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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 returning guest Mr. Michael Oliver. Michael is the founder of MSA Structural Analysis, Momentum Structural Analysis. His website is olivermsa.com, and Michael, got great feedback last time you were on the program. I'm a big fan of your work and welcome back. Nice to have you here.

Michael Oliver:

Good to be back, Dennis. Thank you.

Dennis Tubbergen:

So Michael, for our listeners maybe that are not familiar with your work, I find it fascinating how you were ahead of the curve in adjusting for the devaluation of the US dollar in your work. Can you fill them in on how you got to do what you're doing today?

Michael Oliver:

Well, momentum is a term that's thrown around a lot in technical analysis, and usually it just means when something's going up big, it's got momentum. Okay. What we do is, we structurally break down momentum. In other words, rather than having a little loopy loop type indicator like RSI or MACD, it goes up and down, that kind of thing. We plot charts just like price chart is, except we plot bar charts in relationship to, meaning oscillated against, certain term or intermediate term moving averages. And what you get then when you do that is it's quite often a different picture than what you see when you look at the same price chart of a given market. And usually at tops or bottoms, momentum will turn first, and you'll see structure pending, meaning you'll see a four- or five-point uptrend line, or you'll see a triple bottom floor and you might not and probably won't even see that on a price chart.

So, momentum will generally inform you of something that's pending before it happens. In other words, a structure that could break and you don't want to break it if you're long, et cetera, et cetera. And we apply that to all the major asset categories and especially in this day and age, these huge icebergs or tectonic plates are bumping into each other. We have equities, especially the US stock market bubble. You've got the bond markets, you've got foreign exchange, and you've got commodities and especially gold into the monetary metals. So all these four categories are either inverse or in sync with each other, and therefore it's important not just to pay attention to one of them, if you're long gold, don't just look at gold. You've got to look

at other things that could impact gold with a firm gold, et cetera. And that's why we look broadly and it's a very interesting world we're in right now, I'll tell you that.

Dennis Tubbergen:

So Michael, maybe for again our listeners benefit, then we'll jump in and talk about some specifics, you have a rather long history in the financial industry. Can you give our listeners a bit of your background?

Michael Oliver:

Well, I joined EF Hutton as a futures broker in April of '75, 1975. Gold had been legalized in January, I started trading on the COMEX and it happened that the head of Hutton's commodity division in New York on Battery Park at the headquarters was also chairman of the COMEX. So, I apprenticed under him and he was a normal technician like everybody was back then. You plot your bar charts and by the way, you plotted them by hand back then. You didn't have Excel. And anyway, so I learned the normal orthodoxies of normal technical analysis, but I evolved away from that over time because I realized that when you look at a price chart, you're not just looking at the price of a given asset, you're looking at its valuation compared to a piece of fiat currency. Now if you plot something with it against the yen or plot something against the Euro or against the dollar, you might get a different picture.

And you've got to realize that ongoing, the central banks have always destroyed their money units in terms of the quantity available and therefore the real underlying value of the currency unit. Like in the US for example, since the late 1950s, just about every decade, the money supply has doubled, meaning decayed. Each dollar unit in your wallet isn't worth as much. When I was young, a loaf of bread was \$0.20 cents or \$0.18 cents. Okay, what is it now? Is that because we've got a wheat drought? No, of course not. It's the underlying decaying value of the money unit. So, when you plot things on a price chart, you're not just plotting the price of wheat or the price of gold or stock market, you're plotting it also versus a variable, not a normal yardstick that 36 inches is always 36 inches. Instead, it's the dollar and the dollar isn't of the same value one decade to another, or even one year to another.

And so, we thought we could step away from that at least partly by measuring the momentum of the dynamics of that given market. Yes, we're stuck with measuring it versus the dollar, but we measure it versus its own moving averages, which are either dynamic or dull depending on the market

itself. So, to some extent we take a half a step away from simple price chart analysis and it gives us that slightly different picture. And we argue and have I think demonstrated over 32 years of our reports that quite often momentum will lead price and show you things that price doesn't show you.

Dennis Tubbergen:

Well, I'm chatting today with Mr. Michael Oliver. He is the founder of Momentum Structural Analysis. His website is olivermsa.com. So, Michael, before we get into some of the specific markets that you analyze, what's your take on Fed policy moving ahead, rate cuts this year? How many? How do you see things playing out?

Michael Oliver:

Well, first off, you've got to realize if you're long stocks and applauding for or hopeful that they'll cut rates because you think that'll help the stock market, do your history, do your homework. Okay, back in 2000 top, market was topping into .com top. In January, first day of trading in January, 2001, not far off the high, the Fed cut rates, the market started to collapse. They cut rates all the way down to 2002. It didn't help a bit. 2007, the stock market was trying to top out, many of the key sectors like housing and banks were already weak, but the S&P was in September of 2007, was punching up toward its highs.

Fed cut rates in September, 2007 and market peaked four weeks later and that was the top and you collapsed all the way down through 2009, fed rate cuts all the way. So don't cheer rate cuts. What do we think about now? I think the Fed is scrambling and hoping for some data points that they can latch onto. Particularly they have the two mandates. One is the quote "inflation" as they falsely and narrowly define it. They don't mind inflated stock prices, but they do mind inflated corn prices.

Dennis Tubbergen:

That's a great point.

Michael Oliver:

They've got that mandate, but on the other hand, they have unemployment and that is correlated well to the stock market because when the stock market starts to head down from a major top, the data points follow it. Now their data points for the last six months or so have looked quote "good" and there's many economists scratching their heads saying, "Why does he say things look good? Because they're really not." Those data points show part-time jobs overtaking full-time. They show it in sectors like government,

hospitality, home care, not in the key industrial areas. So, I think the Fed wants to cut rates and I think they're looking for a data point that they can use. Why do they want to cut it?

One arena we're particularly watching is commercial real estate. We know there's a lot of debt problems there, and if that sector, if you'll look at a chart for example of RWR or VNQ, those are two major ETFs of the REIT, real estate investment trust market, they're laying in the bottom third of the price range of the last handful of years, not at the top end. They're not reflecting what the S&P is trying to say with its narrowly listed symbols. That's an area to watch because as it goes, banks will go. And banks look pretty anemic too. But there's another new variable that just hit the screen and it actually hasn't just hit the screen, but it's becoming more noticeable. That's the collapse of the yen. That is a major issue because of the yen, the Japanese are part of the club. Remember what happened to the Thai baht currency back in 1997 and 98?

People don't remember that much, but that caused the Fed to cut rates sharply in late 1998 when a panic hit based on the repercussions of the Thai baht collapse. Who cares about Thailand compared to Japan? But even that had wave effects across that part of the world, ultimately hitting Russia and caused the collapse of long-term capital management, a huge hedge fund in the US and that's what sparked Greenspan into a panic mode of three rate cuts in 1998. Right now, we have a collapsing yen, not a Thai baht. Get a chart, go back to 2011 and you'll see the drop. It's been a 53 or so percent drop. A lot of that's occurred in the last two years, and a lot of it's occurring in the recent months.

So, we have a currency that's out of control in the downside and it's part of the club. It can't be allowed to collapse because it will have repercussions. The Thai baht had wave effects like it had, imagine what the yen could have. So, one of the reasons for that is that our interest rate differential between the Japanese rate and ours, we have a much higher premium and therefore it's hurting the yen. That's the argument that most economists make, and I agree with it, and that's a factor that the Fed can act upon, namely cut our rates and therefore narrow that painful differential. That's not talked about, but I suspect that's a variable.

Dennis Tubbergen:

So, Michael, we've got just a couple of minutes left in this segment. Overall, how do you see US stock market indices moving ahead?

Michael Oliver:

Basically, we said in 2022 in January that if you're along the market from an investment grade point of view, be gone. The market dropped 25 to 30% depending on the index. It's taken over two years and it's finally come back. Now I say it has come back, I'm talking S&P and NASDAQ in particular, and nipped out the 2022 price size by, oh, the double-digit percentages. Okay, fine, 10, 15%, that kind of thing. So people think, "Oh, it's going up forever." This is the way tops have occurred in the US stock market. They've been arduous and taken a year or so. This one's taken several years because of the nature of the bull market preceded it is much greater in dimension percent wise and in duration. So, it takes longer to top the beast. But if you look at some of the underlying parts of the market like the Russell 2000 or look at it this year, for example, what's the year to date gain? S&P, NASDAQ, up in the teens year-to-date. Dow up three point something percent.

Wow, big deal. Russell 2000 up less than 1%. This is a market that these two indices, particularly NASDAQ 100 and S&P, are led by about four or five stock symbols. We know the names, the ones that everybody's watching, NVIDIA, Microsoft, Apple, et cetera, not by the breadth of those indices. So don't be distorted by what you think you see when you look at an S&P chart, and I think the Fed knows that, and I think once that market breaks and I think it's going to start to show breakage during this quarter, our technicals argue that if you sneeze even to the extent of three or 4% from where you are right now, you're going to start to get some breakage that people will notice. I'm not talking crash, but I'm talking something enough to smack people in the face. Again, you can't tolerate right now a three to 5% drop in the S&P and NASDAQ. If you do, you go in a lot further.

Dennis Tubbergen:

Well, my guest today is Mr. Michael Oliver. He is the founder of Momentum Structural Analysis. His website is olivermsa.com and I'll continue my conversation with Mr. Michael Oliver when RLA Radio returns, stay with us.

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me on today's program is Mr. Michael Oliver. He is the founder of Momentum Structural Analysis. He is a returning guest and we're chatting with Michael about his analysis of different markets and his take on the US economy. And Michael, let's just talk a little bit here about US treasuries. If the market is topping here, often US treasuries are a safe haven asset, how do you view US treasuries moving ahead and will they once again be a safe haven?

Michael Oliver:

Well, the treasuries, yes, that's a good point. They certainly weren't a safe haven in 2022. S&P down 20 something percent. NASDAQ down 30 something in treasuries down 35, I'm talking 30-year treasuries, long end of the market, the end that the Fed doesn't control well. Well of late, the treasuries have backed off again, and this is not because the Fed is keeping rate sites, because the long end of the market, they don't control, and that's the end of the market that could choke things like commercial real estate. And so, the Fed is a bit concerned. I have no doubt about the treasury market. The long end dated part. Also, if you look at, we mentioned the yen before, if you look at a yen chart last couple years particularly, and look at a T bond price chart, not a yield chart, you'll see they're quite a bit in sync.

There was the rally we had late last year in T bonds, you also had one in the yen. It's since rolled over. The Yen made a new lows. Treasury is not, but they're still under pressure, and I'm sure the Fed doesn't want to see that continue because that's what's helping choke the yen are high yields. So, to some extent it's out of control. Now, there are technicals above the T bond market, like T bonds right now are trading futures. We're talking 30-year futures, around 116 and a half. Last month, last quarter they got up above 120, meaning higher price, lower yields, but they've since dropped four points from last month's high. If you get back up there again and close a month out during this quarter, new quarter now July, August, Sep, our three-quarter average momentum charts say you're probably turning up, meaning yields will start to drop.

And I suspect in part that will be due to fed panic because maybe perhaps heavily weighted because of what the yin is doing and the potential damage it could do. Therefore, they have to act in some way. Also, if you're an asset manager, like you said, the normal 60/40 portfolio, 60% stocks, 40% bonds, while it was hell in 2022, it might be ripe again to be used. And if you go back and look at the 2000 top in the stock market and look at the 2007 top in the stock market, there were two markets that advanced after each of those stock market peaks and they advanced hand in hand, gold and T bonds together. They both rallied contrary to the stock market that declined.

So, if we're correct that the stock market is making a broad top, then it's quite possible that T bonds could become, as you said, the alternative again. They're certainly underpriced. So that could come into play. There are technicals that need to be triggered before we can pound the table on that, and you're not there right now. But frankly, if you go back up toward last quarter's price highs, again above 120 on the T bonds, and you close a

month out up in that area, that's a breakout for us and that suggests that yields are going to start to drop at least on the long end and probably due to some Fed panic.

Dennis Tubbergen:

So, Michael, you mentioned gold and T bonds both rallied after the stock market started to decline in 2007. What's your take presently on the gold market and to the extent you're comfortable, the silver market?

Michael Oliver:

Yeah, we think both which have been in advance, silver, more irregularly, but gold more regularly, since the 2015 low. Gold was \$1,050, it's now more than doubled. If you go back and look at its bull markets over the last 50 years, the bull markets have been eight and tenfold moves, from bare low to bull high, and often they take 10 years. 2000 low to the 2011 high with 11-year trend. So they're not something that happens in three years. Right now, we're entering the ninth year, so we're getting old in the gold bull market. But what happened in those prior bull markets is an acceleration phase late in the bull market where you might have arm wrestled your way up for multiple years, suddenly in the last year of that move, you go vertical, the market catches up to reality, and I think gold has now entered, and silver has now entered that phase where it's no longer arm wrestling.

We're about to enter the acceleration phase where suddenly it's a wet bar of soap situation. And I think silver will outperform gold during that process, and I think it's already started to do that. In fact, if you measure, for example, year to date where June close was two quarters into the year versus the December, close of last year, gold's up 12-plus percent silver's up 21.9. Yeah, silver might be irregular, but it's gaining versus gold now, it's regaining turf. So, on a performance basis, our preference in the monetary metals now is silver. I think the goldminers also are very undervalued and they're showing technical signs of wanting to catch up as well.

Dennis Tubbergen:

So Michael, when you're looking at mining shares relative to gold, do you see mining shares outperforming the metals themselves or how do you see that playing out moving ahead?

Michael Oliver:

Yeah. Well, one, we know they're vastly undervalued. And there's some major fund managers like Stanley Druckenmiller for example, back in mid-February made headlines, dumped a bunch of big name tech stocks and

bought some big name golds, including Newmont, the biggest gold miner out there. And if you look at the chart, then in mid-February, Newmont was trading \$31, \$32 bucks. It's trading \$42 right now, so not a bad percent gain since mid-February. He might've been chuckled at when he did that by other asset managers, but he beat the S&P from here during that time.

I think that that sector is vastly undervalued and even people who are not technicians can measure that. And our technical measurements of the spread relationship between gold and the miners, we use for example, GDX, which is a mixture of primarily gold miners, but also silver miners versus gold, and we measure that month to month the relationship between the two, and we're seeing evidence of upturn in the relative performance of the miners versus gold. And quite often this is the case late in those bold trends as well. Now I'm more positive on silver versus gold than I am the miners versus gold, but I do think miners will probably beat gold and in part because they're vastly undervalued on all kinds of measures, and I think other asset managers realize that.

Dennis Tubbergen:

So, Michael, you mentioned that past gold bull markets have been eight to tenfold moves. You think silver would outperform gold? Do you have a price target on silver or is that an unfair market?

Michael Oliver:

Nothing would shock me, and I'm quite serious about a couple hundred dollars silver would not shock me. Now you say, "Well, that's a silly notion." Okay, well, if you could run a spread chart of silver versus gold, pick out one month in every year, what is the highest month in the year where silver relationship to gold was the highest? If you go back 50 years, you're going to find that probably about a third of those years, silver was at least two and a half percent of the price of gold. Right now, silver's over 1% of the price of gold.

Well, if silver went to a normal two and a half percent the price of gold, even at current value that would put silverware where? We're \$2,300 gold, do to two and a half percent of that you're off the page. Now, if gold had an accelerated phase here like it did in the prior bull markets where in the last year of the move was ballistic, relatively speaking, and you went to let's say \$8,000, which is to replicate the dimensions of the prior bull markets on a ratio basis, silver would be a couple hundred dollars if it's just back to its norm of two point half percent of the price of gold.

So, I'm not putting out a target there. I'm just saying look at the realities of the last 50 years, the relationship between silver and gold, where has it been? It's not uncommon for silver to be two, two and a half, even 3% the price of gold, and I think it's headed in that direction now.

Dennis Tubbergen:

Interesting. I'm chatting today again with Mr. Michael Oliver. His website is olivermsa.com. I'd encourage you to check it out. Michael, I read recently that the relationship between commodities in general and stocks in general is at the lowest point in 50 years.

Michael Oliver:

Yes.

Dennis Tubbergen:

Does that mean that we're going to see this big bull run in commodities in general moving ahead?

Michael Oliver:

I think we will, because one of the prime factors of any asset class movement, unfortunately, is the central bank and what they do to money. And if they go into a panic mode again because their stock market starts to break, and because commercial real estate is in jeopardy and there's consequences there, they start putting out the fire with monetary excess, which is what they always do, and I'm not talking just the Fed, I'm talking ECB and BOJ, et cetera, then that money goes somewhere. And asset managers don't always put the money, the river flow where the Fed wants it to go, as they did in 2001 to 2002, it didn't go into stocks, 2007 to 2009 it didn't go into stocks. The money flow went into bonds and gold and commodities to some extent. Go back and look at the late 70s also. That's when we had stagflation.

At that point commodities joined gold. They were lagged to gold. They are now too, but I think the commodities are showing a birth last quarter, and I think you'll see more this quarter where they're turning up again and starting another up leg, much like we saw from late 2020 to early 2022, where the Bloomberg Commodity Index doubled. Now also look at the historical price level of the Bloomberg Commodity Index. It's trading what, just above a hundred right now. You go back and look at it's 2008 high, it was \$270-something I think it was, or \$238, excuse me, and I think it was \$170-something in 2011. So, it's hardly overpriced historically speaking. So, commodities are not high-priced. Yes, they're up from where they were at

their depths in 2020. So, the percent gain is pretty good, but they're still very cheap and they're showing the technicals to us both on the Bloomberg and also some of the key components that they're wanting to turn up again. In which case this time they'll join gold. Gold's already in the upside.

Dennis Tubbergen:

Well, my guest today has been Mr. Michael Oliver. His website is olivermsa.com. I'd encourage you to check it out. I'm a big fan of Michael's work. I follow up regularly and encourage you to do the same. Michael, thank you for joining us on today's program. Love to have you back down the road, and always appreciate you taking time out of your very busy schedule to join us.

Michael Oliver:

Thank you, Dennis, very much.

Dennis Tubbergen:

We will return after these words.