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 once again on today's program is Mr. Michael Oliver. Mike is the founder and president of Momentum Structural Analysis. The firm has been around since 1992, so celebrating their 31st year. He has a very, very effective and unique approach to analyzing markets, we'll get into that in a second. You can learn more about his work at olivermsa.com. That is olivermsa.com. Mike's email address you'll find on the website under the About and Contact tab. If you email Mike, he's making available some free sample reports to any of our listeners today. So again, that is at olivermsa.com. Mike, welcome back to the program.

Michael Oliver:

Good to be back, Dennis.

Dennis Tubbergen:

So, Mike, let me just jump in a bit because I think you're on the program about a year ago. Can you explain a bit about your work and then maybe your experiences that led you to develop the system that you now use?

Michael Oliver:

Yeah, I was a futures broker. I was a kid back in 1975, worked for EF Hutton headquarters in New York down into the island there, and Hutton was the second-biggest commodity firm in the world at that point. And I apprenticed under the head of the commodity division, who was also chairman of the Comex. And this is back when gold was legalized for trading in the US. That was 75, and I got hired in April of 75. So, I was a futures broker up until 1992, and I didn't know anything about markets, hardly, so I knew a lot about gold fundamentally. But I had an academic background. So, I had to learn markets from the ground up, and used to hang around the Comex floor back before it went to the World Trade Center. It was about a block from the New York Stock Exchange, and had its own building, an old classical building. They traded copper there and silver and then added gold. That's in 1975.

Anyway, it was an interesting growing up experience, so to speak. And my boss was a technician, a bar chart, price chart technician like you see in any financial publication you open, there's some charts there. And I did that for years. But I later evolved out of that because I realized that when we use price to measure any asset, whether it's a stock price or commodity, whatever. You're measuring with a yard stick that is made of rubber, okay? It's not like a regular yardstick that says 36 inches and stays 36 inches. So, when you price something in dollars or yen or Euro or whatever, that currency, that money unit changes in its real value. So, your yardstick is, like I said, rubber. And so, a price chart is inherently distorted, not distorted by the action of the market, underlying market, but in terms of the stick you're using.

And over time, for example, since 1959, the quantity of dollars in circulation has gone up almost double every decade. So, what does this mean? Well, if you buy a stock at 10 bucks and 10 years later it's trading at 20, you think, "Oh boy, I doubled my money." Well, not really, because the value of the underlying currency unit that you're measuring by has just doubled in quantity. So, when I was a kid back in the fifties or sixties, a loaf of bread cost what? 20 cents? Okay, now what does it cost? Okay, is that because we have a wheat shortage? No, it's because the underlying value of the money unit has decayed rapidly and consistently over time. So how do you get around that problem of measurement? Well, what I did is, I created momentum charts. Now, what is the momentum chart?

Let's say you take the high low and the close today in the S&P 500 daily bar, like you'd see on a price chart. But instead of measuring it just against its price, you measure it against a moving average of that asset. So, let's say a 10-day average or a 200-day average, and you plot the oscillator, which is nothing but a reflection of where price is in relationship to that changing moving average. So, if you have a dynamic market that's going up or down, that moving average is going up or down too. And to some extent, this tends to remove a simple measuring of the asset versus the money unit. It tends to allow the asset itself its own dynamics, meaning the speed of its momentum to adjust the measurement that is more reflective of the asset and a little bit less reflective of just the money unit.

I hope you follow that logic, okay. So, you end up with charts that look different than a price chart. Well, in 1987, I caught the crash. I was a futures broker. And what happened prior to the crash was when you look at the price chart of the S&P 500 in summer of 87 as it was soaring, you just see this upward zigzagging process. In fact, it was like an upward curve. You could hardly even draw a trend line; it was so steep. But if you plotted it on momentum, and I was using monthly price bars of the S&P and measuring it against a three-quarter moving average, which is almost like a 200-day average, okay? And the oscillator didn't show that up, it showed a horizontal action. Where every time you would get a dip back down to the three-quarter average on the oscillator, that means drop down to the zero line, you built a floor there.

And when you looked at the momentum chart, you saw this floor that is being used and used and used three times in a handful of years. So, when we broke that floor of momentum, the price was barely off its high. It was in October, the first week of October. The market crashed in the next two weeks, and you couldn't tell it on a price chart ahead of time, but the momentum chart said, "I'm breaking something really big," and it did. So, at that point on, I began to shift all of my analysis as a broker to momentum of price as opposed to just raw price charts. And we built many tools based on that concept over the years. And we analyzed at MSA for both institutional clients and individual subscribers, stock markets, bond markets, commodity markets with an emphasis on gold and silver, and foreign exchange markets, all the four big asset categories.

And I can say right now, without beating a drum, I have never in my life, and I do a lot of archival work going back to the twenties, even, seen a market situation that involves so many major markets, not just the stock market, but the bond market, gold and silver commodities in general. That is so potentially dynamic, either up or down given a specific market. I've never seen anything with such potential to move in big waves, which means it could damage a lot of investors who might be on the wrong side of one of these big moves, and/or if they are not aware, they'll miss out on some big upside in some of these other markets. And I think we're on the cusp of seeing what has been an arm-wrestling match over the last year where you see gold go down big and then come back to its highs again for a third time.

And then you see the S&P sell off pretty decently in 2022, and then come back up here to almost deal within 10% of its highs again, where it's confusing to people. And we argue that from what we see, probably within the next few months, maybe even weeks, we're going to see a resolution of this where stocks turn down in a very significant way, and commodities reassert themselves in a second major up wave, but especially gold and silver are at the forefront, on the upside. I can give you some fundamental reasons for that, but that's a technical assessment looking at very long-term stuff. So, I think we're facing a unique point in market history right now, and have over the last year, in fact, we've seen it set up.

And I think what's going to happen in the next year, and I don't think it'll be incremental either. There's a theory out there called chaos theory, where rather than a market going from A to Z on the upside or Z to A on the downside in an incremental manner, step by step, suddenly, you get chaos where events unfold far more rapidly than most investors are expecting. And I think we're about to see some of that.

Dennis Tubbergen:

If you're just joining us, I'm chatting today with Mr. Michael Oliver. Mike is the founder and president of Momentum Structural Analysis. His website is olivermsa.com. And if you visit the website and go to the About and Contact tab, you'll find a photo of Mike along with his email address, and if you email him, he will be kind enough to send you some free sample reports, and I'd encourage the listeners to do that.

So, Mike, in the last statement that you made, there was a lot there, but I made a note that you used the term I really liked. I'm going to borrow it and attribute it to you. You used the term rubber yardstick, and that implies that, of course, the dollar's been extremely devalued. Given what's happened with the Central Bank policies both in the United States and around the globe here over the past several years, has this yardstick become more rubbery? Is that a fair term?

Michael Oliver:

Well, I think what's happened is, there's a constant boom bust cycle. Okay? Now, a lot of people attribute that to capitalism. Well, it's best attributed to Central Banks, because Central Banks are in effect monopoly pricers of an asset, of an essential commodity and human interaction called money. So if I deal with somebody on the other part of the world and buy a product from them, I don't know who I'm buying it from, I don't see their face, I can't say thank you, but I buy their product because I value it, and I pay for it in a money unit. But if that money unit is constantly changing its value, that tends to corrupt the relationship in terms of predictability of the pricing and so forth.

And they go through cycles constantly of saying, "Oh, we've got to loosen up the money supply." So, over the past... Well, from 2009 to 2021, really, a dozen years, we've had effectively the free pricing of a essential commodity, money. Which interest rates were so cheap, the cost of money was so cheap, that it was ridiculous. And it was not market based, not supply demand based, cost of money. Interest rates weren't determined by supply demand, they were determined by an authoritative institution, top down. So, by artificially pricing money at an artificially low rate, a false rate in effect. Here's a metaphor, they were injecting drugs into the arm of the economy, and they did it not just for a year or two, they did it for a dozen years. So, if you as an investor, a family making a decision about buying a home or buying property, a corporation planning on building a new factory and expanding production or state and local government or federal government even, much of your decision making process is based on a key factor, the cost of money.

Well, if you're falsely given the price of money and it stays there for a dozen years, you've been hallucinating, okay? The Central Bank has allowed you to hallucinate and make investment grade decisions on a micro and a macro level, based on a false assumption. And when they decided to unwind that process in March of last year and start raising rates from next to zero up to over five now, that suddenly yanked that out of the arm of the economy, out of individuals, families, and suddenly, people are facing a reality that they didn't expect to face. It wasn't part of their plan because they'd gotten so accustomed to free money, all of a sudden now it's like hanging the cadaver here. It's kicking still, stock market's still rallying, people still are hopeful.

This is the very same thing that happened in 2000 by the way, there were rate increases all during that period, and the market still went up. And it was when they finally quit raising rates in the year 2000. We put out a report on this the other day called Deja Vu, where we show an S&P chart, shows where we got negative in January of the year 2000, and the market continued to go sideways to slightly higher for the rest of that year. This is the dot com top. All during that time, the Fed was raising rates, raising rates, raising rates, and yet the market somehow absorbed it, just like today. And the term even showed up in a Wall Street Journal article in August of 2000, which happened to be the top closing month for the S&P of soft landing. Where a lot of people were concerned that, oh, their raising rates might cause the economy to turn down, but then the term came up soft landing, now we're not going to have a downturn.

And at that point in August, it peaked, and by December you were making new lows for the year, and a huge bear market followed, yet the Fed had quit raising rates in mid-2000. They paused, and that's when the market actually topped. So, everybody's thinking, "Oh, if the Fed will just pause, that'll be good for the market." Well, go back and look at prior tops, and you'll find that's not the case. There's probably an underlying reason for that. The Fed looks at stuff, they claim its data points, they also look at other things, probably the stock market, which they don't want you to be too concerned about because they don't want that to go down. But there's a point at which the Fed quietly and without speaking too loudly, gets concerned and they say, "Uh oh, we've probably gone too far." And that's when they pause.

So, in effect, when they pause, especially when they start dropping rates, they're in effect saying, "Uh oh, we made a boo-boo." And I think that's about where we are on the clock right now. In fact, there's quite a few, even mainstream economists out there who aren't anti-Fed folks, who've been saying for the last two to three rate increases, "Don't do it. You're going too far." And the Fed has ignored them. And I think we're about to see data points which lag markets, by the way, they don't lead markets, turn in such a way that the Fed realizes, uh oh, we went too far. And so, you might actually see this as the last rate increase of the year, quite possibly could be. And that's the time which is, most people who look at the Fed think, well, if they quit raising, that's good for the market. No, it's not because the Fed is acknowledging something's wrong.

That's where I think we are, and I think the outcome of that's going to be, you're talking about the money unit, the Central Bank will have to go back to loose money again, because certain asset categories that they defend that they don't want to go down, namely a big drop in the stock market, big drop, which has already occurred in the Muni bond market, a big drop in high yield corporate debt. I'm talking prices now, not yields. Yields are going up in those markets. Those are things that Fed doesn't want. And if that starts to get out of hand and they perceive that it's starting to get out of hand, that's when they panic and they reverse policy and do what they were founded to do, namely, print money and defend the government bond market. In other words, print money, buy government debt and I think we're about to face that turn.

Dennis Tubbergen:

Well, my guest today is Mr. Michael Oliver. His website is olivermsa.com. I'd encourage you to visit the website and you can email Michael, and he'll send you some sample reports absolutely free. I'll return after these words with my special guest, Mr. Mike Oliver, stay with us.

You are listening to RLA Radio, my guest on today's program is Mr. Michael Oliver. Mike is the founder and president of Momentum Structural Analysis, as I mentioned in the last segment, that was founded in 1992. And if you're just joining me, you can go to olivermsa.com, which is the business website of Mr. Oliver. And if you email Mike, he'll be happy to send you some sample reports. You go to the About and Contact tab at olivermsa.com.

So, Mike, let's jump in. I know a lot of the listeners maybe are a bit frightened by what you brought up in the last segment. I think you used the term that you've never seen a market as potentially dynamic as now, and I think you prefaced that statement by saying you've done archive analysis going all the way back to the time of the Great Depression. So, let's dig in. First of all, is a recession imminent?

Michael Oliver:

I actually think it's going to be worse than a recession. It'll first be labeled as such, but I think it'll get more out of hand. There is a reason for that. We've never had a drugged-up market like we've had for the prior dozen years. Dozen year bull trend, 2009, 2021 in the stock market. Most of the river flow of liquidity that the Fed created during that time went into the stock market. Also went into Muni bonds, high yield corporate debt and so forth. It didn't go into commodities. You would think maybe it would. Well, like in the late seventies, it did, for example. And the stock market was a wasteland and commodities benefited, and gold was the leader then. But this time, it went primarily into the stock market. We had a sevenfold increase in the price of the S&P in 2009 to 2021, when it made its high. NASDAQ 100, the leader index went up 16-fold.

You can go back and look at the bull market that led to the 29 peak, look at any of the peaks in the bull market in the stock market since then. You'll find no comparative bull market in terms of one, duration, and two, percent gain. We've had the biggest bull market in history, and when you look at a chart of Fed funds effectively at zero, and you look at money growth during that period, you can understand why it occurred. The Central Bank accommodated in such a way and investors said, "We're going to put it into stocks." And frankly, early on at that time period, we called the bottom in S&P in March 2009. In fact, one week before the low occurred, we said the low would be around 670. It was 669 I think, or something. Buying it then made sense because the S&P had been smattered.

It was 50% off its high, more than that, in fact. It had been at 1570 and dropped into the 600s. So, buying the stock market then made sense, so the money flow went into that, but it kept coming into that market because that market kept rewarding the buyers, and the buyers just got more and more addictive to just putting more money into it. So, it lasted a dozen years, the Fed printed enough money to keep it going, and now we have a bubble like we've never seen in that particular asset category. When that bubble-

Dennis Tubbergen:

Can I... I'm sorry.

Michael Oliver:

Go ahead.

Dennis Tubbergen:

I was just going to jump in there. I would love to hear, what is your forecast for stocks? Do you see this? This downturn's going to... Is it going to be worse than what we saw in 2022?

Michael Oliver:

I'm not sure about the downside target. I think it will be very deep. But I think the main consequence of the downside in the stock market will be the real-world effects. Now, we know we had real world impact in 2008 and 9. A lot of people got laid off, financial concerns were collapsing and so forth and so on. But we've already had some bank failures recently. Too many excuses is just mismanagement. But I think that the impact is going to be more in the street, in the real family's pocketbook, and therefore going to be quite painful. Now, the dimension of the drop for the stock market itself, in terms of exact numbers, I don't have a target. I would assume it'd at least be a 50 percent-er, but even that would be a wipe out for too many people. I also think that this time around, instead of a quick turnaround and a return to the upside, you're not going to see that. There's been times in the past where after a major bubble breaks, it takes a while to turn it around again.

After 29, for example, we went down to 1932. It was till 1953 before you get back to the highs again. Okay. Even at the 2000 top, you came back up to the highs again in 2007, but you didn't exceed them until 2009 or 10, or 2010 or 11 I think it was. So quite a few years between the 2000 top and making new highs ever again. This time, I think it's going to be worse, but mainly in terms of how the average person feels, how corporations are hurt, how municipal governments are hurt in terms of tax revenue and ability to pay teachers and garbage truck drivers, et cetera, et cetera. So, the Fed's really going to have a problem in terms of defending these assets. And their defense of these assets I think is going to create, what? Massive fake money liquidity again, but this time, it won't go back into the stock market.

It's likely to go into gold and silver primarily, commodities, secondarily. So right now, if I were in the stock market, I would be out from an investment point of view, that is. In other words, if you're long-term, looking out long-term, I'd get out. If I were a trader, you can be long. In fact, we've been positive on the intermediate trend of the stock market for quite a few months now. But it's not going to take a lot like a hundred, 200-point drop in the S&P to turn that around. And when that occurs, then the intermediate trend of the stock market's going to join the long-term trend, which is negative. But I especially think it's time to be putting money into gold and gold related. And if you look at the price chart of gold, for example, look 50 years of history in the US, it started in 75, right?

You look at all the prior peaks in gold, and everybody's all nervous about gold, how it's no good, it takes selling off and all this stuff. All the prior price peaks in gold, there were three of them, 1975, 1980, and 2011. By the way, each of those moves was between a six and a half to an eight-fold gain in the price of gold from the prior bear market loaded at peak. So far, we've only doubled since the 2015 look. But each of those peaks was isolated, meaning when you topped in gold, you basically dropped very sharply, and you never could get back near the high again. Look at what's happened now. Even just on a price chart, you made a high at 2,050 bucks, went around to a $50 increment back in the summer of 2020. Then you dropped a couple hundred bucks. Came back up in 2022 and traded to a high, again, of 2050, never touching 2,100 and dropped sharply into the 1600s.

What did you do early this year? Back up to the high for a third time at 2,050 without touching 2100. They've been selling gold for four or five months now, since early this year, and they've not been able to do more than take it to the highest monthly close was 1999. Okay? That was February, I think. Where are you now? 1960. So you've dropped a percent and a half or so off of the high, and it's been five months of selling. The sellers aren't making much ground here. Why is gold so stubborn? Why did it return to its high for a third time? 2020, 2022, and this year? What is the persistence there? What's underlying that process? It's different from any prior peak, because it's not a peak, it's a platform. We think it's a platform for a major launch. And I think what gold is anticipating, and it's a smart market, it doesn't follow news, it leads it.

Is that at some point here, the Fed is going to say, "Oops, we went too far," and they're going to reverse policy. ECB as well, the Bank of Japan as well. And you're going back to a rapid flow of liquidity, into global markets. But this time, it won't go into stocks. It's going into gold, silver especially, and also, we're going to have another commodity boom. We just saw the first one back in between late 2020 and early 2022, where Bloomberg Commodity Index doubled. Didn't even approach, by the way, it's 2008 or 2011 highs. So, commodities didn't get back near those highs. So, a lot of people saying, "Oh, inflation's off the page." No, it isn't. Bloomberg Commodity Index back in 2008 was at 237. Right now, we're trading at 107. Okay? So, don't tell me we've got high inflation, okay? Year-over-year change, yes, but not in raw prices. But anyway, I think that's what gold knows, and therefore, that's our emphasis. Why is gold behaving so well? Because somebody knows, gold knows that this policy change by the Fed will be abruptly changed based on underlying factors.

Dennis Tubbergen:

So, Mike, in the couple minutes we have left in this segment, you made a comment that this gold this time is like two X price, and prior bull markets have been six and a half to eight X price. So, are you suggesting that we could see seven, $8,000 gold?

Michael Oliver:

Well, that would be merely a routine return to what we've done three times before in the last 50 years. So yeah, I think that's easily possible. And it's not ludicrous. You think, "Oh yeah, it's a lot of dollars." No, it's not. We bottomed at 1,050 in 2015. We've doubled that since then three times, 2050. Doubled only. Okay? And we've acted not like a top, but as a platform. So, what easily could be left is another replication of a sevenfold, eightfold move in gold, which puts you up seven, $8,000. But given the fundamentals out there and the macro technicals that we see in these other asset categories, and given the response that we know the Central Banks will provide, once they perceive that, oops, we made a boo-boo, and they go back to doing what they always do, what's the chief beneficiary of that going to be?

And I think that's, for example, look at last year. 2022 was a very bad year for S&P was down 20 some odd percent, Nasdaq down 30, T bonds were down in price over 30%. Muni bonds are down enormously, high yield corporate debt down enormously in price. Gold had an unchanged year. It's 2022 closed versus 2021. How come gold had an unchanged year when all these other major portfolio assets had a really bad year? How come gold is poised just below what's a triple top breakout year, pending? I think it knows something. And I think that's where, as an investor, I would be primarily focused on having some kind of gold related position in your portfolio, and I suggest significant. Depending on the nature of your portfolio, whether it's leveraged options or whatever, but to basically have some kind of gold position that you're comfortable with.

And I also think that silver's likely to outdo gold in terms of relative performance and percentage gain. It wouldn't shock me that silver now at $24 could see 200, and I'm not joking. Given the historic ratios of the prices silver to gold, if you go back over the last, back to 1975 again, you'll see numerous times, almost habitual, where the price of silver is two and a half to 3% of the price of gold. Something at abnormality. Well, silver right now is at 1.2, 1.3% of the price of gold. Even at $2,000 gold, if silver were 2%, you do the math. It's off the page. And if gold ever went to 8,000, another routine sevenfold to eightfold bull market, and silver reflected that with two and a half percent of that price, going back to that ratio again, silver could be $200. So, I would focus on the monetary metals, gold and silver.

And at some point, here shortly, I think we're... In fact, at the end of this month on Monday, if the Bloomberg Commodity Index is where it is right now, we've got a fresh buy signal again. So, we think the corrective process we've seen since the war began, actually, that's when commodities topped. I know the Fed likes to blame it on the Ukraine situation, but the commodity bubble started to, not bubble, commodity boom from an extremely low level started in late 2020. Gold had already doubled by then, by the way. So, it wasn't a link with gold. The Bloomberg went from under 60 in price to 140, and it peaked when? Within weeks of the beginning of the Russia, Ukraine war. So, it didn't go up because of that war. Grain prices didn't go up because of that war. Oil prices had already gone up. When the war began, they peaked.

And yet, the Central Bank and the federal government would like us to believe that that's the cause of inflation, a factor beyond their distortion of the money supply. They want to put blame elsewhere. Well, gold knows better, and I think we're about to have another up wave in commodities. So, to some extent, we're looking like it was in the late seventies when the gold turned up again from a corrective low in 76, a hundred bucks, $103 to be precise. So, it went to 850 by January of 1980. So, in the span of three and a half years, it went up eightfold. Commodities followed. They didn't go up as much as gold, but they did follow it. I think we're in a similar situation except even more dramatic.

Dennis Tubbergen:

Well, the clock says, Mike, we're going to have to leave it there. Our guest today has been Mr. Michael Oliver. He is the founder and president of Momentum Structural Analysis. The website is olivermsa.com. And if you go to the site and go to the About and Contact tab, send Mike an email, he'll send you copies of some sample reports of his work. And Mike, really a pleasure to catch up with you today. I really appreciate your perspective and love to have you back down the road.

Michael Oliver:
Thank you, Dennis, very much.

Dennis Tubbergen:
We will return after these words.