

Why This Key Buy Signal Is Making Me Nervous About Current Market Conditions...

This week, we had the latest meeting by the Federal Reserve. The central bank raised interest rates by 25 basis points, and indicated that we're likely close to a pause. You'd imagine the stock market (SPY) would cheer... But I'm seeing something else that's making me nervous. Read on.

(Please enjoy this updated version of my weekly commentary originally published March 23rd, 2023 in the POWR Stocks Under \$10 newsletter).

Market Commentary

So, in addition to the POWR services I run, I also head up this options trading newsletter called Income Trader.

And our picks are based on this amazing, proprietary, Charles Dow award-winning algorithm. And this week, there was something bizarre about all of the "buy" signals it gave...

About half of the tickers on were short ETFs.

Now, for this algorithm, when a stock is on a "buy" signal, it's usually an indication that its price has a higher likelihood of rising in the near future. It's not a guarantee by any means, but it's what the numbers have shown over the course of a decade.

And while we definitely have ETFs tracking various asset classes (bonds, gold, etc.) pop into our list from time to time... we don't ever see short/inverse/leveraged tickers.

Even in previous downturns, like what we saw in 2022, I don't think I've seen them pop up.

I'll be honest; I'm not exactly sure what it means...

But this week, we had buys on inverse funds for a number of major groups – large-cap stocks, mid-cap stocks, the Russell, the S&P 500 (SPY), real estate, China, European stocks, consumer discretionary, emerging markets – and that doesn't feel... good.

My take on this is that it is a weird time in the market. People are nervous and potentially bearish, and we're seeing that reflected in that algorithm's results.

And I'm not usually one to point fingers... but I think a lot of that nervousness is stemming directly from the Federal Reserve's latest actions.

Back in 2022, it felt like the Fed had a straightforward goal and a straightforward plan: We're going to curb inflation by raising interest rates.

At the time, our biggest fear was that we'd land in a recession... and there were many other voices and indicators confirming that potentiality.

But we're now a year into that journey, and we've all the Fed has managed to do is make a small dent in inflation and break a few banks.

The labor market is still unexpectedly tight. And the central bank's plan, which once felt very predictable, seems all over the place.

What will rates look like in three months? We can't know for certain, because Powell's plan is "it depends on what the latest economic numbers look like." It's a very reactionary plan.

At this latest meeting, Fed members ultimately agreed to raise interest rates by 25 basis points, although Powell indicated in the press conference that they had been considering a 50-

bps hike until the bank crisis came into focus.

Speaking of, Powell shed a little light on that as well, saying there were only a few problem banks but that the rest of the financial system was “sound and resilient.”

A lot of financial new outlets are focusing on the idea that we only have one more rate hike in our future, as a key line about “ongoing increases” has been removed from its official statement.

The median for their plot forecast also indicates only one more hike this year.

Even so, stocks are back up again today and the S&P 500 (SPY) is trading back above its 200-day moving average, which we normally see when things are bullish.

But I’m feeling skeptical.

Maybe it’s because I’ve been trying to help our 20-year-old nanny sort through dozens of Taylor Swift ticket “sellers” that are actually just scam artists trying to steal her hard-earned money. (Seriously, what is wrong with people?)

Maybe it’s because I just had to file an FTC fraud report on a company purporting to sell refurbished Herman Miller chairs.

Maybe it’s because my trading algorithm is doing some truly bizarre things.

Maybe it’s because I can’t picture how one more 25-bps hike is going to suddenly slay the inflation beast (still at more than 6%) or how Powell can downplay the banking system’s problems even after the recent collapse of Credit Suisse, a global systemically important bank (G-SIB).

I’m not usually a pessimistic person, but I have a feeling we’re in for another pullback... here’s hoping I’m wrong.

Conclusion

At this moment, we have about 50% of our portfolio in cash, and 50% invested. Right now, that's the best position we can be in during this moment.

I've heard some analysts say we're not going to see a big capitulation moment because all of those potential "sellers" have been on the sidelines for months. Based on everyone I know... that sounds pretty on the nose.

We'll continue keeping an eye on the market, but I believe there's going to be a continued stutter step over the next handful of weeks until we figure out what's actually next.

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3 Stocks to DOUBLE This Year

All the Best!

Meredith Margrave
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Editor, POWR Stocks Under \$10 Newsletter

SPY shares closed at \$395.75 on Friday, up \$2.58 (+0.66%). Year-to-date, SPY has gained 3.88%, versus a % rise in the benchmark S&P 500 index during the same period.

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Meredith Margrave has been a noted financial expert and market commentator for the past two decades. She is currently the Editor of the POWR Growth and POWR Stocks Under \$10 newsletters. Learn more about Meredith's background, along with links to her most recent articles.

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