Quote of the Week:

…I am a slave to the tape and proud of it. - Paul Tudor Jones

Market Observations:

Despite some meandering in February, NVDA earnings were great, so stocks leapt higher on Thursday. The S&P 500 made a new high – somewhat oddly the Nasdaq did not (at least not yet) which raises an eyebrow. But the larger trend in stocks clearly remains up.

Regarding NVDA, the stock has almost doubled in 6 months or so. This brought to mind something I wrote on NVDA and related lessons. I think the lessons are as true today as they were ~6 months ago hence resharing.

As I've said many times in LTTM, when stocks are working, I tend to think they're the best game in town and my attention and investments are focused accordingly.

That said, I notice that fixed income markets continue to fall resuming the long-term trend. This likely comes on the back of the Fed not cutting rates as expected. Whatever the reason, fixed income markets continue to be not great and rising rates aren't great for stocks, all else equal.

I spoke with a wealth manager recently who told me clients are getting tired of fixed income markets and related losses (it has been an ugly few years for bondholders). In response, advisors and clients are shifting more money into stocks, which, to some degree, explains the relentless ascent of stocks despite rates creeping back up. I also recently read that passive investment has overtaken active for the first time.

As I consider these things, I notice that the current "masters of the universe" on Wall Street are various Twitter personalities who advocate in favor of buy and hold indexing as the "Holy Grail" of investing. They're witty characters with catchy slogans and they're not above some chest pounding. But, perhaps most importantly, they have deep and unshakeable faith in buy and hold which, per my research, is probably not warranted.

One thing I have noticed over my career is the masters of the universe on Wall Street change. For a while long-short equity hedge fund guys were the belles of the ball. Then it was high frequency traders. Then it was private credit (to some degree private credit remains very popular). But it is the deep faith buy and hold crowd that stands out as the current champions and history teaches me champions don't stay champions forever.

Taking a page from Jason Shapiro's playbook, I see that the commercial hedgers are about the shortest they've been in Nasdaq futures in over a year.

So, what am I saying? I guess I'm saying that the current situation in stocks is feeling pretty frothy and my 20+ year experience born "spidey senses" are sending alerts.

Now my spidey senses aren't always right. And, more importantly, I don't act on them – I won't dump a market making all time highs because of my perception of froth. Lord knows I've done that many times with piss poor results. However, I increasingly wonder what happens when indexing inevitably stops working so well and the majority of the world is indexing. I imagine it could be a really ugly run for the exits.

To be clear, I plan to stick to the trend in stocks as that's what pays over time, but I'm very glad I have trailing stop losses as I cannot seem to shake the feeling of concern as it relates to the aforementioned froth.

Admin Note: I started a new publication which explores my views on retirement investing. Feel free to sign up here.

Stock Market Indicators:

Trend: The trend in stocks is up.

Stock Volatility: Volatility has declined to levels that support owning stocks.

Interest Rates: Short-term rates are around 5% which is compelling to many. However, stocks put up a banner year in 2023 so the money market crowd is probably feeling some FOMO which could prompt buying on any stock market rally.

The Fed: The Fed is on hold pending incoming data on the economy and inflation. The latest change in policy was to stop raising rates which, all else equal, was a positive. Combining the two, I think current policy is neutral to slightly positive for stocks. You can find the latest FOMC release here.

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