The Only Poll that Matters

In recent days, I have seen numerous polls that bode poorly for the Democrats in the upcoming mid-term election. Furthermore, President Biden is underwater in every category.

It's so bad that NBC's *Meet the Press* host and reliably left-leaning Chuck Todd has the Democrats squarely in the "shellacking" category for this coming November.

Absent a significant shift in views over the coming months, Republicans may have their largest majority in the House…ever.

A change in policies may not matter for the future of our country, though.

Politics aside, there's only <u>***one***</u> poll that matters.

The value of the U.S. Dollar.

That poll is taken daily and determined by price trends.

That value is established by folks all over the world.

Foreign exchange is the largest market in the world.

Currency markets dwarf all other markets *combined*.

As I mentioned a couple of weeks ago, the Dollar's performance has been terrible since the start of the Russian invasion of Ukraine. The Dollar is up just 1.4%.

That performance pales compared to major crises such as the 2008 market implosion and the COVID smash only a couple of years ago.

Even with interest rates going up, which should strengthen the currency, the Dollar's performance has been abysmal.

For as long as I can remember in my career, many people have been screaming and yelling that the Dollar was doomed.

They have been wrong.

The Dollar has been a reliable safe haven in times of crisis.

Currencies do not trade in isolation. Currencies trade relative to another currency.

Most other currencies are crap. If the Dollar is bad, the Euro is *worse*.

However, as crisis after crisis mounts, the Dollar hasn't performed as expected.

Those screamers and yellers may finally be right. Sadly, they have gone broke from losing so much money on bets against the Dollar that they are no longer in the game.

For the first time in my career, I am genuinely worried about the Dollar as a place to hide while everything around it burns.

As a result, I will fire up the computer programs and do some additional testing for the *Investable Risk-O-Meter*.

There are no changes to the Model's formulas this month, but I'm not OK sitting around getting my ass kicked in Dollar bets time and time again in the future.

I have a lot of money invested in the Model with the intention of investing much, much more.

In "risk-off" situations, holding cash or 20-year treasuries (Nasdaq: TLT) may no longer be the best option.

The TLT's performance has been especially dismal.

For nearly 20 years, TLTs have been a reliable "risk-off" position to take when stocks come under pressure.

Not anymore.

Of course, interest rates have been on the move higher. That hurts bond prices. But the market has already done much of the heavy lifting for the Federal Reserve. The Federal Reserve is way behind.

Although rates have gone up, the largest invasion in Europe in decades might have been a more crucial *short-term* event in offsetting bond performance in a rising rate environment.

Recent performance under the circumstances is not what you would expect.

Markets change.

Human nature *never* changes.

There will be a massive opportunity to benefit from periods where “risk-off” trades either save your bacon or increase the value of your portfolio in the future.

However, those opportunities may need to consider markets beyond Dollar-oriented trades.

I do not want to overreact. I want to see if there's a better way to express "risk-off” trades.

Evolve or die.

I will share what I discover in my research.

Stay tuned…

Speaking of the Dollar's value, I have seen some prices of goods start to ease off a bit.

I observe Lent.

I have a strict diet.

Like a stranded traveler wandering through the desert with only a few sips of water left in his canteen, my mind has been playing tricks on me, and I see an oasis off in the distance.

Instead of palm trees with ripe coconuts and a pond filled with freshwater, my oasis has fountains overflowing with wine and meats roasting over hot coals. The stuff I have given up for Lent visits me in my dreams nightly!

Since I have wine on my mind, I recently purchased some bottles for when Lent ends, and I can again partake.

I was shocked to discover that many of the wines I bought *traded at prices below two years ago.* These are good wines, too—top-quality stuff. Prices were down, extra coupons were provided, and shipping costs were waived.

You don’t see those incentives in a hot market.

It only made sense to me to snap up quality goods at fair prices. Deals like this do not come around that often.

In addition, I also noticed that meat prices have fallen *sharply* in my local market.

A local meat market sells choice filet mignon for $49.99 per pound. That is ridiculous. Choice meat is not even the highest quality rating.

When I mentioned to a cousin those crazy prices, she told me plenty of people in town have money and don't mind paying elevated prices.

She’s probably correct. However, that’s a stupid attitude on the part of people who don’t mind getting ripped off. I don’t care how much money you have. The price of *everything* matters.

Furthermore, just three miles down the road, the same item sells for less than half the price.

At my local Costco, about 15 miles away, the same meat is now $18.99 a pound (and $21.99 for prime).

Investment bank Evercore is out with a report stating that the prices of high-end goods are likely to level off or fall soon.

Buyers are fed up with inflation.

We are seeing Economics 101 in action.

It’s called substitution.

There are plenty of opportunities to substitute for lower-priced goods. For example, flat iron steak, which gets no love, is $5.99 a pound locally. A flat iron is the second most tender part of the cow. Pork tenderloin, also very tender, is just $3.69 locally.

When chicken prices are up 70%, people opt for “the other white meat.”

Only the clueless would pay $49.99 a pound for meat.

Evercore thinks that lower-priced goods may spike 20% because demand ramped up as people make substitutions.

I am not sure what will happen, but the lower-priced cuts of beef have held steady or declined a bit as well. There are plenty of marked-down prices on other goods, such as avocados (10 for $10), that have seen massive supply shortages. Local strawberries fell 20% last week.

If you like to cook, as I do, then you seek out substitutions. It's easy to make a better than restaurant quality meal for two people for $10.

I have long suspected that April 2022 would be the time when people have blown through their COVID savings, spent government relief checks, and gotten smacked over the head with higher energy costs.

There’s just no money left to buy, buy, buy.

Possibly we will start to see prices moderate elsewhere. The cost to fill up my car at Costco was down about 7% since last time.

April is here.

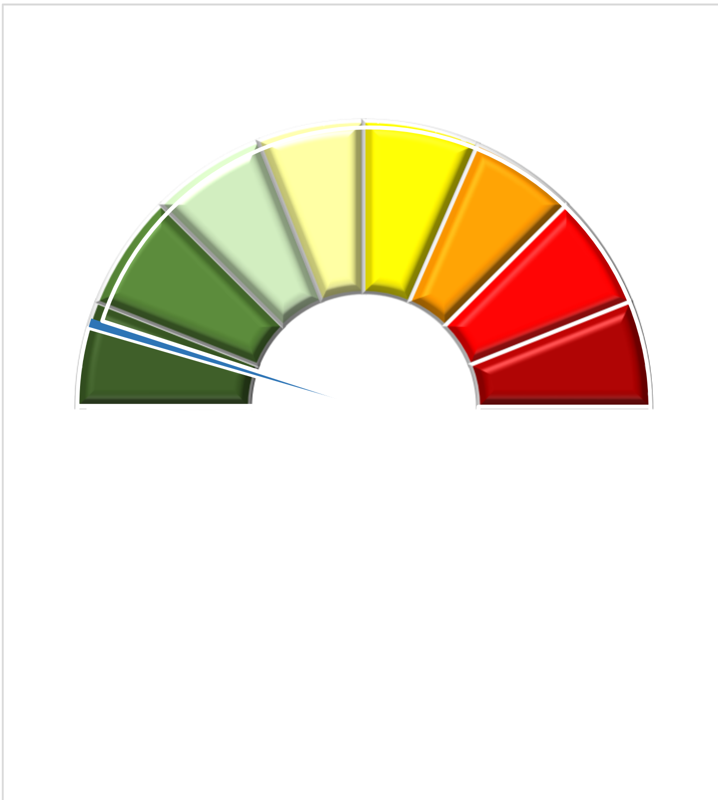
Let’s see what happens.

The weekly *Risk-O-Meter* is now entirely in the green zone. All indicators are in "risk-on" mode.

The market remains *very* overbought, though. We need a healthy pullback.

I buy on dips and move at a glacial pace for long-term investments in my taxable account. If the *Meter* stays in the green zone and the market gets very oversold, I am inclined to invest more aggressively.

Thus, right now, I am moving s.l.o.w.l.y.



Investable Risk-O-Meter

Three out of the four indicators are still in "risk-off" position. The obvious question is how can the *Risk-O-Meter* on the previous page be in the green zone and this one only have one "risk on" trade.

The answer is that the timeframes are different. The indicators below are slower moving. They also trade monthly instead of updating weekly.

I know people love to trade and they love action. However, there is no advantage in trading this model weekly. Furthermore, not only are returns lower but risk ramps up dramatically.

Sometimes, it's best to do nothing.

From July, 2020 through July, 2021 the credit risk indicator was invested in the S&P 500. There was a huge trend in the market. No trades. Huge profits. That sounds good to me!

The fact is, no one knows when the big trends will develop. We have to be in them to profit. That means following the model and going with the flow.

The one trade this month is to sell TLT and UBT in the credit risk portion of the portfolio and by SPY and QLD (QLD is used if you want to trade levered funds. In addition, I use SCHB instead of SPY because I trade with Schwab and prefer to use their fund).

Component	Position	Position Size	Risk ON or OFF
Market Trend	Cash	25.0%	OFF
Sentiment	Cash	25.0%	OFF
Volatilty	IEF	22.5%	OFF
Levered Volatility	UST	2.5%	
Credit Risk	SPY	22.5%	ON
Levered Credit Risk	QLD	2.5%	ON

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