MSA

September 1, 2022

Gold: Bearish conviction based on price, or not?—MSA suggests the latter

This report confronts a couple major issues for investors. First, the consensus among many gold investors, particularly smaller investors, is that “It’s no good! It’s going to collapse!” Much of that is based on the widely popular but false assumption that you can’t fight the Fed.

MSA does not operate on popular “wisdoms,” nor does MSA put price out front as the metric of truth—the other issue dealt with in this report.

Our experience, and what is largely the reason for our decades of very high macro-trend accuracy, is that we put long-term momentum analysis out front and treat price (with due respect) as a secondary factor in determining trend change.

If you prefer short and sweet trading answers (do this, do that), then read no further. What we want to discuss in this report is gold’s current macro technical trend, *and from our perspective*. We admit, as we have in recent reports, that we can’t “pound the table” yet regarding credible and sustained upturn in gold and its related children—until we see certain factors that are in play shift in a positive direction. Most importantly the **silver/gold spread** that is laboring just below major momentum breakout levels, a metric we’ve featured in almost all reports over the past few months.

But we begin with some broader features that need to be noticed and integrated into one’s thought process about the gold trend.

The mantra is that you can't fight the Fed. I've heard it for decades and could show you multi-year trends in which the Fed was the loser hands down.

This year that wise body of superior intellects who guide, shape and manipulate our money units said they were going to fight "inflation." In this case defined very narrowly and incorrectly as "commodity price inflation," totally ignoring the inflation bubble (due to low rates and monetary expansion) that they generated in the U.S. stock market and some related categories (government and corporate debt, real estate, etc.). That sort of major price rise was okay in their minds and in the minds of most of the public.

So what have we here? Year to date, the downside response to their policy shift has mostly been felt in stocks, high yield corporate debt (HYG), real estate (XLRE), and government bonds.

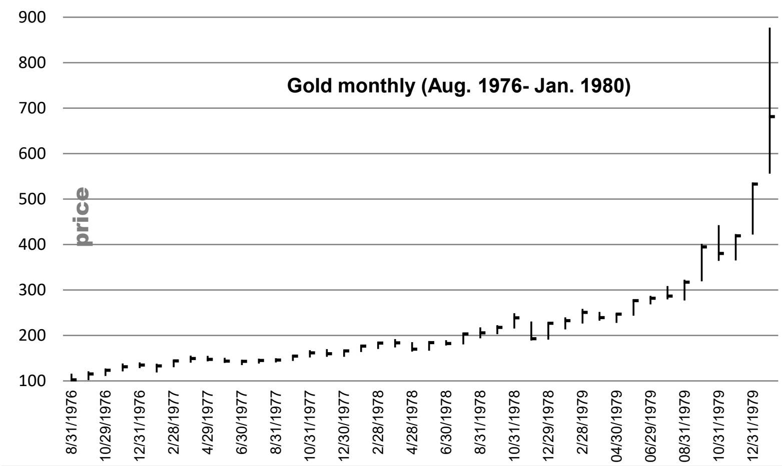
Meanwhile, gold is down all of 6% on the year, and the commodity basket (the Bloomberg Commodity Index) is up 22% on the year!

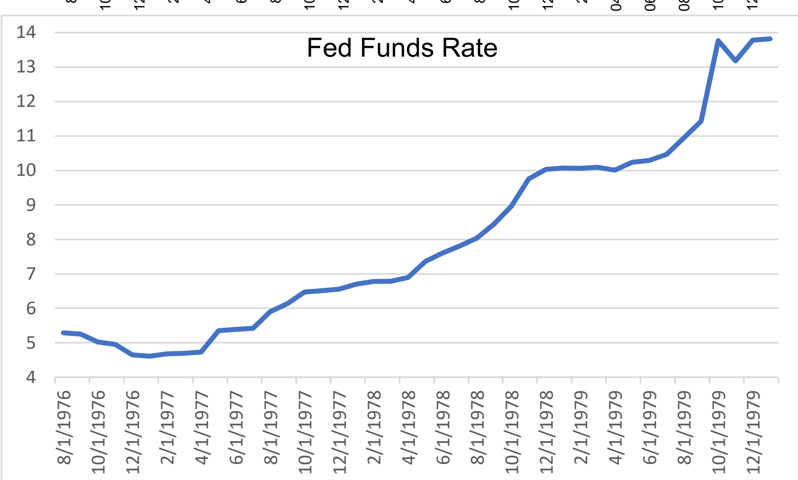
So is the Fed fighting "commodity inflation" and winning?

Ponder these charts. Charts that have had enough months this year to begin to reveal the reality of the possible outcome. After eight months spent, don't you think the mantra "don't fight the Fed" would have begun to pay dividends for those acting on it? Meaning collapsing gold and commodities?

Instead, something contrary to the Fed's intent has occurred. A sequence of events that has the potential/likelihood to rip asunder their public acceptance/academic credibility and ultimately create a reversal in their policy—in total panic—the other way.

We'll see. Take those bars on the left side down another 10% and if we still see the other two categories on the right side "hanging in there" on a relative basis, you can bet on that sort of crisis outcome both for those assets on the left side, but also a crisis for the Fed as an institution. And shortly thereafter you can bet on seeing a full reversal back to their primary goal—to fund the State at all costs and to protect municipalities, states, banks, and pension funds.





Back in the mid to late '70s the world was caught in "stagflation." Something the orthodox economists couldn't understand. So the term was created then.

Well, the Fed was definitely a "defender" against high inflation (again, defining it narrowly as rising commodity prices). You can see on the Fed Funds chart the rise from 4 to near 14% from late 1976 to January 1980. The Fed was certainly aggressive during all those years.

As it happened, I was lucky enough to have been sent to the COMEX floor one day in August 1976 by my boss (the head of E.F. Hutton's commodity division, who was also chair of the COMEX). He asked me to chat with the head of a floor brokerage firm that wanted to get Hutton's futures business on the COMEX. I was basically a kid, all of twenty-seven years old.

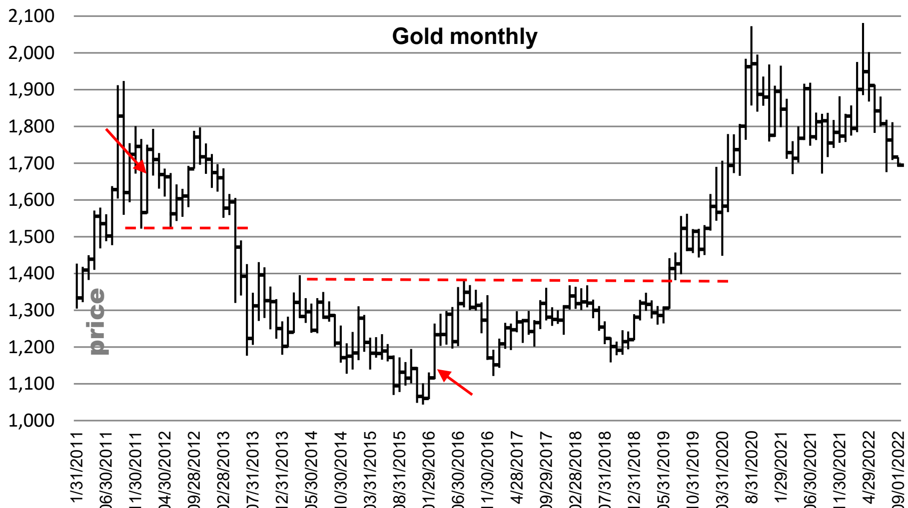
The head of that floor brokerage operation complained to me that he wished the gold contract had never begun trading (it did in January 1975, coincident with a bull market peak in gold at $200 after a seven-fold gain). After that 1975 peak, gold dropped to near $100 by August 1976, when I was on the floor. A well-earned bear market after its prior rise from the $30s to $200! He said there was just no volume of business for gold and that all the floor brokers were disappointed. A totally negative sentiment about the future prospects for gold prevailed, hence there was little expectation for future volume of trading to be robust.

I filed that conversation away and remember it now especially.

Not to dismiss negative sentiment nor to be a contrarian, but in hindsight he was wrong.

Meanwhile, digest the two charts above. An aggressive and persistent rise in the Fed Funds rate, and gold didn't give a damn! It topped when it wanted to after a three-and-a-half-year bull trend and an eight-fold advance in price. It was simply ready for downside at that point. Yet Volcker (who took over the Fed in late 1979) was later given credit for the gold and commodity top. False! Or at least a greatly distorted interpretation of market realities. Gold and commodities topped because they had enjoyed years of massive percentage gains. Excess had finally been achieved.

Don't fight the Fed?

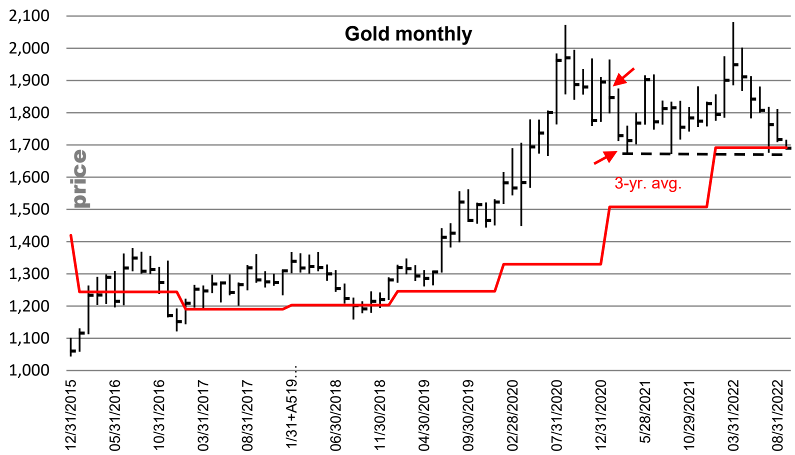


MSA was started in 1992 because I realized that momentum structural methods were successful anticipators of trend change and ongoing trend assessment. Several major market events in prior years had convinced me of that, including the 1987 stock market crash—which "surprised" almost all investors, but which wasn't surprising when I assessed long-term momentum factors that were triggered before the crash.

MSA hasn't missed a major bull peak or major bear low in the stock markets since our inception. Our most recent annual momentum sell on the U.S. stock market was at the January 2022 close on the NASDAQ 100—well above current levels and barely below the high of November last year. And our record with gold (and other major asset categories) is also of high reliability. Momentum action—**when structurally clear** and then broken through—provides us with a "conviction level." Without clear momentum structural trend breakage, whether upside or downside, we tend to be skeptical of price action, especially those price moves that are obvious to everyone. Momentum must lead and validate what price does.

For gold, the two most recent "long-term" trend change calls that we issued (based on annual momentum) are noted with arrows: **January 2012** (sell) and **February 2016** (buy). On both occasions we vividly recall that many of our subscribers doubted our new direction signals. If you look at the price charts, the points noted with arrows aren't at all evident as trend change actions via the price action. The momentum structures broken to the downside in 2012 and to the upside in 2016 were defined by many pivotal levels on momentum. So many that the structures almost needed no interpretation. They were clear. The price chart topping and bottoming action only clearly developed trend change structures over the subsequent year or two after the momentum-based signals. Note that in early 2013, a year and a quarter after our major sell signal, gold finally blew out an obvious set of prior price chart lows in the lower $1500s. Then and in the months that followed, those who had doubted our momentum-based negative call were finally convinced. During that topping process we issued a report entitled "Open letter to gold bulls," in which we tried to calmly explain why we were negative—despite several sharp and failing rallies following our January 2012 signal. When April 2013 rolled around, MSA concurred with the price chart breakdown **because momentum had already given its full blessing to a major bear trend**.

The same with the early 2016 buy signal. After that major momentum signal there were several years of up/down action that convinced persistent gold doubters that gold was "no good." And despite two major price selloffs during that basing process, MSA did not alter its long-term positive trend view. Then finally, again, a clear price chart line in the sand developed for all price chart aficionados to see. Price finally agreed with momentum (though lagged) when it broke out above the horizontal price chart structure in the upper $1300s in 2019. MSA trusted that price chart breakout, not because we trust price action, but because momentum had already pre-ordained that breakout. Price was therefore once again lagged to momentum—but **pre-validated** by it.



Back to the current situation, especially the price chart—which is no doubt what *everyone* is solely focused on.

Recapping: during the recent two-plus years of up/down action, MSA did issue one counter-trend report in January 2021 (down arrow). At that point (in the $1780s) we saw enough momentum breakage on quarterly momentum to argue that a sharp correction was likely (down arrow). Not major trend change, but enough decline to perhaps be hedged, etc. Over the next two months gold dropped $200 to its March 2021 low in the $1670s (up arrow). Shortly after that low MSA defined the March low as "it." Meaning a likely end to the corrective decline. There have since been two more assaults on that same bleeding obvious price chart level (in August 2021 and July 2022). We were somewhat surprised that the recent July break yet again held above the March 2021 low—and produced more than a $100 rebound. But alas, price is down there again now and we'd have to bet that the intent is to finally break the all-too-obvious price "floor" and thus convince everyone gold is "no good." You would think the bears can do it now!

Realize of course that over the past two-plus years if you measured from the peak monthly close to last month's lowest monthly close in that range, gold shed 11.9%.

But now MSA has to assume there's enough need or desire to take out the price chart floor. We bet (and we'll be somewhat surprised if this doesn't occur) if the floor comes out that gold will at least reach $1650 (1.5% below the March 2021 low) and quite possibly $1600 (4.5% below the March 2021 low). Enough to cause those keeping point-and-figure charts of $50 x 3 increment scale to register downside price breakouts, not just a bar chart breakout. Again, we admit that while we doubt downside sustainability, this looks and feels much like the quick downside selloff in late October 2008, when gold briefly joined the already underway major bear trend in the stock market. And then just as quickly diverged to the upside leaving stocks to trend lower into 2009. MSA wasn't convinced of sustainability in that selloff or in the current one.

But perhaps the price chart folks have to have their level of conviction raised to full bearish. MSA isn't convinced even if such price breakage below the horizontal occurs. Instead, we're looking for a signal of trend shift (out of what will likely be seen in hindsight as a major bear trap) to mark the resumption of the thus-far immature bull trend. This bull trend has only doubled. Compare it to the bull trends from 1970 to 1975, 1976 to 1980, and 1999 to 2011, which were seven- to eight-fold gains. And now the fundamentals and macro technicals of other major markets—such as the stock market—argue that this time around the global market/economic disaster ahead and the likely monetary panic back to "free money from helicopters" will drive gold and its children fully into upside mode.

Note that the July low—finally, after two years of declining efforts—managed to drop down to the rising 3-yr. avg. However, that average is neither technically nor structurally that important. Notice the prior behavior, weaving both above and below that annual mean from 2016 to 2019. Meaning the average—and its zero line if seen on a momentum chart—aren't structurally important. Had it been used repeatedly in the past few years as structural support at the lows, then momentum would consider its violation important. That's not the case. What we have here is a miscommunication as to what price seems to be telling everyone! And we don't trust what it's saying—or might say—assuming the bears can finally drive it below the obvious structure.

Weekend report will update gold and silver on more near term basis.

Personal positions in markets mentioned in this report: long SLV long-dated calls and GDX calls, though no gold calls