Quote of the Week:

There is no "best system" for everyone, just as there is no best car or best wife...I do not know what's right for you. – Ed Seykota

Market Observations:

Stock indexes aren't looking so hot when looking at daily charts. But when you zoom out and look at weekly or monthly charts, the move in recent weeks is a blip. This raises a fair question: Are you playing for quick moves or larger trends? Most legends play for larger trends.

In my experience, fast trading methods that are always doing something don't do very well over time as they get chopped up. They do have their occasional day in the sun, but over time they aren't great.

A lot of great traders say they checked prices at the end of the day (literally). Compare this to someone living in front of a screen. I'm trying to do more of the former – I don't want to watch every tick.

I think 40 or 50 years ago there was a lot to be gained by being "Johnny on the spot" as the old timers said but, when looking at monthly returns, I don't think being always "on" adds much in terms of return anymore. Decimalization, HFT stabilizing markets, the proliferation of data, and low cost computing changed the short-term game.

I've had the most success personally trading single stocks and holding for larger moves. My average holding period might appear short, but that's because I dump losses. Being honest with you and myself, my larger point is that I've never achieved much benefit from living in front of a screen focusing on every wiggle and waggle. Spending maybe up to an hour a day (at most) and a few hours a week has served me best. For whatever that is worth.

So, what's happening in markets?

Post the CPI report bonds keep dropping and the US dollar is rising against non-US currencies. The yen keeps falling – it continues to stand out to me.

Meanwhile, gold bugs (and silver bugs) have been given another chance to tell the rest of the world how right they are/were all along. This leads to a market truth: If you pick one market and one side and endlessly beat that drum, you eventually get a chance to tell the world how smart you are. You might have to suffer some ugly periods on the path to righteousness though.

Let's add this all up and see what the markets are saying…

Inflation persists which translates to rates staying where they are (or maybe even rising) which is a far cry from the expectations for cuts all year coming into 2024. Bonds are dropping as rates rise. The dollar is rising as rates rise. Gold is rising as the fiat hating crowd runs away from the "certain" doom that awaits those with faith in the fiat system. And stocks are moving lower as rising rates and macro instability aren't great for stocks, all else equal.

For the first time in a while, most markets are all sending the same message: inflation is persistent, rates will remain or rise, and that's not good for non-US currencies, bonds, and stocks. It is good for gold.

Quick aside, isn't it endlessly interesting how, despite being the subject of fiat hating ridicule, the US dollar always seems to rise when things don't go so well.

So, what should be done?

Going back to last week, I think it depends on how you want to peel the proverbial onion. Should you stick with long-term trends? Trade fast and run for the hills? Pile onto the fast move higher in gold? Short bonds and non-US currencies with abandon?

These questions remind me of the opening quote. The "right" answer(s) depends on you. There really is no one "right" answer. But I think there is a wrong answer and that is to try to do everything. That leads to confusion and crummy aggregate outcomes as you'll probably be "over there" when you should be "over here". If you stick to one or two things and accept the unpleasant times, you will inevitably be there when the good times return. On a related note, check out my recent post on Paul Mulvaney.

As stated last week, I'm sticking to my guns on the long-term trend in stocks (albeit I'm using trading principles). And, from a trading perspective, I feel like the best thing to do right now is nothing. But that's me – what's right for you?

Stock Market Indicators:

Trend: Despite recent action, 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. With stocks experiencing a little unpleasant action, I wonder if the masses will start looking more favorably at T-bills.

The Fed: The Fed is on hold pending incoming data on the economy and inflation. The latest inflation data leads me to believe hikes are more likely than cuts which, all else equal, isn't great for owning stocks. You can find the latest FOMC release here.

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