

Quote of the Week:

Well, this is a bull market, you know! - Old Turkey

Market Observations:

I've been talking a lot about the dichotomy between trading and tactical asset allocation in LTTM lately. I view trading as a faster enterprise (days to weeks) seeking to capture specific types of moves while tactical asset allocation is a slower game (months to years) playing for the big trends.

One thing I've learned is that just as every dog has its day, every investment approach has its day too. As I discovered when I studied a century plus of great traders, many of them pointed out that nothing works all the time in markets.

All of this is background for what I'm about to say.

If you look at stock indexes up close (past few months), they look directionless and volatile. But if you zoom out (18 months or so) it is clear we are not in a downtrend.

My studies of Bruce Kovner and Michael Marcus motivated me to write this publication largely to benefit my own trading. This quote in particular was really the motivation for LTTM:

Listen to the market. Close observation of price behavior is always necessary for the discipline of successful trading and it is very often very helpful in providing evidence about the nature of current conditions. If we can understand what the market is telling us, we will most likely be able to understand how to trade it. Listen to the market, hear it, don't tell it what to do. Listen.

With this in mind, the thing I keep coming back to in recent weeks and months is that the short-term trading game is pretty hard right now (LTTM style at least) but the long-term tactical allocation game, while sometimes challenging like in April, is working pretty well.

Let's go back to Kovner:

If we can understand what the market is telling us, we will most likely be able to understand how to trade it.

While I can't say with certainty how Mr. Kovner would interpret things right now, I think the market is telling me/us to play for the big moves right now – that's where the easiest money is being made.

I continue to hear Old Turkey's words in my mind hence the opening quote.

Stock Market Indicators:

Trend: The long-term trend in stocks is up.

Stock Volatility: Volatility remains conducive to owning stocks.

Interest Rates: Short-term rates are around 5% which might be looking not-too-bad to the masses after April.

The Fed: The Fed continues to focus on fighting inflation which, all else equal, isn't great for stocks.

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