Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Michael Oliver
Oliver Momentum Structural Analysis

Date Aired: June 20, 2021

Produced by:

Retirement Lifestyle Advocates
961 Four Mile Road, NW
Grand Rapids, MI 49544

Phone: (866) 921-3613
Email: info@plplanners.com
Website: www.RetirementLifestyleAdvocates.com

Dennis Tubbergen:

Welcome back to RLA radio. I'm your host, Dennis Tubbergen. Joining me once again on today's program is returning guest Michael Oliver. Longtime listeners may remember that Michael was a guest on the program about six months ago. He is the founder of Momentum Structural Analysis. His website is olivermsa.com. The website, again, is olivermsa.com. I'll give that website again before this segment is over. And Michael, welcome back to the program.

Michael Oliver:

Good to be back Dennis.

Dennis Tubbergen:

So, Michael, let's talk a bit about your work. When we talked six months ago, I was fascinated by the fact that you really take into account something that not many analysts do. And that is the fact that all these markets are measured in fiat currencies, and that value is not constant. Can you expand on that?

Michael Oliver:

Sure. Well, we knew that decades ago, when we started MSA. I'd been a futures broker since 1975, when gold got legalized. I worked for the EF Hutton's commodity division in New York, their headquarters. And I was a gold specialist. And I got out of the futures side in '92, because I was solicited by a major bank in the United States, who heard about my work and suggested that I provide it to them, in research form. And I agreed. And I shifted over to analysis of markets. So all four asset categories, the debt markets, stock market, commodity markets, and currencies. And I provided research to institutions up to about 2015. And then we expanded to open to all investors who might want to subscribe, and individuals and so forth.

Michael Oliver:

Our methodology is based on that premise that you just said. One, when you look to the left on your stock chart that you're following, or a commodity, or whatever you're looking at, there's a price. Well, that price is a swinging variable. Sometimes it could be fairly stable. But in last 50 years in the United States, for example, the M2 money supply has advanced. Has grown in quantity every decade by almost double. Actually 90 some odd percent increase. Every decade. Even good times, bad times, it almost doubles every decade. So factor that into the... Let's say you own a stock at 30 bucks, and two years later it's 35. You think you're making money? On a percentage basis, yeah, nominally, measured by the euro or the dollar, whatever your unit of measure is, the numbers going up.

Michael Oliver:

But you're really not making money. Especially now in the current environment, where monetary expansion has gone totally off the page. And it's a policy in effect. And I doubt it's going to change despite all this bantering back and forth that it might. Which means that the money unit you're measuring your assets by, you've got to factor that in. In fact, Ray Dalio, who's not a gold bug, major asset manager, major hedge fund manager, said several months ago, he says, "Investors pay less attention to the price of their stock than they need to pay. They need to pay more attention to the value of their money." He meant the degradation of the money unit by monetary expansion.

Michael Oliver:

So even he is recognizing that it's a distorted way to measure things. Well, how do you get around that? You can't totally get around it. So what we did is this. Instead of just looking at a price chart, which everybody does, of course, we measure price and its relationship to certain means or averages. Long-term average on down to short term, but especially emphasis on longer term. Why do we do that? Well, if you run a moving average, let's say a 36 month average, like a three-year average, of let's say a stock. That 36 month average changes primarily by the dynamics of the underlying stock. In other words, if the stock is going up sharply, then that average is going to start going up sharply as well. And the rate of change in that average, the thing you were measuring against, will reflect more the actions of the stock than it will just the money unit on the left side of the price scale.

Michael Oliver:

So yes, price is still a factor, obviously. But we've diluted it by measuring against a mean. And when we measure a market product, just like a price chart, you measure it versus a moving average. You're not just laying the moving average over the price chart, like everybody does. You can see it in the Wall Street Journal, for example. They have the Dow, NASDAQ, S&P, and they have the 65 day and the 200 day averages. What we do is we oscillate it in relationship to, let's say, a 36 month average, or a three quarter average, meaning where is this month's high price in its relationship to that, let's say, three quarter moving average. It's X number of percent above. Where's this month's low? We plot it accordingly. So we end up with a chart that looks like a price chart. But it's reflective of the changes in the stock, in its relation to its own means, its own averages. So we get a different visual technical picture. Hope that wasn't too complicated.

Michael Oliver:

So when you look at a price chart, you see one thing. When you look at the price converted to a momentum chart, you see other things. Often you will see clearer trends. You'll see levels that you don't want to break below if you own the stock. Because the momentum is breaking down through something. And it might not even show up when you look at the price chart. So price, everybody's looking at. Means if everybody does it, it's got to be wrong, right?

Dennis Tubbergen:

Exactly.

Michael Oliver:

But when you look at momentum, it gives you a different visual picture, and it usually will warn you. I would say 90% of the time, it's going to warn you ahead of time of trend changes of significance that might be about to occur in the underlying asset. So that's the explanation of what we do, and how we sort of avoid, to some extent, as much as we can, measuring simply by a fiat currency.

Dennis Tubbergen:

Well, my guest today is Mr. Michael Oliver. He is the founder of Momentum Structural Analysis. The website is olivermsa.com. And you know, Michael, as you were talking, I was reminded of an article that a past guest here on the program, Allister McCloud, wrote this past week. And I don't recall the exact numbers. But his point was really much the same as the point you just made. That really, since the US dollar became a fiat currency back in 1971, much of the gains in the overall stock indices can be attributed just to the devaluation of the currency, rather than companies growing their earnings and strong fundamentals. Would you agree with that?

Michael Oliver:

Yes, I would. But it doesn't fall evenly in all markets, at all times, that factor. What really is a dominant factor, in our view, is investor preferences. And those change over time. And sometimes they're herd like, excessively bullish. Sometimes they moderate. Sometimes they're excessively bearish. But investor preference shifts occur constantly. Now they don't occur every other day. But I'm talking about over a period of 10 or 20 years, you can often look at charts of, let's say, the S&P 500. And look at the same time back in the... Let's say, the early to late 1970s to 1980, where the stock market went literally sideways. It was a wasteland. Up and down, up and down, but went nowhere. While commodities, as an asset category, and gold led it, soared. Okay. So at that period of time, with monetary inflation coming. And it in fact came big time, in late 1970s. Less big time than now, by the way. The investor shifted their preference to commodity related assets. And they were right.

Michael Oliver:

And then that shift went away. Now, for example, let's go back to 2011. Both the S&P and gold were rising during that period of time. But gold was beating the S&P. But at that time, the investors liked both of them. But gold peaked in 2011. And what did it do between then 2015, '16? It dropped 50% almost. What did the S&P do? It continued to advance. Again, an investor preference shifts. We've had 12 years now, looking at S&P charts since early 2009, of basically vertical action. With some ledges and drops and so forth. But basically, an unusual length of time for the stock market to be rising so steeply. While commodities from 2011, at least through 2020, went sideways. Again, investor preference shift. We're now at a point where it's excessive. Where you can look at the S&P chart and see, yes, there's been a reward. But boy the risk has really increased.

Michael Oliver:

And a lot of asset managers realize that. And we're starting to see the evidence of them shifting portions of their assets under management into commodity, or commodity related, assets. Like let's say in agriculture, you don't want to buy soybeans, but you buy fertilizer stocks. They've done quite well. In the energy sector you don't buy oil futures, you buy oil related stocks, oil services, oil exploration, and so forth. They've done extremely well. And so that kind of shift is going on and we can measure it. You don't necessarily see it overtly on the price charts. Because that S&P's still making new highs. But if you'll notice, it's slowing, slowing dramatically. Over the last several months in particular. Whereas commodities are definitely soaring. So we think we're in the early phase, let's say in the first year right now, of the shift toward commodities, and out of stocks. And we think that'll be a little more obvious, especially when we get into next quarter, in terms of seeing the stock market go down and the commodities not reflect that.

Dennis Tubbergen:

So, Mike, I'm just curious if you analyzed the US dollar in and of itself? And what's your opinion as to how this excessive money creation ends? Or does it take a reset type event in your view?

Michael Oliver:

Yeah, we're looking for a reset. But we're looking for one that's not incremental. In other words, we're looking for something in the chaos theorists would appreciate. And that is that a lot of trends go from A to Z, top of the page to bottom of the page, or bottom to the top, either way, in an incremental measured way. We think that it started that way. Upside in commodities, for example, or downside in the dollar. But it will, if we reach a crisis, which we think we will probably in the next year and a half, I'm not looking out at five years.

Michael Oliver:

I think we're going to get it faster than people think. Where a lot of events that were going to go from A to Z will do it more rapidly than anybody thought. And the dollar is one of those. Because if you look at a dollar chart, dollar index, for example. Or you can do the same with the euro. Go back about 10 years, and you'll find on the euro that there were a couple of lows at around a $1.23 level. Then you broke down below that. And then you spent the last five or so years bumping up against that level from the underside. So there's a balance point on the euro around at $1.23. If you can clear... Right now, we're above $1.21. If you can clear $1.23, we think euro's going to soar out of this hole, not just crawl out of it. Reverse it for the dollar.

Michael Oliver:

If you look at a Dollar Index chart, go back to 1990, you can draw a line across highs that existed back then, at around the 89 level. Dollar index again. Well, where have the lows been the last few years? 88 and change, and 89 and change. So we're trying to hold around where those old highs were. It's our view, and the Dollar Index right now is just above 90, if you trade 89 on the cash dollar index, we think it will slump right on through this stuff.

Michael Oliver:

And if you look at those two currencies, the two major currencies in the world, they have been extremely sedate and quiet for, since at least 2015. Dollar's been stuck in about 11% range up and down, up and down. That is extremely narrow for that period of time. Same with the euro. What I'm saying is that this major asset class category, foreign exchange, the major currencies, have been extremely quiet. And you know what they say, you've got to watch out for the quiet one. The guy in the corner, okay. These guys, if they hit those numbers, $1.23 on the euro above, 89 on the Dollar Index below, they're going to speed up. And suddenly you're going to inject volatility into foreign exchange. Which will have wave effects on other asset categories.

Dennis Tubbergen:

Well, my guest today is Mr. Michael Oliver. He is the founder of Momentum Structural Analysis. I would encourage you to check out his work at olivermsa.com. The website again is olivermsa.com. And I'll continue my conversation with Michael when RLA radio returns.

Dennis Tubbergen:

Welcome back to RLA radio. I'm Dennis Tubbergen. My guest today is Mr. Michael Oliver. Michael is the founder of Momentum Structural Analysis. His website is olivermsa.com. The website again is olivermsa.com. And Oliver is O-L-I-V-E-R. So olivermsa.com. I'd encourage you to check it out. So Michael, we ended the last segment by you stating that you're really expecting a chaos event. So given that that is your outlook, in chaos, there's obviously losers. But there are also opportunities. So where do you see the opportunities moving ahead?

Michael Oliver:

Well, we, as far as the commodity category, which is, we think is the place to be connected. And we realize most investors don't buy futures. Okay. So you don't go directly to the commodity itself. There are stocks that reflect what commodities have been through for the last 10 years. Namely, a lot of downside pressure. And then just laying in the mud for five years at a low level. Not really collapsing much anymore, but just not going up.

Michael Oliver:

And back in November is basically when we pushed the green button on commodity and commodity related. And since then we've seen things like soy beans go from $9 to $16 and so forth. Copper, oil. We've got bullish on I at 40, it's now 72, et cetera. Well, rather than buying the commodity futures, there are stocks that are related obviously. Like in the gold area, with gold and silver, you have gold and silver miners. Which we emphasize, by the way, over the metals, in terms of likely outperformance. In the, let's say, the grain area, you look at fertilizer stocks. You could basically throw a dart at them and look at where they were about six to nine months ago, and look at where they are now. Dramatic move. But it's just the beginning.

Michael Oliver:

Let's say in oil, you don't want to buy oil futures. Well, look at some of the oil related stocks. And not necessarily the big names like Exxon. But oil exploration, ETF is oil and gas exploration. XOP is an ETF containing stocks related to the oil sector. Or OIH is oil services ETF. Those symbols, since we got bullish, have basically doubled in the last six, seven months. And it's only the beginning. Because if you look at their charts, even just the price chart, you can see that, gee, it was a double. But they're still at the bottom end of their historic pages of price, going back a decade or so. So we've got a long way to go. And we don't think it's temporary. This is a popular term applied to inflation now. It is partly an effect of fed monetary policy seeking a new place to go. All that money has to go somewhere.

Michael Oliver:

And an effect of the asset managers, again, preferring not to put it so much into things that have already gone up for a dozen years. But things that have gone down for 6, 7, 8 years, that are cheap and aren't going to zero. So you're getting an investor preference shift there. But it's been herd like in the commodity. So it's not exactly a fundamental of a given market that caused oil to go up, let's say. Or copper to go up. I know a lot of people, there's a Wall Street Journal article today, talking about how the green movement, and the direction thereof, might cause oil supplies to be tight. We can understand that. But it's so coincident that they all turned at the same time, basically when Powell pushed the button. So it's a category change in trend. And you want to look at stocks that are related to these commodities.

Michael Oliver:

The ones that I've listed. There's plenty more. In uranium, for example, is a futures contract. It's illiquid, can't even trade it. But there are a lot of uranium stocks that are doing quite well. And coming up off of, you know, effectively theoretical zero levels. So there's a lot of opportunities out there. But we emphasize that, while all those things are turning up, and freshly so, you can pick and choose among those categories. But highly likely, when this is all over, when we reach that crisis point, the better performers will have been gold and silver miners. Then gold and silver. And then the rest of the commodity complex behind that. This was also true back in the late 1970s, 1980 bull market. Commodities soared, but gold outpaced them, and gold lead them. So I think it's a monetary event, primarily, that's driving this situation. It's not so much the "tight supplies in the commodities".

Michael Oliver:

Yes, that's true in many cases. But it's really a monetary event. And we don't think it's going to go away. Why do we not think the fed is going to taper in any sincere way? Stock market. That's an asset category that they want to defend. Ben Bernanki wrote a paper on it in 2003, 'Why the Fed should view the stock market as a policy intent to continue to keep it looking good". Why? Because he said, we need people to spend, not save. And when they spend, it helps the economy get better, he said. And we need to encourage that by helping the stock market. So, though it's not listed in their list of job descriptions, it is a focus point. Well, the stock market has not been a problem for them, at least for the last nine months. It was during March of last year. But since then it's gone vertical.

Michael Oliver:

So it's not been a negative factor that they've had to deal with. It's our view that the stock market is highly likely making a top right now. And it, by some time probably in the early part of next quarter, it will become more evident. If that becomes a factor on the downside, then the fed will have even more pressure at its back to maintain the monetary policy it's got now. Because they'll need to defend the stock market. And so that's one reason we don't think that tapering is going to happen. You might hear talk of it, but I don't think it'll actually go into effect, if we're correct on the stock market. And I think we are.

Dennis Tubbergen:

Well, and Michael, when you look at the talk that's going on now, there is some talk that some members of the federal reserve board are out there saying that, Hey, we need, we do need to taper. But you know, assuming that that doesn't happen. And I would agree with that. What's your forecast for stocks? How low do you think stocks go? And will the fed be able to intervene at some point successfully?

Michael Oliver:

Well, their type of intervention now, the bank of Japan is different. They literally buy ETFs and stocks. And of course the Fed's been doing that too, as well. They've been buying junk bond, corporate junk bond, ETFs last year. And I don't know whether they're still doing it, but they were outright buyers in the market. But I think it will cause them to maintain their policy of easy money. Because if they threaten to tighten because of commodities rising, that will spook the stock market.

Michael Oliver:

And another sector we're watching closely is the bank sector. It's not a high topic of conversation right now. Tech has been. And other areas, healthcare stocks, and so forth. But the bank sector is extremely weak on a relative basis to the S&P. If you go back 10 or so years, you'll see that banks collapsed in the 2008, 2009 debacle. They dropped in relative performance by an enormous amount. And when they hit the 2009 low, just as the markets turned up in price, that relative performance of banks stabilized. But it stabilized almost flat line to the side.

Michael Oliver:

And then two times since then, we've taken out the 2009 low of the relative performance, now I'm talking about. Not the price lows. Of how banks as a sector stand versus the S&P. We collapsed the bank spread versus the S&P over the last six months. And to new lows below that of 2009, meaning the relative ranking of banks as a percent of the price of the S&P is far lower than it was in 2009. What does that say? So we're keen on watching the bank sector, which is not a real hot topic right now, but it's looking very weak.

Michael Oliver:

In fact, it's been weak this month, pretty much. While the S&P has gone up. So we're watching the stock market out of our side mirrors. Because we know if it topples, and I don't mean it drops 30% in three weeks, a crash like event, I don't think that's going to happen. Most bear markets, when they unfold, they unfold in a layered, steady, declining manner, where there is no crash. The only time we ever began a bear market in the U.S. with a crash was 1929. No other bear market began that way, or even produced a crash during the process. We got close to one late in 2008. But that really wasn't of crash dimensions. But we're looking for a layered decline. But the kind of thing that would turn the Fed's head. For instance, if you get the S&P 10 or 15% off its high, even if you do it fairly quietly, that's going to start to spook people. And the fed, too. So that's what we'd be watching.

Dennis Tubbergen:

So Michael, last question for you. You mentioned that it was your view that gold and silver will probably outperform any other commodity if we want to talk about gold and silver as commodities. What's your preference between gold and silver? Do you have one?

Michael Oliver:

Yes, I do. Silver has vastly underperformed gold since the 2011 high, when silver was up near 50 for the second time in its history. It was there in 1980. And gold was at 1911. And they both turned down, gold turned down short of 50%. And silver turned down much more. Went down to 10, 11 bucks at one point. So on a relative performance spaces, it has underperformed. But that changed last summer, when silver broke out via our annual momentum structures, it broke out to the upside last July, at a price of $19.48 cents. Within three weeks, it was $10 above there. There was a 50% gain in three weeks, when it broke out. Well, at that point that its priced surged, its spread relationship to gold also broke out, breaking the backbone of its downtrend and performance that had been underway since 2011.

Michael Oliver:

So now silver is an outperformer to gold when you measure month to month and so forth. Don't pay attention day to day. But we think it will continue to be an outperformer. And we also think that when you look at the miners, gold or silver, you probably would do better buying a bunch of silver miners, as opposed to gold miners, on a percentage gain basis. We think silvers have actually undervalued. And our bet is the following. If silver comes up out of this recent range of action, which has basically been $29 on down, it spiked up over 30 briefly, 29 to 22, between last summer's high and the low in September last year. Right now we're trading either side of 28. Come out of this range, and we think it's going to do it soon, and get it back up above 30, that it's going to move rapidly toward those old two highs it made in 1980, and in 2011, it was 50 bucks.

Michael Oliver:

That will be the third time. If it gets there, it'll be the third time it's been there in history. We think that is going to be a triple top breakout. And we think silver will gain value such that it reflects what gold has done over the last 40 years or so. Where gold, at each of its peaks, makes new highs. If silver would reflect gold, even at its current value, such that it was reflecting what was going on back in the mid 1970s, silver be about $200 an ounce right now. And it wouldn't surprise us that we go there. And then, if we go there, we go there rapidly. Look at a Bitcoin chart, for example. Between mid year last year, and January, February of this year. So at a hundred percentage gain it. It wouldn't shock us that silver becomes the next over the next nine to 12 months, the next Bitcoin, in terms of upside panic. So we'd emphasize silver.

Dennis Tubbergen:

Well, we're going to have to leave it there, according to the clock. My guest today has been Mr. Michael Oliver. He is the founder of Momentum Structural Analysis. I would encourage you to check out his work. I've been fascinated by it since I met Michael. The website is olivermsa.com. The website again is olivermsa.com. And Michael, thanks for joining us on today's program. And love to have you back down the road. And very much enjoy your work and your perspective.

Michael Oliver:

Thank you much, Dennis. We'll see you then.

Dennis Tubbergen:

Yeah. We will return after these words.