Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Michael Oliver
Momentum Structural Analysis

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Dennis Tubbergen:

Welcome back to RLA radio. I'm your host, Dennis Tubbergen. Joining me on today's program is a guest that I've very much enjoyed having on about six months ago. Very excited to have him back on the program. I'm joined today by Mr. Michael Oliver. He is the founder of MSA, Momentum Structural Analysis. The website to check out his work is OliverMSA.com and Michael, welcome back to the program.

Michael Oliver:

Oh, good to be back Dennis.

Dennis Tubbergen:

So, Michael, just for our listeners, maybe that are not familiar with you, or maybe haven't been long time listeners, could you just briefly explain a little bit about you and what your methodology is?

Michael Oliver:

Yeah, we're technically oriented in fact, totally technically, but we have a different methodology I developed, oh, decades ago. I started in the future side of the business in 1975. Was a young guy. I was with EF Hutton headquarters in New York, the commodity division there. And the chairman of the department was also the chairman of the co-max at the time. And I studied under him for about a year and a half and then I got into the retail side of the future's business as a broker, but in 1992 I was invited by a major bank at the time, Wachovia to provide research to them. And I'd never thought about that before. They'd heard about my method to some broker that they knew and what we do is most technicians, obviously they look at price charts that is the common thing.

Michael Oliver:

And they draw lines and floors and uptrend lines and so forth and that's what they look at primarily. We study instead, we treat price as a secondary and we study the momentum of price, but not in the, what you call wet noodle, that you can find on any quote screen like MACD or RSI, things that most people have on their quote screens. We've developed our own methods of plotting price and its relationship to long term or intermediate term or short-term averages to get an assessment of the long-term trend, the intermediate and the short term trend of any given market. And, but our focus is primarily on intermediate to long term. We don't care about trading swings and that kind of thing. We're more interested in investment grade, turning points and usually momentum.

Michael Oliver:

And we'll tend to anticipate a trend change, and sort of warn you of a trench change, prior to price telling you that something's about to happen. So, the price chart is likely to break down or turn up after momentum has already sort of announced it with its actions maybe a month before or two months before, whatever, but you get a warning. And recently I think there's some major events underway and that are very important to especially investors who have a portfolio already and let's say their retirement age and so forth, especially, and want to protect it. The asset categories instead of looking just at one market for example, as a lot of people do you, that may be in the bond market. So, they'll focus only on the bonds or they're in the foreign exchange market only focus on a given exchange rate differential. We look at all the asset categories because often they, like icebergs, they bump into each other. And, they have wave effects that affect another market.

Michael Oliver:

And for example, right now we, I think we're in a historic time in markets, we're about to see events that few have anticipated. And, I don't say this as to be sensational whatsoever. I mean I've seen big events come and go over the last 50 years of being in the financial side, the market side. But I've never seen such a confluence of asset categories banging into each other, causing wave effects in the opposite a direction. And, let me give you an example, stock market right now is my main focal point in that. Not that I want to be in it one way or the other, but it is going to cause a lot of events, political, social, and other market events. For 12 years, we've gone vertical get an S&P 500 chart for example, a monthly bar chart. Just go back to 2009 low and put it up on your screen, look at it.

Michael Oliver:

And you'll see, this is a nice, sharp up trend, but very old historically in the US stock market, that is an exceptionally old bull trend over 12 years. And, in the last several years of that advance, it went vertical. The upward curvature started to launch, know what we call a blow off phase. That's where everybody joins in and it's more or less a buying orgy. But you want to look for the causative factor of that. And I suggest what you put up on your screen is go to the website of the federal reserve St. Louis and get a chart of up, can access it, of M2 money supply go back 50 years or so. Get a chart fed funds rate. It's another good chart to get. But, on M2 you can go back to the 1960 to the present and every decade, the money supply measured by M2, basically doubled.

Michael Oliver:

It didn't matter what decade it was, recessionary inflation, all these market things didn't matter. It basically doubled money supply every decade. But since February of 2020 money supply has gone up well over 40% in two years. Now, that's a massive acceleration in the rate of increase. So, M2 has gone off the page. If you look at M2 that sort of explains why a loaf of bread might have been 15 cents when I was a kid. And now suddenly, what is it? Okay, well, it's not because we have a shortage of wheat it's because we have an excess of money units. Well, the same is true with other asset categories. They reflect that rising tide, that rising water level of the number of money units, chasing assets.

Michael Oliver:

Then you look at the fed funds rate chart, and this is fed policy. So, it's the interest rate that they determine. And, if you look at it, go back to 40, 50 years, you'll see this massive declining staircase pattern, especially over the last 20, 30 years where rates will drop and then they'll go up a bit and then they'll go down. And, but we've gone down to effectively zero and been there for 12 years plus. Where the federal funds rate has been effectively at zero, we had one blip up to two and a half percent, couple years ago, and then it flopped back down near zero. Now, they're still going to start to raise it again, maybe. I doubt it.

Dennis Tubbergen:

Maybe is the key word, yeah.

Michael Oliver:

Yeah, no, they'll do it tomorrow. I don't doubt that. But the policy change that they're talking about, we're going to see if that continues. And I'm skeptical about it for various reasons. Anyway, the fed funds rate chart, you look at it and you can say, "Oh, I can't understand why money's free." It's been free for 12 years so why shouldn't I throw it at the stock market? So, it's those two charts sort of help explain why this S&P had the biggest bull market bubble in history, the US stock market.

Dennis Tubbergen:

So, Michael, can I interrupt there just a second?

Michael Oliver:

Yeah, sure.

Dennis Tubbergen:

Because you made a statement that the stock market is going to lead to massive change. You mentioned political, economic.

Michael Oliver:

Mm-hmm (affirmative).

Dennis Tubbergen:

Can we go down that tangent just for a second?

Michael Oliver:

Well, we know how bad it was in 2008 and nine. Remember everybody hurt in the real world. I mean, you had businesses collapse, Lehman Brothers and so forth, but it wasn't just the stock market break. But there's no comparison of the stock market then versus now. The bull market that occurred prior to that was trivial in time and in percentage gain from the 2003 low to the 2007 high, which is when it actually peaked in October 2007, prior to that next bear market. The percent gain. And the time it spent going up was trivial compared to what we've just seen. So, we have definitely something we've never seen before percent wise and time wise.

Michael Oliver:

So that decline, we know it affected the real world so to speak, not just the stock market. That people were hurt, unemployment was terrible, all kinds of sense of unease. This is going to be far worse because the bubble is more massive. And, when it comes unwound it's going to affect other markets. Already, if you'll flip up a chart, for example of thing called MUB, it's an ETF of Muni-bonds. It's in collapse mode. It started down months before the S&P peak. It had been in sync with the S&P upside, but then it peaked well before the S&P did, and it's just collapsing almost day by day. Now, that we know the fed is very concerned about states and localities being able to fund themselves. Okay. So that's a factor, okay, that the fed is looking at, they don't talk about much.

Michael Oliver:

The other one is high yield corporate debt. As ETF called JNK or HYG, they're also in collapse mode, meaning rates are going up for high yield corporate debt. That's another area the fed is very concerned about. We know that because between May of 2020 in the summer of 21, they were heavy buyers of those ETFs. So, all this talk about the fed saying, "Well, we're going to fight inflation by raising rates." And there's a big chorus of economists on all sides of the spectrum saying, "Yeah, do that, do that." Okay, fine. We define the S&P now as broken by our metrics. Annual momentum trend of the S&P, the NASDAQ 100, Apple, Amazon, Microsoft. We study them separately, European markets, and now Chinese markets as well.

Michael Oliver:

So, all these markets are peaking and breaking structure that argues to us we're entering a bear market. Now, no, not a crash, but the bear markets rarely ever crash only in 29 did you begin with the crash? All the other bear markets since then were arm wrestling matches. You go down 10, 15% rally, eight and waste two months. And, then but ultimately you had a major demise in the market. We think we're entering a bear market. The problem is this is the biggest bubble in us history. Therefore, its wave effects, as it goes down, should be quite impressive, quite negative. The fed is probably aware of this. They don't want to talk about that much, because they're going to fight inflation by raising rates thinking they're going to stop commodity upturn. First off, they're wrong. But they will imperil their asset categories. They don't want to see go down. And that would be the stock market, Muni-bonds and high yield corporate debt.

Michael Oliver:

So, in effect, I defy them to continue that policy. First off, it's not going to stop commodities. Our assessment of commodities is they're a fresh annual momentum upturn occurred in October 2020 is where our signal was issued on the Bloomberg commodity index. Most commodities at the same moment in time turned up simultaneously. Copper, sugar markets that had nothing to do with one another, so it was a monetary effect. The commodities have been depressed off the page in terms of price from 2016, through 2020. They were so depressed for so long; it was like a submerged beach ball. So, when that asset category finally woke up and said, "Okay, we're out of here." And also stocks that are related to those commodities, energy stocks, fertilizer companies, which we particularly emphasized at the time, have exploded because asset managers, large fund managers, I can mention one name, Ray Dalio. He's talked about this much, have shifted due to their doubt about the stock market for their various factors they look at the metrics that they use.

Michael Oliver:

And they've shifted into commodity related assets, and they've done quite well. I mean fertilizer stocks, since we put out our buy recommendation have more than tripled. Energy stocks have more than doubled, almost tripled and so forth. So, they beat the market, but it's fresh. This upturn, an annual momentum of the Bloomberg, only began a year and four months ago. So, in terms of a long-term annual momentum trend, they usually last several years. So, we're fresh on the upside and yes, some of these markets are going to get whacked from time to time because they gain too much ground too quick. Oil is an example oil prices, WTI crude hit 130 the other day and then dropped back under a hundred. But remember it was down at 10 bucks a couple years ago, so we got bullish at 40. You're going to get sell offs in some of these markets, but they're not going back down in a sustained way. They're merely going to have sell offs that interrupt the advance.

Dennis Tubbergen:

Michael, I want to pick it up. I'm coming up on a break here.

Michael Oliver:

All right.

Dennis Tubbergen:

But I would love to pick up the commodity discussion on the other side because that's certainly something everybody's concerned about. So we'll do that with Mr. Michael Oliver. The website is OliverMSA.com when our RLA radio returns. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen, you're listening to RLA radio. I'm chatting today with the founder of Momentum Structural Analysis or MSA, Mr. Michael Oliver. Michael's a returning guest. He was on the program about six months ago. I would encourage you to check out his work at OliverMSA.com. Very, very accurate guy. I get a lot of his work delivered to me in my email and I'm always impressed with what he does. So Michael, thanks again for joining us today.

Michael Oliver:

Good to be back.

Dennis Tubbergen:

And, let me just have you jump in where you left off last segment, you were talking about commodities and a lot of our listeners that are going to the grocery store and buying products with wheat and corn. I mean, they're seeing what's going on with commodities and you're saying, this is just getting started.

Michael Oliver:

I'm saying it's just getting started because our technical metrics argue that. But just take the grains for example. Fertilizer is essential to yield. If you have less fertilizer because it's so expensive off the page that farmers can hardly make money when they can buy the fertilizer, it offsets their profits. You have a fertilizer crisis, we know that. Russia is a major export of fertilizer for example. It's also a major exporter wheat, as is Ukraine. So, we've got these surges, not just in crude oil, which a lot of people are looking at, but go to your computer screen and get a wheat chart and see what's happened there, it'll shock you. Or a corn chart or a soybean chart or a soybean meal, which they feed the animals, therefore affects meat prices.

Michael Oliver:

These things are off the page, but it's only freshly off the page. Meaning the explosion is very recent and they've come from extremely depressed price levels that were basically unsustainable that were so low. And sure enough, now it's like the beach ball underwater and you let go of it and it surfaces that's what's going on, but it only just began. Our work says, yes, you're going to get sharp selloffs and various commodities from here and there, but they're sharp selloffs within the context of a fresh up trend. And likely the issue really isn't whether commodities even go higher, frankly, some of them are off the page. It's if they hold their ground. Global recessionary potentials are very high right now. We're seeing the breakdown in the stock markets. I think that's reflecting anticipation of that and the commodity prices by just merely hanging around here.

Michael Oliver:

And they're probably going higher anyway, but just hanging around the current levels is chokes off too many things. The fed is not going to be able to turn it down. And therefore, the issue then is what do you get into at this point in time that might be good for the next couple years without being involved in certain volatile commodities like futures or even some of the stocks related to some commodities are pretty volatile right now. We suggest gold and silver. And the reason for that is this one. They've not been that volatile in terms of percentage upside. Now, gold has doubled since 2015, from 1,050 level to 2078 the other day. But most in fact it hit 2070 in the summer of 2020. So, in that five year span it doubled. It didn't have, if you'll notice it didn't have any particular external factor that you can explain the upturn and gold.

Michael Oliver:

For example, the commodity upturn did not even begin until after gold had already hit its high at 2070 in August, of 2020 commodities didn't mean upturn until October 2020. So, it wasn't commodity inflation. It certainly wasn't the dollar. In fact, the dollar index, if you go look at a chart, go back to close of December 2015, when gold made its low monthly close in its last bear market, it was at 1060 on gold then. The dollar index was at 98.6, but right now it's at 99. There's no change in six-year years in the dollar index, it's been up and down either side of that number and yet gold doubled. Why is gold so smart? I think gold is first off, it's a monetary metal, not a precious metal. And it's looking at money. It's looking at central banks. What central banks do over the long term to the value of money. And they degrade it. And gold knows that.

Michael Oliver:

Gold bull markets over the last 50 years, there have been three prior ones that if you measure from the low of the bear market that preceded the bull market were seven to eightfold, multiple moves. Our last low was 1,060 area. You multiply that time seven or eight, you're talking 8,000 bucks or so. That would merely replicate three to three prior major bull markets in gold over the last 45 years. So, it's not outlandish to say, "Well, we'll just have another normal gold bull market." This time, I think it's going to be different because I think the implosion or the bear market in those asset categories that are bubbles, primarily the US stock market will cause the central bank to have to change subtly probably with some dance steps, what they're threatening to do now. Because, if they continue on their policy of raising rates, their bubble is going to keep going down. Well, if they don't and they go back to save their asset categories they deem important, Muni-bonds, high yield corporate debt, the stock market. That means they have to go on the easy monetary route once again. Gold knows that.

Dennis Tubbergen:

So, Michael, what do you see for silver? Just if I can continue on that line?

Michael Oliver:

Silver over the last 45 years or so relative to gold has four different times reached up to 3% of the value of gold. In fact, two of the times, one was six and a half percent, the other was about four and a half percent, but there'd been four times that at least reach 3% of the price of gold. Right now, silver's at 1.3% of the price of gold. Our measurement of the spread relation between silver and gold indicates that spread relationship is now favoring silver once again. And therefore, if we even us go up to the 3% level, which is done again four times in the last 45 years, if we go up to 3%, even of the current price of gold, let's say around 2000, silver would be $60. If gold goes to 8,000 merely replicates the three prior bull moves that it had of the last 45 years in terms of multiple gain, silver to be $240.

Michael Oliver:

Silver right now is trading in the mid-twenties, okay? You do the math. We think silver is the better place to be of the two monetary metals on a percentage gain basis. And we think it's definitely better to be there than in gold. Also, we like the gold and silver miners. We think they will outperform gold itself. Now gold is the mama. It's the one holding in the leash so to speak and silver, and the miners are like little yippy dogs on a leash. They tend to run forward and run back and so forth. But net on balance, we think they're the better place to be. And we don't think, we think right now that, you're not chasing a market. Those markets have been stuck in a trading range, a corrective process since summer of 2020.

Michael Oliver:

So, you're effectively buying where they were a couple years ago or actually lower than some of the peaks where they were a couple years ago. So, you're not chasing something like crude oil at a hundred dollars, for example. So, we think that's the best place to be right now, given the context of these other major asset categories and what it means to central bank policy and not just talking the fed, but the ECB and the BOJ. Easy money is here to stay. They're not going to go the other way because if they do their bubbles will collapse and they'll be blamed for the implosion.

Dennis Tubbergen:

So, Michael what you're saying here and I'm just going to try to put two and two together here. You're saying we could see a significant decline in the price of assets like stocks, bonds. We haven't talked about real estate, let's just keep it as stocks and bonds. And, yet at the same time, we're going to see commodities continue to go. So, does that mean that take the average person out there with an IRA or a 401k and they're investing traditionally, they could actually lose money in their portfolio while they're paying more for the items, they need to use every day. Is that your forecast?

Michael Oliver:

That's right. That's correct. If you want to own stocks, own commodity related stocks, we particularly like the gold and silver miners here. We think they've been reborn over the last four or five weeks meaning the corrective process since summer of 2020, we think is over. And there's a re-engaging now to resume the up to end that began back then. So, that would be a preferred area, commodity related stocks. A lot of investors have gotten into energy stocks. They're probably a bit overheated at this point. Oil is probably going to enter a trading range type volatile type trading range and those stocks might reflect that.

Michael Oliver:

Fertilizer stocks also have really been and vastly priced, more than triple in the last year or so. But the gold miners and silver miners looked to us to be the best place if you want to own stocks own them. In fact, one thing I noticed recently in the last several weeks as the miners woke up again, is that the large asset managers, the Ray Dalio's of the world and so forth, if they're going to get into a sector, they're not going to buy the penny stocks. It's just not what they do. They're going to buy the blue chips in that sector. Well, Newmont Corporation is the largest gold miner. It exploded to new highs in the last four or five weeks, which indicates to us far stronger than the sector itself indicates to us that large asset managers are in fact, making that asset class shift. Taking something out of the stock market and putting it elsewhere. And that's one of the places they're putting it. And I think it's a good time to sort of replicate what they're doing because I think they're correct.

Dennis Tubbergen:

So, in the time we have left, Michael, you mentioned mining shares are a good place to be. Owning some gold and silver's probably a good idea. Any other advice to one who's thinking about, "Hey, I just want to retire comfortably."

Michael Oliver:

Well, that's it, just don't... If you want to be comfortable, don't use leverage and just buy them outright. And again, I don't think it's late to be buying them. They had a huge upturn percent wise from 2019 to early summer of 2020, yes. But they've since corrected for that, got into a wide trading range with some downside action. And I think they're reborn now. So, it's not like you're chasing something. So, I think it's... One, don't use leverage if you don't want to, if you're not comfortable with it. And probably best to go with the ETF type thing, don't try to pick the stock, but go with a broad ETF that covers gold and silver miners. But, as far as other commodity categories, I would hesitate to say right now, because some of them have had such big moves over the last year and a quarter that I hesitate to say, even though we liked them a year and a quarter ago, it's a little late to getting into some of these things because of volatility factors.

Michael Oliver:

So, I know it sounds narrow to say gold and silver miners, but frankly the only other alternative that used to be functional for people who wanted to move assets out of stocks into something else the alternative, aside from gold was T bonds. T bond futures moved with gold over the last couple years. In fact, the T bond rally the best, highest weekly close in price lowest in yield was one week before the August peak weekly close in gold of 2020. So, they were coincident in peaking. Both of them dropped into a low in March of 2021, meaning yields row prices drop for T bonds, gold dropped back couple hundred dollars. They both bottomed at the same time. But since then, the other alternative of T bonds has not worked as an alternative against the stock market. It is going down. Yields are rising. So, it's not replicating gold. Meaning if you are an asset manager wanting to go with one of the two alternatives, you're left with only one now and that's gold related.

Dennis Tubbergen:

Man, we're going to have to leave it there. My guest today has been Mr. Michael Oliver, he's the founder of MSA, Momentum Structural Analysis. The website is OliverMSA.com.

Dennis Tubbergen:

Michael, always fascinating to catch up with you. I really do appreciate and enjoy your work, keep it up. And I know our listeners enjoyed it as well. Love to have you back down the road someday.

Michael Oliver:

Thanks Dennis. Look forward to it.

Dennis Tubbergen:

We'll return after these words.