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Quote of the Week:

The trend is your friend until the end when it bends. - Ed Seykota

Market Observations:

I've been writing LTTM for a few years now and I notice it has a tendency at times to get repetitive. Now is one of those times. The repetition isn't so much a function of writer's block as it is the reality that the dominant trends picked up via LTTM style analysis tend to persist.

With that, unless you signed up for this report last week, I'm guessing you already know what stands out: stocks on the long side!

Despite an ugly day yesterday (they happen) the larger trend is up in the main US stock indexes. But the positive trend extends beyond the US. Japanese stocks, European stocks, and the global stock indexes are at or near highs too. The lovefest with stocks transcends national boundaries.

Money is going into stocks. Period. All the research I've done tells me to find the strongest trends and ride along. I'm doing just that.

While I remain focused on long stocks, in order to add a little variety to LTTM this week, I will talk a bit about other markets too.

Last week, I pointed out the Japanese yen looked not great vs the US dollar. As it was testing lows against the US dollar, a Bank of Japan (BoJ) member came out and hinted at the potential end of current policy which would be positive for the yen. The yen quickly leapt up but then headed back down only for more news articles to surface indicating the BoJ is considering policy changes which caused the yen to jump back up. It seems the BoJ has its eye on the JPYUSD and doesn't want to see it keep falling. As to whether their commentary is indicative of potential policy changes or not, I do not know. But I don't want to find out so I'm avoiding the yen for now. While Soros's 1992 coup versus the Bank of England makes for "romantic" press, it doesn't generally pay to go against central banks what with their unlimited reloads.

Beyond that, gold abruptly leapt up and made 20+ year highs as did Bitcoin (which got a lot more press). But what volatility in these markets, especially Bitcoin. Unless you get really lucky on entry, trading Bitcoin seems like a treacherous game. Meanwhile, the HODLers are back in force on social media after being quiet for a while. Deep faith seems to go through periods of extreme reward and extreme punishment.

While I have no idea what the future holds, I did some studies on the history of money which made me permanently bearish on Bitcoin (and all money really). Basically, historically, ungoverned money eventually leads to some people getting screwed and they run to the government who in turn takes over. Governments typically start out with a currency tied to some kind of commodity (i.e., gold) but inevitably decouple as finite supply limits the ability to grow. Money then becomes backed by the full faith and credit of a government (or their willingness to kill people who won't accept it if you go back a few hundred years). Inevitably (again), tough times come, and governments take on debt versus tighten the belt (especially in democracies with elections – who wins the guy saying tighten the belt or anyone else?!). Eventually, this leads to excessive and unsustainable debt which ends with default, war, or inflation (print more money to pay debts devaluing the money). But since we cannot operate a large-scale economy with barter, the whole thing starts over again. I've concluded that we're basically doomed to keep repeating this cycle forever, but we don't really know it because economics is a pretty boring subject and the cycles move so slow (~150 years) that everyone is dead by the time they see the patterns repeating.

Bitcoin in particular suffers from a lack of governance (see above) and finite supply which leads to erratic prices swings (see the last few days) which leads to big inflation/deflation. Imagine if you took (or made) a loan and the underlying currency moved 10% in a day – you would be very happy or unhappy depending on specifics. Perhaps the most important attribute for a currency to be an effective medium of exchange is relative stability.

Of course, Bitcoin can remain a vehicle for those with extreme faith in its savior qualities (despite historical evidence) or extreme frustration and, in hindsight, knowing all of these things about money left me bearish on Bitcoin which hasn't done much for me. I suppose the truth is all manmade edifices (currencies, stocks, etc.) eventually crumble but that doesn't stop people from making and losing fortunes in between.

I was actually looking at Bitcoin in 2012 when it was crossing $100 (yes one-hundred dollars). Back then, the idea of it going to $1,000 let alone $70,000 was absurd. Of course, with the benefit of hindsight, it was obvious – but that always happens, all good trades are obvious in hindsight. Meanwhile, the cost to trade Bitcoin varies as does slippage. And the volatility is too much for me. A tip of the hat to the deep faith crowd, for now.

One thing I do see right now – aggressive risk taking is being rewarded above pretty much everything else.

I will end this week with one of my favorite things to come from the existence of Bitcoin, this song on a one hour repeat loop – catchy stuff.

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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