez Vrony, which in my view is the finest view of the Matterhorn. Every year, on a sunny day, I make a point of going off the ski trail to sit on rock to watch the Matterhorn. For me it's the greatest relaxation that I get the whole year. That's why I do the same week in Zermatt. I love the Alps.

In the 1980s, I was very much involved with actually funding the gold exploration in Graubünden, where we made a discovery outside of Disentis. That's the only time that I really got a chance to get into the Alps in the summertime and because I am a mad golfer in Toronto, I try not to travel during the summer. The one place I am determined to return to in Switzerland is Disentis and get into that river and do some gold panning. We identified that there is no question that gold is there. We didn't find commercial concentration at that time. Although, subsequent work has built up to a stage where they could have a mine there. There was an election that was a little controversial about a year ago that slowed the development. There will be a gold mine there sometime in Graubünden. I want to get back into that water with a pan when the water levels are coming down and see if I can get some Swiss gold nuggets. It was because of our gold discovery in the 1980s that they started selling gold washing licences and having a national event.

The Matterhorn from Chez Vrony balcony, Table 82 – Zermatt – 30 Years...

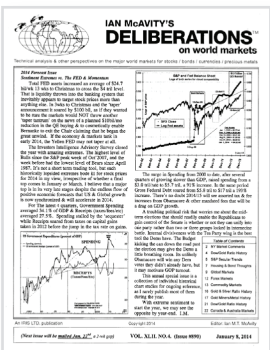
To me, I regard Switzerland as my second home. In fact, I have come very close to moving to Switzerland a couple of times. At one stage during the 1980s I came very close to buying an apartment in Campione. Which is the ideal way to live in tax haven within a tax haven. I didn't do it, unfortunately, and I should have. In those days, Campione was described as "the Poor Man's Monte Carlo." I have a number of friends in Switzerland and spend a lot of time here. I love coming back.

RW: How would you describe the story behind how your career developed within the financial industry?

IM: I dropped out of university after one and a half terms, in 1961. I was at the University of New Brunswick and they had just launched an undergraduate course for Business Administration. I was never a particularly good student. The irony is that I had great visions. I had an uncle that was in the drug business and I was fascinated by medicine and drugs. My worse subjects were mathematics and English. Now I make a living writing about numbers which I don't quite understand. Essentially my grades at school were terrible and basically I finally got into the University of New Brunswick with very poor grades. A second cousin was a chancellor of the university, so that is how I got in. In the first term, I read all of the texts that I was supposed to spend the next four years studying. Because I was always interested in the business portion, I realized that I had already read about one third of the books that they were going to ask me to study for the next few years. The rest of the stuff I didn't really care about and literally I went back and help recreate the business club for this new business school and we had our first function in the early February in 1961.

After that I decided to go into the money business. So I dropped out of school, went back to Montréal and got a job at the Bank of Montréal. So I spent four years in the bank, purely on the premise that if I want to learn about the business, then its best to work in the place where the money comes and goes. So my university education is what I call “the school of hard knocks.” I was a bank clerk, loan officer, foreign exchange clerk and a savings account teller. On my first job they saw me come in with my crisp old school new tie and everything else. The manager figured me out pretty quickly and asked me to go back home and get on some jeans. You will be going down to the vault to sort cheques. I did my four years at the bank and through my interest in playing squash got to know a number of partners at Dominick & Dominick in New York.

At the bank in 1965 I was handling margin accounts in a very large branch and had a number of large speculative accounts to manage. I became very aware of how violent markets could be. In the summer of 1965, we had a big bubble in the airlines stocks. I pointed out to the bank that Pan Am and KLM were the two hot airlines. Pan Am had convertible bonds that were trading at 400% at par. We were still giving them 10% margin on bonds that were at 400% at premium. That was when I started to keep track of prices and then began to realize that after a strong advance, price can become quite volatile.


IAN McAVITY'S
DELIBERATIONS™
on world markets
Technical analysis & other perspectives on the major world markets for stocks / bonds / currencies / precious metals

2014 Forecast Issue
Sentiment Extremes vs. The FED & Momentum

Total FED assets increased an average of $24.7 bil/wk 13 wks to Christmas to cross the $4 tril level. That is liquidity thrown into the banking system that inevitably appears to target stock prices more than anything else. In 3wks to Christmas and the 'taper' announcement it soared by $100 bil, as if they wanted to be sure the markets would NOT throw another 'taper tantrum' on the news of a planned $10bil/mo reduction in the QE buying & to cosmetically enable Bernanke to exit the Chair claiming that he began the great unwind. If the economy & markets tank in early 2014, the Yellen FED may not taper at all.

The Investors Intelligence Advisory Survey closed the year with amazing extremes. The highest level of Bulls since the S&P peak week of Oct'2007, and the week before had the lowest level of Bears since April 1987. It's not a short term trading tool, but such historically lopsided extremes bode ill for stock prices for 2014 in my view, irrespective of whether a final top comes in January or March. I believe that a major top is in its very late stages despite the endless flow of positive economic forecasts that US & Global growth is now synchronized & will accelerate in 2014.

For The latest 4 quarters, Government Spending averaged 34.1% of GDP & Receipts (taxes/fees/etc) averaged 27.5%. Spending stalled by the 'sequester' while Receipts soared from taxes on capital gains taken in 2012 before the jump in the tax rate on gains.

The surge in Spending from 2000 to date, after several quarters of growing slower than GDP, raised spending from a $3.0 tril/rate to $5.7 tril, a 91% increase. In the same period Gross Federal Debt soared from $5.8 tril to $17 tril a 193% increase. There's no doubt 2014/15 will see assorted tax & fee increases from Obamacare & other mandated fees that will be a drag on GDP growth.

A troubling political risk that worries me about the mid-term elections that should readily enable the Republicans to gain control of the Senate is whether or not they can unify into one party rather than two or three groups locked in internecine battle. Internal divisiveness with the Tea Party wing is the best tool the Dems have. The Budget kicking the can down the road past the election may give the Dems a little breathing room. Its unlikely Obamacare will win any Dem votes they didn't already have, but it may motivate GOP turnout.

This annual special issue is a collection of individual historical chart studies for ongoing reference, as I rarely publish most of them during the year.

With extreme sentiment to start the year, we may see the opposite by year-end. I.M.

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An IRIS LTD. publication | Copyright 2014 | Editor: Ian M.T. McAvity

(Next issue will be mailed Jan. 22nd a 2-wk gap) VOL. XLII. NO.4. (Issue #890) January 8, 2014

So I started talking about the markets to the clients. Both they and my squash partners said to me “well if you are interested in markets, to hell with being a clerk, come over to New York.” So I went down to join Dominick & Dominick in their research department in New York. I was a junior on the floor and my first job was working with an auto analyst. He did a tremendous job basically saying that 1965-66 was going to be a peak and that auto stocks were going to go down for several years. Everybody owned a new car, a driveway and basically everything was priced in. We completed the report and he involved me in the full process. We sent it upstairs to chairman of the board and waited for his approval and he said “No, change the conclusion.” “Linn Chrysler, the president of Chrysler, is my next door neighbor and we are not going to say a negative thing about Chrysler.” This was my first introduction to the fact that Wall Street research and real market expectations are quite unrelated to each other. That encouraged me more and more to tracking price. I wanted the fundamentals, but I became very dubious. The draft board called and said you have two choices; go back to Canada or to Vietnam. I was born in Canada and lived in New York. So I went back to Canada and at that point was just a salesman. Having worked in the research department I knew a little about the politics behind some of the reports that came in. There was one fabulous report on Schlumberger, where I knew the analyst and talked about it with him. This is 1966, when Schlumberger was a rapidly growing energy company around the world and you could just see this was going to be a great story. So the report came out and I started to make cold calls to a number of institutional investors. One fellow, who became a very good friend later on, was one of the early ones that really put me on the spot. I gave him the whole sales pitch on Schlumberger and I concluded that at $48 a share, Schlumberger is a fabulous buy. He looked at me without batting an eyelash and said I fully agree. When you get back to the office, buy us 20,000 shares of Schlumberger at $48. I thought to myself, wow, this will make my year! These were the days of full commission. So I get back to the office, excited as hell. I write the ticket out and say out loud “buy 20,000 shares at $48, I have my first block order!” The trader looks at me and says, Ian what are you talking about? $48? The stock is trading at $65! That’s when I started drawing charts, because I had got caught out. Then I began to realize that almost every Schlumberger report we published followed a periodic rise. Once we published the research report, for some reason, it would start to move sideways, even though we said that it was a great story. That’s how I literally became a chartist, because I began to sense the so-called fundamentals always followed the price.

Thereafter, I started writing my own conclusions that I would only send to my own clients at Dominick & Dominick. Meanwhile, the other salesmen in the other office would come over and see what I was saying and ask if they could send it to their clients. In those days, there was something called compliance, but no one really knew what it meant. So all of a sudden, I was publishing chart comments for my clients and the other clients in the Montréal offices. Our New York headquarters finally found out about it and realized that one salesman was basically writing his market opinions on their house research. They asked me to put my clients on their mailing list. My response was they were my clients and I would send reports that I want them to read.

That led to me leaving Dominick & Dominick. I moved from a big Wall Street house at the end of 1969 to a smaller firm in Montréal called Mead and Co. It was half bond and half stock trading. Two completely different worlds within one firm. Every week they would publish a bond bulletin where the fellow in charge of the bonds would write a few paragraphs on the front page. The two middle pages were just a price list of the bonds that we owned or were trying to buy and the back page was blank. So I asked if I could write a market opinion on the back page. That’s when I published the very first currency chart. It was 1970-71, when the currency market was just starting to get volatile. I published a point & figure chart that I had made on the Canadian dollar, with the suggestion that two converging trend-lines suggested that something was about to happen. The best story from that moment, after it was published, I got a call from the Bank of Canada, saying they were looking at the report and wanted to know where I got the data. My response was “from your monthly review!” That led to me writing for the public.

Then two years later, I was hired by a firm in Toronto called Draper Dobie & Co. It had been a mining house and was trying to build an institutional department they asked me to create a technical analysis newsletter. So that’s why my flagship newsletter *Deliberatons* starts with the letter “D”, because I called it *Draper Dobie Deliberations*. The first issue that I published in 1972, I wrote it all night long and didn’t have the title selected. After writing the whole newsletter, I left two inches of space, assuming that I would find a title later on that night. About 6:00 in the morning, I suddenly realize that I still don’t have a title. The printer is coming in at 8:00 am and I have a sheet of Letraset to do. Finally, in a panic, I picked up the dictionary and started looking under the letter “D” for a word that might fit what I was trying to do with the newsletter. That’s how I chose the title “Deliberations.” Three years later I had a big disagreement with the house and at the end of 1974 I took the newsletter and left.

From the world of technical analysis, an interesting sidelight came around that period during my three years at Draper Dobie. The chairman owned an Australian mining group and came across an employee by the name of Ian Notley. He started talking with him about the computer work that we were trying to develop in Canada and showed some of my work. He then literally called me from Australia and said I have this fellow on my payroll down here, why don't I fly him up to Canada and see how the both of you might work together? So Ian Notley flew up to Canada and we spent about three months together and went back to Australia, married his long-time sweetheart and girlfriend Pat and then they moved to Canada. So in a sense, I brought Ian Notley out of the back woods of Australia, so to speak, at that time, into North America.

We started testing the now popular Coppock Curve on multiple time frames and in essence that what Ian ended up turning into a career. It was smoothed rate of change data. Then I left Draper Dobie at the end of 1974 because I was more interested in writing about longer trends and didn't like the idea the brokers wanted a new stock pick every day. Back then, we were in a bear market and I didn't see the value in saying every day to buy this and buy that, just because the brokers wanted buy tickets. Nobody wanted a sell recommendation. They only wanted to buy. Then later on I had identified that we were approaching a bottom that would serve as an important turning point. But, by this time, the firm is losing money, so they are firing the salesmen and cutting back the firm. To which I said they were doing it all wrong. The whole point about buy low is that you should be getting aggressive, not shrinking the firm. So I had a big fight with the firm at that point and will never forget Ian coming up to me and saying "Now that I'm here and we are finally working together, you're leaving, what am I going to do?" So I said to Ian "keep the dancing shoes on," because he was already giving his own presentations to his own clients and I said "you stay were you are." He stayed and soon afterwards, Draper Dobie merged into what would later become RBC Securities, which later merged into Dominion. He then left and went to set up his own operation in Connecticut, mostly because his wife Pat didn't like the cold weather in Canada. I'm sure she probably learned later that snow also falls in Connecticut. In terms of the evolution of the industry of technical analysis around that time, it was interesting that both Ian and I would become paired up, largely because the chairman of our firm had mining interests in Australia. Most veteran technical analysts later on got to know and respect Ian because he would inevitably make a big contribution to the industry.

RW: What key influences did your collaboration with each other provide?

IM: My key work with Ian was in the context of smoothing daily, weekly and monthly data and overlaying just the curves. You don't need to overlay the price data. I published some charts in 1974 overlaying the Coppock Curve of the London, New York and Tokyo markets. This was to demonstrate a global rotation for most of the periods between the 1950s to the 1970s. In the larger cycles, London peaked first, then on the first failing rally in London, that typically was when New York peaked, and on the first failing rally in New York, the resource markets in Canada and Australia peaked and Asia would also peak. We focused on a lot of the international complex. Ian had been doing something like that and we basically started to do more and more market ratios. This was a lot of the stuff that was later on developed with John Murphy's intermarket analysis work.

One of my most major exposures was in the US, during 1971-76. The Québec government had just elected the separatist government and there was concern about Canada breaking up. I published a series of charts going back to the 1950s showing that Canada regularly outperformed New York and then underperformed. Today, you would say, a resource cycle vs. an industrial cycle, but we didn't have those labels at that time. Robert Bleiberg, the editor at *Barron's*, saw one of my charts suggesting that it was now Canada's turn to start outperforming and asked me to write an article. So out of the blue, I was asked to write an article for *Barron's* magazine that was purely based on an intermarket-based relative chart of Toronto vs. New York. I was very fortunate, because about two months after the article appeared, the Québec government elected that separatist government, the Canadian dollar got hit, then its stock market put in a bottom and then rose like mad for the next six years. So suddenly I was a genius. That led to a great deal of exposure in the US and by the 1980s led to me being the first Canadian appearing on Wall $treet Week when it had around 12,000,000 viewers. So I received very high exposure within the US market. It was amusing that many Canadians had disregarded me as the crazy chartist in Toronto, while many Americans couldn't understand that I derived from a foreign country. My primary focus was US markets because there was so much price history and market diversity.

RW: In terms of mentorship, who had the greatest impact on your career and what key lessons did you learn from them?

IM: My mentor was a gentlemen that I worked with back in Dominick & Dominick who I think was originally from Estonia. Before Adolf Hitler's rise, he sensed there would be a great deal of trouble coming into Europe. After experiencing massive currency turbulence, he fled to South America. Then for the next 25 years he bounced around from one country in South America to another, because every time there was stability in a country, he would be attracted to go and live there. The surprise was that after about two or three years the currency would go to hell, inflation would take off, social unrest would follow and then he would move to another country. Then finally, in the 1960s, he moved up to Canada and by then he had built up this sense of the social role of the currency in terms of how life would be.

In October of 1967, on the Dow Jones newswire, I was reading the headline that the British pound had been devalued and he had tears streaming down his face. I said to him, "Henry what's the problem?" He replied, "there goes the British commonwealth." "The British Empire is going, it's beginning…" It was from that experience that I spent a huge amount of time learning that to him when the currency is degraded, social unrest will follow and the culture will change. That devaluation of the British pound led to growing pressure to break the central bank gold pool that had fixed the gold price at $35 an ounce. That happened afterwards in March of 1968. But by the time it happened, Henry and I were ready for it. In a sense, he helped make me into a gold bug by getting me familiar with the history of gold as money throughout history. The way I describe gold, is that an ounce of gold is just an ounce of gold. Its real role is acting as a mirror to reflect the value of whatever paper is being offered in exchange. People talk about the price of gold rising to $1,900. In actuality, the dollar fell to $1,900, which then equaled an ounce of gold. So ever since the 1960s, this philosophy has been in tune within me. Moreover, with the devolution of the central bank gold pool, I got very much involved with analyzing gold as a currency. I had already published the Canadian dollar chart, then after 1971 the

British pound, the Deutschmark and the Swiss franc, plus some of the other currencies. I was tracking stocks on the one hand and currencies on the other.

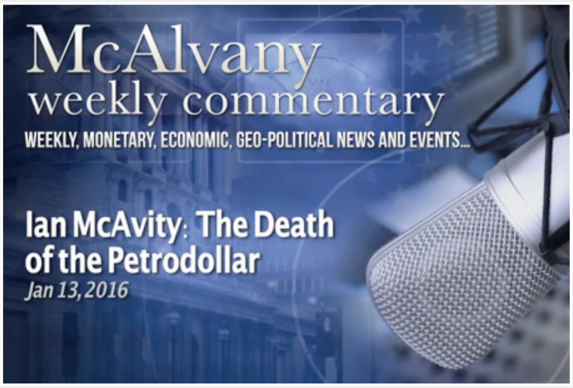
Today everybody thinks that all markets are the same. In those days it was really unusual for anybody in Canada to be thinking about Canadian markets, international markets, currencies and this horrible thing called commodities. From that era, I've argued that gold is not a commodity. Yes, it trades as a commodity, but it's really money, with a monetary element. But this all goes back to my mentor Henry. Many years later, around 1975, Henry showed up at a speech that I gave in Ottawa. He was sitting in the front row and I knew he would be shy and he was a very old man at that point. I began my talk by informing the audience that "he played a huge role in me, the speaker that you have tonight. I wanted him to know it and to talk to him afterwards, because I know he's shy." Moments later, tears were streaming down his face. He was a very emotional fellow.

The other part of that story, John Templeton was the other speaker at the same event. It was quite common to have one local Canadian speaker and one international speaker. Templeton was doing a roadshow, promoting his funds. At that point, I was totally unfamiliar with the whole concept of being a born-again Christian and the holiness of it. I had got to know him a little and on that day gave an extraordinary talk. Then he ended by virtually blessing the crowd. They started every investment meeting with a prayer and ended it with a prayer. I was up as the next speaker, with shoulder length hair and back then, looking like a quasi hippie. Add onto that, my first slide of the presentation, that I've used since the 1960s, of two buzzards sitting on a tree branch saying "patience my ass, I'm gonna to kill something!" So, I'm dying, trying to think what to say as a follow up, after Templeton has just blessed the crowd and wished God's good glory on their investments. How am I going to change this to "patience my ass, I'm going to kill something" and "let's talk about market timing." It came to me literally as I walked to the podium, turning to John and said "John that was an absolutely inspiring talk. I think that you are the only investor that I have ever met who asked for God's help 'before' he owns the stock." Afterwards, he sat there and giggled for a few minutes. He was a wonderful gentlemen. We have crossed paths since and he would regularly remind me of that description of being the only investor that asked God's help before actually owning the stock. It's one of my most favorite recollections of that era.

RW: I wish to read a quote by John Carder, a good industry colleague of yours, which highlights two great qualities of great technical analysts such as yourself. One of the qualities is "the ability to realize when to ignore certain indicators, and when not to. Many investors have lost fortunes thinking that 'This time is different.' A few have made fortunes when they realized that it really was different this time." How would you describe this particular dynamic quality within your market analysis?

IM: Ned Davis is a good friend and as he published a book called *Being Right or Making Money*. Ned's often joked with me that I am the one that prompts him of thinking of the man that would rather be right then make money. I've never been that short-term focused and have never really been a trader. My fascination has always been more with the bigger price swings. John Carder and I have had lots of discussions over the years about why a market was going to do this or that. There's never been a single indicator for me that would say, OK this is why something changes from black to blue or green.

A part of it would probably be from attending the Contrary Opinion Forum in Vermont. I started going in the 1960s. Most of the time in early years, as a guest of the conference, rather than a speaker. I've now spoken at them for around 30 years or so. They've only had eclectic thinkers and I have always been inclined towards contrarianism. There's a good quote that I always remembered from Abe Cohen, one of the most famous developers of sentiment indicators, who created Investors Intelligence and in the 1960s set up the advisors Bulls & Bears. It was a conference in Chicago when a young fellow who was later charged with a crime, stood up and ran through a series of slides saying that he had discovered this perfect indicator of how you trade the 10-day moving average. He proceeded to walk through a chart that was about 4 feet long, section by section across the screen, saying "you buy here, you sell here." He had a nice trading market and for about a one year period this was a fabulous trading strategy. At the end of it he talked about his services and charges and that he would take money to manage. Abe Cohen followed him onto the stage and I'll never forget Abe's opening comment "I wish I was so young and so sure. Now of course, I am so old, I don't trust a damn thing!"



Listen to one of Ian's last radio interviews on January 13, 2016.

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