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 returning guest Mr. Michael Oliver. Many of you will recognize Mr. Oliver as the founder of Momentum Structural Analysis. The firm has been around for 30 years. They have a lot of institutional subscribers, although more recently starting in 2016, they are also working with retail investors. And his approach to Analyzing markets is extremely unique and extremely effective. So, Michael, it's a pleasure to welcome you back to the program.

Michael Oliver:

Great to be back Dennis.

Dennis Tubbergen:

Michael, just for our new listeners that may not be familiar with your work, could you talk a little bit about what motivated you to found Momentum Structural Analysis? By the way, I don't think I mentioned the website for the listeners. It's olivermsa.com. But what motivated you to found the firm, and what makes your approach unique?

Michael Oliver:

Well, I originally started in the industry, so-called, in 1975 when gold was legalized for trading in the U.S., on the COMEX in New York. It was January '75. I got hired by EF Hutton, which then was headquartered down in Lower Manhattan near the COMEX headquarters actually, which was on Broad Street at the time. In the international commodity division. They were at that time the second-biggest commodity firm in the world. Yeah, but it doesn't exist anymore. Good old firm. Anyway, I printed... I didn't know anything about... I knew a lot about gold fundamentally and especially philosophically. Meaning, it's been money for thousands of years and hundreds of different countries, and it's a stable form of human interaction, a trading unit for human beings to interact with each other. And they can sort of count on its reliability of holding its value. Very important.

So philosophically, I was a gold bug. My political background, I'm a writer also of libertarian ideas. But anyway, so I got hired by Hutton, and I didn't know a darn thing about technical analysis. My boss was David Johnston, who was also the chairman of the COMEX. He was also head of Hutton's commodity division. So, he showed me how to do price chart analysis, the simple bar charts and draw lines on them and all that kind of stuff. For years I worked with that, but later on, I caught the crash in 1987. I caught it via momentum analysis that I constructed, where I plotted the price action of

the S&P in its relationship to an oscillator. In other words, to a given moving average. In that case, a three-quarter moving average. And I caught the crash.

After catching it I said, "You know what? I need to work more on this method because this is something good here." I caught it early on before anybody could see it on the price charts, to see what was cooking. Anyway, in 1992, we started MSA at the request of a major large bank asking for our research to be provided to them. At that point, it'd be 1992, so 31 years ago.

And we provide analysis in all four major asset categories, the bond markets, stock markets, foreign exchange and commodities, with an emphasis on gold and silver. So, we're looking at all the big tectonic plates that are moving around. We're not just blindfolded looking at gold or blindfolded looking at the stock market. These markets quite often, and especially now in this investment period; they are banging into each other and having implications for one another. Sometimes coincident with the trend, let's say, of gold or often opposite to it.

So, we see... If you're interested in gold, which is our primary focus right now, we think it's about to rise and ascend again in a way that heads will turn. You have to look at the other markets because they tell you what's going on, and they tell you what the money movement is going to be, and especially what is Fed policy going to be. We have some major macro ideas on that that fit with our technicals. Let me put it this way, I think 2024 and 2025, quite possibly 2024 with an exclamation mark there, are going to be years of massive price and market movements that will both benefit and hurt people, if you're on the wrong side of a given market. I think all of these things are going to coalesce to this coming year in a way that turns heads.

Dennis Tubbergen:

Michael, just if you could, before we get into the detail... And if you're just joining me, I'm chatting with Michael Oliver, he is the founder of Momentum Structural Analysis. The website is olivermsa.com. Give me your take on just the health of... Let's focus on the U.S. economy. Are we in recession in your view?

Michael Oliver:

No. No, we're not, but we're going to be. Here's the background context that is rarely discussed on financial TV shows. We have the biggest paper stock market bubble in U.S. history, legit ran between 2009 low and the 2021 highs. Basically, most indices are still trading at or well below some of cases, the 2021 price highs. Okay. Forgetting that, it was a dozen year bull market, which is three times the length of almost any BullMarket.com, the 2002 to 2007 bull market that was a lot of real estate in thereout of the early 1920s to 1929. So the duration of the bull market was much longer. Two, the dimensionality of the move was far greater. Most of those prior bull markets were doubles, triples, possibly from measuring from a bear low to a bull high. Ours was sevenfold for the S&P, sixteenfold for the Nasdaq-100.

Now, you could say, "Well, the good economy was strong." Well, if you look at... We won't see the causal factors. Get an M2 chart from the Federal Reserve of St. Louis. You can get it online. Look what M2 has done decade by bloody decade since the 1950s. It's basically doubled every decade and especially in the last decade, especially over the last several years, for example. During the COVID period, there was a massive acceleration. Also, look at a Fed Funds Rate chart, meaning the rate that the Federal Reserve sets short-term rates at. You'll see it dropped to theoretical zero and laid there for a decade. Meaning, think about it from a fundamental point of view. You're a family making a financial decision. Let's say, sell your house and build a bigger one. Okay. Two, you're a small company, a family-run business, or you're a large corporation. And you're trying to decide whether to expand your floor space, hire more workers, add a new product, et cetera, et cetera. Or your municipal government or state government is going to build a highway system, et cetera, et cetera.

One of the key factors that you must process in that decision-making process, is what is the price of money? It's a fundamental plank of any financial decision, families on up. We've been deluded for a dozen years as to what the price of money is because the central bank priced it at theoretical zero, way below any market reality. Therefore, decisions were made over that dozen-year period. Not just a few years of error, but a dozen years of error. People making decisions to commit money, to make commitments in production facilities, et cetera, et cetera, that were based on a false prime underlying premise, the cost of money. Now suddenly, things have changed and more or less the bandages ripped off. The errors will be exposed on a micro level and a macro level, and I suspect that we're going to see that especially show up in 2024, where the data points definitely hit.

Dennis Tubbergen:

Michael, in the time we have left in this segment about four minutes or so, as we now move into recession, and you mentioned... It really jumped out at me that this stock market bubble was being 12 years, and we were up sevenfold in the S&P. I think you said sixteenfold in the Nasdaq. Those are remarkable numbers. Where do you see stocks going over this coming correction, and do you have any clues as far as timing goes?

Michael Oliver:

Yes. Right now, we've been laboring. We call the top in January of 2022. At that point, the S&P was coming off of a peak just above 4,800. Now, we're up to 4,700 again. The Nasdaq-100 was dropping off of most indices, and sectors were coming off of major peaks at that point. They dropped hard into 2022. We predefined the nature of the first phase of the bear market as being arm wrestling. Sure enough, it's been arm-wrestling. Whereas if you got out when we said get out, you're basically still smiling because it is only now coming back up to around the levels where we said get out. So, you haven't missed anything. Now, if you got short at the lows, you're hurting. But if you basically exited when we said to, then you missed this turmoil. We think the next phase is about to commence into this rally when it rolls over. It won't take much roll over from right now.

Let's talk S&P for example. Now caution though, S&P is extremely distorted index. It's composed primarily of handful, especially three major over weighted stock symbols such that they call it the S&P 500, but they really should call it the S&P 5. Okay? It's being distorted by the actions primarily of Apple and Microsoft, which made new highs recently. Marginal, very marginal. And then wobble back off. Most of the stocks in the S&P 500 aren't near their all-time highs. So, it's a distorted index. But even using it, right now we're trading at 4,700 area. I can broadly state, and we have specific numbers for our subscribers, that you do not want to see that index, if you're long and comfy and believe in the soft-landing nonsense. You do not want to see that index drop back about six or 7% anytime next year. You don't want to see it get down much under 4,400 at this point.

If you do, we're going to start to trigger some of our major... Re-trigger, excuse me, some of our major negative momentum-based metrics back into a status that says, "Okay, the game playing is over, bear market back on again." Now this is the way the market top by the way. In 2000 and in 2007, the laborious up/down action, the kind that comforted the bulls, it was really topping action. We're getting that now. It's even more protracted. It's almost two years wide, but again, this is a much older bull market, much

bigger, so this topping process takes longer. But if you roll back to about 4,400 in the S&P, which is no big deal, that doesn't even take out the low we made a few months ago at 4,100. The whole structure is going to move back down in a way that will become noticeable.

And at that point, you're going to start to get the data points, so-called, that the Fed likes to talk about. But the real data point that's panicked the Fed right now is the fact that their T-bond market crashed this past summer into the fall. It didn't just go down, it crashed in price, meaning yields exploded. It did it in the manner that looked more like Japanese government bonds. In other words, they were out of control. That panicked the Fed and the treasury probably more than anything out there. Data points don't matter if that market gets into that sort of illiquidity and can collapse in the manner of which it did. Now it's V-bottomed, and we expected that. We call the collapse, and we call the upturn. The upturn though is not going to be sustainable. It's going to be nice and enjoyable.

Rates will drop a bit, but the long-term trend of T-bonds is down in price, up in yields. Right now, we're getting a counter-trend rally. I suspect the rally was largely sponsored by Fed in the dark buying of their own bonds to support the illiquid market. I think that that to some extent is helping the stock market. They think, "Oh, boy, the Fed's going to keep rates lower forever." Go back and look at all the tops. S&P 2000, 2001 and 2007, what precipitated the collapse the first time the Fed went from higher rate process to cutting rates? In fact, in 2007, if you shorted three weeks after the Fed began to cut rates, which was in September of 2007, in October, the next month, you piqued the market and the bear market commenced. So other words, when the Fed starts to decide to soften, and I think the T-bond market has panicked them into that mode, that has actually been historically bearish for the stock market. Meaning, the Fed is scared. Something's wrong.

Dennis Tubbergen:

Well, Michael, the clock says we need to leave it there for segment one. My guest today is Mr. Michael Oliver, the founder of Momentum Structural Analysis. The website's olivermsa.com. I'll continue my conversation with Michael Oliver when RLA Radio returns. Stay with us.

I'm Dennis Tubbergen. You are listening to RLA Radio. My guest on today's program is Mr. Michael Oliver. Michael is the founder of Momentum Structural Analysis. They were founded back in 1992. They have been serving institutional investors for that entire time. In 2016, they also started

to work with retail investors. I find his work fascinating. I follow it. I would encourage you to do the same. Go to olivermsa.com to learn more. So Michael, in the last segment you suggested that stocks here are topping. Do you want to be so bold as to make a forecast as to what kind of correction we might see here in your view?

Michael Oliver:

I don't think it'll be a correction. I think it'll be a major bear market. Most bear markets in the U.S. going back to '29 even others... You peaked in late '29. You had a secondary major rally under 1930, and then the real bear started, so it lasted a couple of years. But it was a wipeout. It was like an 80% collapse. The dot-com bear from 2000 to 2002, at least for the Nasdaq, which representative the dot-com stocks is like an 80% collapse. I don't think the issue is... And it's not a correction. It's a bear market. If you go down, I think the major issue is the consequence on the street to the average person, even one not even involved in the stock market. If you recall in 2008 and '09, the pain on the street, and I'm talking even non-stockholders was great. Unemployment, all kinds of factors like that were hurting people.

This time around, I think we'll see that as well. I think there's another variable out there that nobody talks about on financial TV, and I do not know why, and that is the political variable. I'm not arguing on either side. I'm just saying that there is no outcome to the 2024 election that will be copacetic. None. Doesn't matter who wins. You're going to have such terms as secession come up. You're probably going to have street violence, either side wins. Now, there's been a lot of talk among liberal commentators that Trump is a dictator, and we should treat him as such. There have been polls done by University of Virginia Center of Politics, both of Democrats and Republicans showing that the outcome of the election will not be copacetic. We're not going to have a normal... Well, we lost. We'll hug you on the shoulders and work with you over the next four years.

That's not going to be the outcome, but that's not discussed as a variable that's going to upset notions of stability. I think that's going to come into play over the next few months when people are going to start to realize that not only are we a divided "nation," quote, unquote. But the consequence is not going to be ordinary. So that's a variable I can't define except to know that it's coming. So far, it's not talked about, which is great because that means it'll ambush people when it does come. But the bear market in 1932 for example, which was massive, it took two decades and another year, 1953, before you could get the Dow back up to where it had been in 1929. That's major. Go ahead.

Dennis Tubbergen:

Yeah. So, you're forecasting this major bear market in stocks and at the same time you said that you think the trend in U.S. treasuries is down. Traditionally, when you see a big stock market crash, treasuries are often a safe haven. Do you see it being different this time around?

Michael Oliver:

No, I don't think it will be. I think the 60/40 portfolio notion, 60% stocks, 40% bonds was smashed to the ground last year. 2022, we saw the S&P down 20 some percent for the year. Nasdaq-100 at 30 something percent, T-bonds down over 30% in price now, higher yields. At the same time, I do not think the bear market that comes in stocks will necessarily entail anything you could call a crash. Crash being something on the order of 30 plus percent in a matter of a few weeks. Those are rare to happen. It happened early in the '29, '32 bear market, but then the rest of the bear market that really wiped out the Dow then was arduous arm wrestling all the way down, never a crash.

The 2000 to 2002 bear market and the S&P and so forth, look at their charts, there was never a crash. It was a wipeout. In other words, it was never of that dimension and that speed. So I don't think a crash is the appropriate term here. I don't think that... That's a remote possibility at best. But the T-bonds are technically broken. By that, I mean price to the downside, the yields going up. You looked at a yield chart of T-bonds going back, let's say, several decades. You would see there was a big downtrend in the yields. Or if you look at price, it'd be the opposite of rise in price. And then when they broke down, both of those charts, even price related charts, broke massive trend lines to go back decades. We think those were valid breakouts. And the thing you're having right now in bonds with the drop in yields, the rise in price is what we call a counter trend rally.

In other words, you don't just go from A to Z without one fell swoop. Usually, there are counter trend moves in any bull trend or bear trend. Right now in T-bonds, what we're getting I think is a counter trend rally, meaning a dip in yields. In what is a longer term, rise in yields, drop in price. I think that the stock market and the bond market as they did in 2022, were both highly negative. That leaves big portfolio managers and investors with a real quandary. If the 60/40 rule doesn't work and bonds don't balance out the stock market, where do you go? I think a lot of them right now are starting to move into gold and gold related.

Dennis Tubbergen:

Well, Michael, that's where I was going to go next. I wanted to; in the time we have left. And if you're just joining me, I'm chatting today with Mr. Michael Oliver. He is the founder of Momentum Structural Analysis. The website is olivermsa.com. So, Michael, that has to be bullish for gold, for precious metals, maybe commodities. What's your take there?

Michael Oliver:

Yes, absolutely. There's a point to be made by gold, even just looking at a silly price chart. And we look at momentum first. We turned bullish on gold after being bearish, by the way, in early 2012. Just off the high. We stayed bearish through 2015, turned bullish February 2016 at a price of 1,140. Nothing has altered our long-term bullish view since early 2016. Despite many, 10 and even 20% pullbacks in gold, the ongoing uptrend is intact. But even if you just look at a price chart of gold over the last three years, how come it keeps going back up to its highs? That's not the way a market tops, and it's never been the way gold tops. Gold always creates an isolated peak, can never get back to it in the bear market followers. This time, we've come back over 2000, back over 2000, back over 2000.

Then again the fourth time, 2100. Even right now, we're trading about 2060. Why does it keep going back up to its highs? What does it know? Gold is a wise market. It's been around 3000 years. I think what it knows is that one, the central bank, which got tough on money here recently, is going to have to soften and go back to do what they were designed to do. And that is print, print, print whenever it's needed. With the bond market crash, forget the data points, they will fall in line for the Fed to soften. But the main issue for them, unstated because if they stated it would indicate panic, is the crash they just saw in their precious bond market. That petrified them. They have to defend that market at all costs, meaning they have to buy it in the dark. They have to encourage their fellow banks to buy it in the dark.

I think they have. That's why we're seeing... part of the reason we're seeing this upturn recently in T-bond prices. I think that petrified them. I heard for example a portfolio guy, a manager the other day that I respect, Jeff Gundlach, essentially say the same thing in fundamentals. That the Fed is going to have to get really soft in a big way, that the events that are happening are not good. I think if you go back in history and look at the stock market peaks and see when the Fed cut rates, you'll see when Fed cuts rates, that is not bullish. Something scared them. I think we now have full indication that one, they're definitely not going to raise rates again. The only issue now is how rapidly and how sharply are they going to cut rates?

What has motivated them? I argue that T-bond crash was a major factor. Therefore, when they print money, who's the beneficiary? Gold and related.

Dennis Tubbergen:

So, Michael, what's your take for gold and, to the extent you're comfortable commenting, silver? What's your forecast there?

Michael Oliver:

Forecast is usually late in bull trends. Remember, this is an eight-year-old gold bull market. Bear low was in December 2015. We're now December 2023, so the market's got eight years of age. You go back and look at the history of gold markets for the last 50 years, from the early 1970 to 1980, gold went up eight to tenfold. From the $30 level to 850. From 2000, 2001, bear low is around 250. It went up to 1,920 in the next 10 years. Most of those bull market moves, much of the percentage gain occurred in the last year. We're already eight years old. If we even match the dimensionality, the ratio of those advances, which were both at minimum eightfold moves, gold would be $8,000. Now, you say, "Well, that's outlandish." Well, no, that's just doing what we've done twice before in the last 50 years.

We also have fundamental factors out there that are far more serious than any time the gold that a bull market before, serious in terms of propelling gold upward. So, we make the statement that we think, technically speaking now, that we're near that final phase in gold where the upside is horrendous, where it literally sucks up the money because other alternatives don't exist. I think that the prime beneficiary of that will be the two laggards to gold, which late in bull trends is particularly true with silver. If you look late in the bull trend, like in 1979 to 1980 peak, that's when silver went ballistic. It left gold in the dust. Go back to 2010 prior to the 2011 peak, silver exploded. So late in the bull trends... Again, we're eight years old already in the gold bull trend. That's when you see the somewhat overlooked silver and gold mining sector turn up in a way that outpaces gold vastly.

I suspect that is around the corner, where most people are disappointed by the pullback and the miners. And the way silver behaves compared to gold, that can change. It did in both prior bull markets, and I expect it this time as well. In which case, that package of monetary metals and related will go up. Gold right now seems to be leading, the mom of the market. But the children, the fitful little children, the silver and the miners are going to get it together in a way that will outpace gold. So that's where I'd be looking right now.

Dennis Tubbergen:

Well, the clock says we're going to have to leave it there. My guest today has been Mr. Michael Oliver. He is the founder of Momentum Structural Analysis. Check out his website at olivermsa.com. The website again is olivermsa.com. Michael, it is always a pleasure to catch up with you. Thank you for your insights. I get terrific feedback when you're on the program. Love to have you back down the road. So again, thank you for joining us.

Michael Oliver:

Thank you, Dennis.

Dennis Tubbergen:

We'll return after these words.