

Quote of the Week:

The single hardest thing I have to do to make people understand how I trade is to convince them how wrong I can be about things, how much of a guess it is...They think that there's some magic involved and that it's not just trial and error...there are no mysteries. - Richard Dennis

Market Observations:

My focus remains on stock indexes as they continue to hover near all-time highs.

A look under the hood at stock sector YTD performance is a bit confusing as I see no consistent message. Utilities (XLU) are down while pharma (XPH) and healthcare (XLV) are up. Real estate (XLRE) stocks are down while homebuilders (XHB) are up. Transports (XTN) are down while retail (XRT) is up. A look at “factors” shows that momentum and growth stocks are leading the charge.

One thing in particular that I notice is the home repair stocks (HD, LOW, etc.) and building material stocks (BLDR, MAS, etc.) are looking pretty good. I think this is interesting as the single best “macro” trade I can think of right now is home renovation. The logic goes as follows:

1. Per Bankrate, the current nationwide average 30-year fixed mortgage rate is 7.25%. If you get a new mortgage, you're paying around 7.25%.
2. Per [Apollo Academy](#), only 9% of all outstanding mortgage rates are above 6% - 61% of outstanding mortgages are below 4%.
3. Without even considering brokerage fees, taxes, and other costs of moving, if you moved and bought the same caliber of house, your payment would go up a lot simply by virtue of rate differentials.
4. Unless people make a lot of money, they're likely going to opt to fix up their existing house versus moving.
5. Companies that sell the stuff to feed a home renovation boom will benefit (this is showing up in stock prices)

Food for thought.

Bottom line, despite all the concerns I expressed last week, stocks continue to look pretty good. The trend is up. Don't fight the trend. But do use stops.

Outside of stocks, I notice the Japanese yen is once again flirting with the lows. Listen to the market.

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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