Quote of the Week:

I should rather hold on to one rising stock for a longer period than juggle with a dozen stocks for a short period at a time. - Nicolas Darvas

Market Observations:

Today's CPI report came in above expectations which means there is more inflation than expected while inflation continues to run above the Fed's target. This means rates have a higher potential to rise than they did before the report. In response to the report, stocks fell, bonds fell, and the US dollar went up. All these moves are indicative of rising rates.

Zooming out a bit, gold and silver have gone up a lot in the past few weeks. Bonds have continued to fall. The US dollar has been climbing higher and stocks have largely been moving sideways while volatility (in stocks) is increasing. In particular, the Dow (DIA) is not looking so hot.

In hindsight, the markets appear to have known inflation was going to be higher. And markets are continuing in the same direction(s) post the CPI report (as opposed to reversing) which, at first glance, indicates inflation is probably not going to recede anytime soon.

While the Fed says the economy is AOK, most people I speak with on the ground aren't thriving like they were a few years ago. This is especially true of real estate people who have been negatively impacted by the move in rates since 2022. If inflation doesn't abate, the Fed may keep on raising rates and, given debt levels in the US and all the other issues, it isn't much fun to mentally consider how things might play out if inflation doesn't come down.

Considering all of the above, the faster trader in me wants to run for cash and wait and see what happens. However, the long-term trend follower in me says that markets climb a wall of worry and that the trend in stocks remains up. I feel like this inner conflict has shown up in LTTM in recent weeks and months and the dichotomy has led to some introspection.

Specifically, I've been thinking a lot about focus and consistency. I know that these are key attributes that lead to success in markets. A long-term trend follower is playing for large moves and knows/accepts you cannot run for the hills on every wiggle and waggle as doing so will miss the forest for the trees. Meanwhile, a faster trader's secret weapon, in my opinion, is the ability to go to cash quickly waiting for the coast to become clear as they say.

Which one is right? Only time will tell but, long-term, each approach will have pros and cons. That said, perhaps the worst thing someone can do is allow the two disciplines to merge into a Frankenstein monster as doing so leads to confusion.

It usually helps to “stand on the shoulders of giants” when facing problems and I often read the old newsletters of Martin Zweig for inspiration. Zweig separated his trading thoughts and his investing/asset allocation thoughts which makes sense since these respective disciplines have different goals and different implementations to achieve said goals. As I think about this, I find myself thinking that one could do a lot worse than to follow the ways and wisdom of Zweig.

This is all a long way of saying I find myself conflicted by markets. The trader in me thinks we could be headed for hard times and wants to be very nimble right now. Meanwhile, the long-term trend follower in me wants to put on my blinders while focusing on the larger trend in stocks and acting accordingly. And so, in line with Zweig, I think I will do just that. In case this is unclear, I’m saying my long-term allocation approach will keep on keeping on (riding the long-term trend) as per its rules despite all the ugliness happening right now. Meanwhile, in my trading account, I will remain nimble.

While this makes sense to me right now, I find myself wondering if I should ultimately no longer pursue both approaches instead focusing in on one or the other. I’m not there yet but, without hesitation, I’d be way more inclined to focus on long-term trend following as doing so agrees with a century of advice from great traders, it focuses on larger moves which is where you make more money, and, frankly, it requires less effort. All of this has me thinking of the opening quote.

I wrote a post about all of this on my Meditations Substack, and welcome you to read it. I plan to write another post about the idea of consistency soon.

Outside of all of that, I can’t help but notice the Japanese yen made new lows today despite the commentary from various Japanese monetary officials.

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 keep going up likely creating FOMO.

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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