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Quote of the Week:

They say you never grow poor taking profits. No, you don't. But neither do you grow rich taking a four-point profit in a bull market. - Jesse Livermore

Market Observations:

We got another FOMC meeting last week. My quick take: Unemployment is ok. The economy is ok. Inflation is stubborn. Here is a quote from the release:

"The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."

Coming into 2024, it was a foregone conclusion that the Fed would cut rates all year long. Yet there have been no rate cuts. So much for foregone conclusions. I will add this datapoint to my ever-growing collection of datapoints that support my beliefs that no one knows what is coming and that prediction doesn't work.

In theory, rates not falling as expected should be bad for stocks but, apparently, someone forgot to tell the stock market.

In terms of what is compelling the stock market higher, the things I keep reading lead me to believe caution is being thrown to the wind by the masses in that investors are ditching their asset allocation plan in favor of just buying more stocks since stocks are working and bonds aren't.

In a way, the idea of dumping what isn't working in favor of what is is the right thing to do. However, the buy and hold crowd has no method to exit and thus usually experiences big ups but also big downs.

Back to the idea of money flowing into stocks, I saw an interesting chart in Jared Dillian's Daily Dirtnap letter which pointed out that households now have 48% of their financial assets allocated to stocks. This figure is a bit ominous since 48% was the same level experienced in 2000 right before the dot com bubble burst (per the chart).

I also keep coming back to this thought (which I've mentioned in recent LTTM) that everyone knows how to make easy money – just buy stocks and hold them. The heroes of Wall Street for the past ~15 years are the buy and hold/#BTFD crowd. In my experience, Wall Street stardom is ephemeral and 15 years is a long time on the "throne".

Logical reasoning tells me that a day of reckoning is coming. But, as Stan Druckenmiller once said, "Logical doesn't mean profitable" and I've long since learned prices can keep doing "illogical" things for years.

Meanwhile, after 20+ years doing this, I've found that the best way to make money in liquid markets includes following price trends and using trailing stops. I plan to act accordingly.

Outside of that the Bank of Japan (BoJ) hiked rates for the first time in decades and the Japanese yen barely moved. In theory, the first change in rates in 10+ years should've sent the yen to the moon. Instead, the yen is currently hovering near multi-year lows versus the USD. The probable explanation is that the Fed remains focused on inflation and the expected rate cuts aren't happening so the BoJ hike is not happening in a vacuum. Still, the best trades tend to be the ones where markets don't do what they "should". I'm hesitant to do anything with this at the moment, but I'm keeping a close eye on the JPYUSD.

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. However, the latest release was clear that fighting inflation remains the focus. Combining all of this, I have a neutral view on Fed policy as it relates to stock prices. You can find the latest FOMC release here.

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