



Dollar Headwinds

Despite talk in the mainstream media about how the U.S. Dollar is being reduced to rubble, the currency has been quite strong.

Maybe it has been *too* strong.

I have noted in this newsletter in the past that the Dollar has been a reliable place to hide when markets are in crisis mode.

We are in crisis mode in nearly every aspect of our lives.

Initially, the Dollar was slow to react to the crises. This is especially the case after Russia invaded Ukraine. The Dollar not shooting up in value deeply concerned me.

Then the Dollar gained steam, and there has been a strong up trend in the Dollar.

Typically, when the Dollar is as strong as it has been, there's been a significant market crisis as well.

Take a look at this chart from Morgan Stanley.

It's hard to tell the various crises in the chart, but in a nutshell, a 16% year-over-year increase in the U.S. Dollar has coincided with a few doozies in the global economy.

These include:

- Junk Bond Crisis
- Mexican Debt Crisis
- Russian Default
- Tech Bubble
- Housing Bubble
- Sovereign Debt Crisis
- China Devaluation

Exhibit 2: Increases in the Rate of Change of the Dollar to this Magnitude Typically Coincide with Periods of Market Stress



Today, we may be in an *everything* bubble.

Not only was the first half of 2022 the worst in 50 years for stocks, but it was also a bad period for virtually everything. Bonds got killed. Gold was weak. Housing has started to slow.

Morgan Stanley notes that about 30% of revenues in S&P 500 companies come from overseas. The strong Dollar is likely to hit the bottom line hard.

For now, this will create a headwind.

In addition, liquidity is still unfavorable.

Corporate liquidity is unfavorable too.

Corporate buyback activity has fallen to the lowest level since September 2020. Over the past 12 years, buybacks have been a primary driver of the bull market in stocks.

The IPO market is in the shitter too.

Cryptos remain in massive downtrends.

Other speculative markets, such as the luxury watch market, have softened considerably. I think this is just a start. Inventory has been sitting for months, and prices are still not at levels that attract buyers. Dealers need to turn inventory quickly, and many weaker players are being ground to dust.

The bounce in stocks is like what we might see in a bear market rally. The most overpriced and speculative companies rally hard only to reverse course and set new lows.

Trading volume has been weak too.

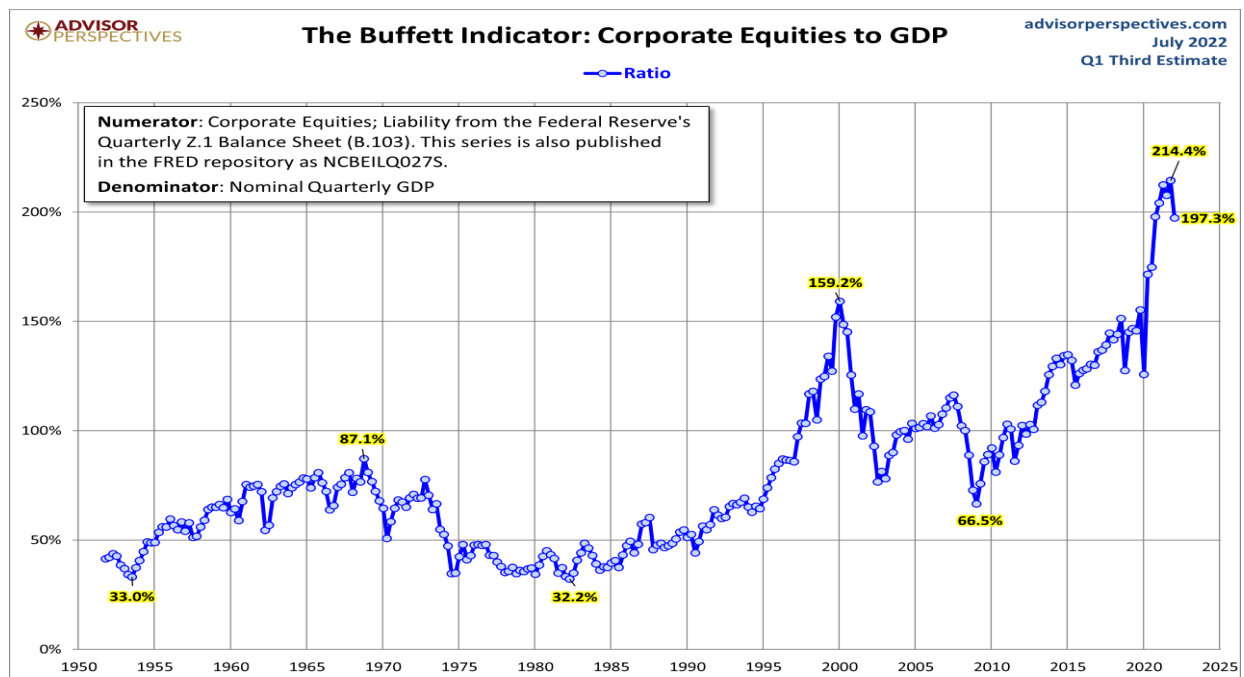
Valuation is a headwind for the market too.

While equity returns were poor in the first half of 2022, we started the year with nosebleed valuations. We are still at nosebleed valuations.

As the chart below from *Advisor Perspectives* shows, the Buffett Equity to GDP indicator peaked at 214%, a historical high. Even after a good beating in stocks, the indicator only fell to 197.3%

Also, a historically high level.

New bull markets are unlikely to start from such a high level.

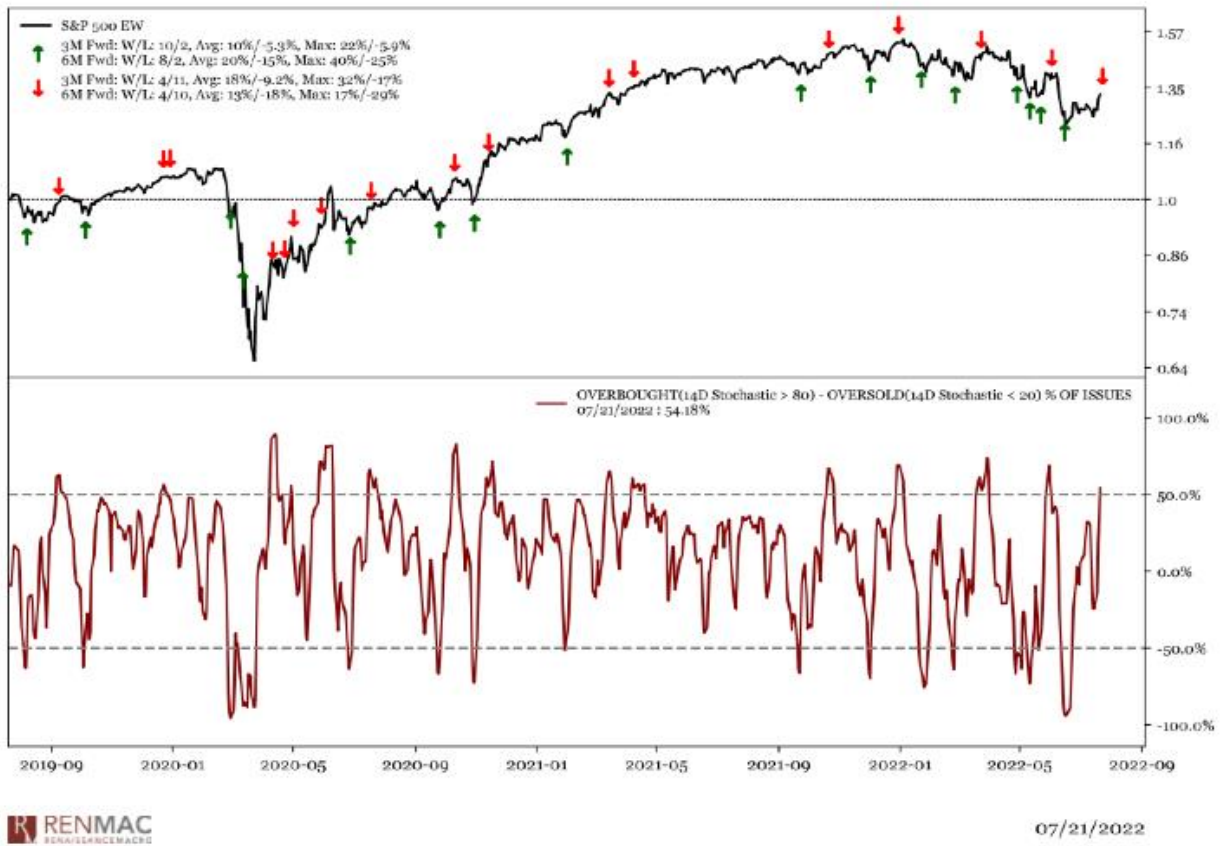


Right on cue, stocks have become very overbought while valuations remain rich.

The following chart from RENMAC illustrates that we have now hit overbought levels.

Typically, returns from here are poor until the overbought condition is worked off.

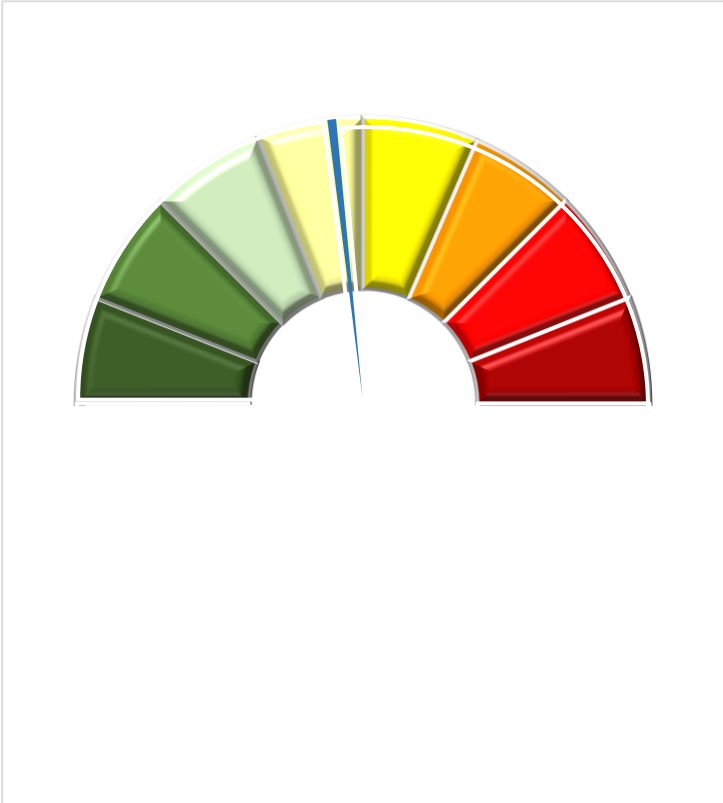
It is time to be cautious.



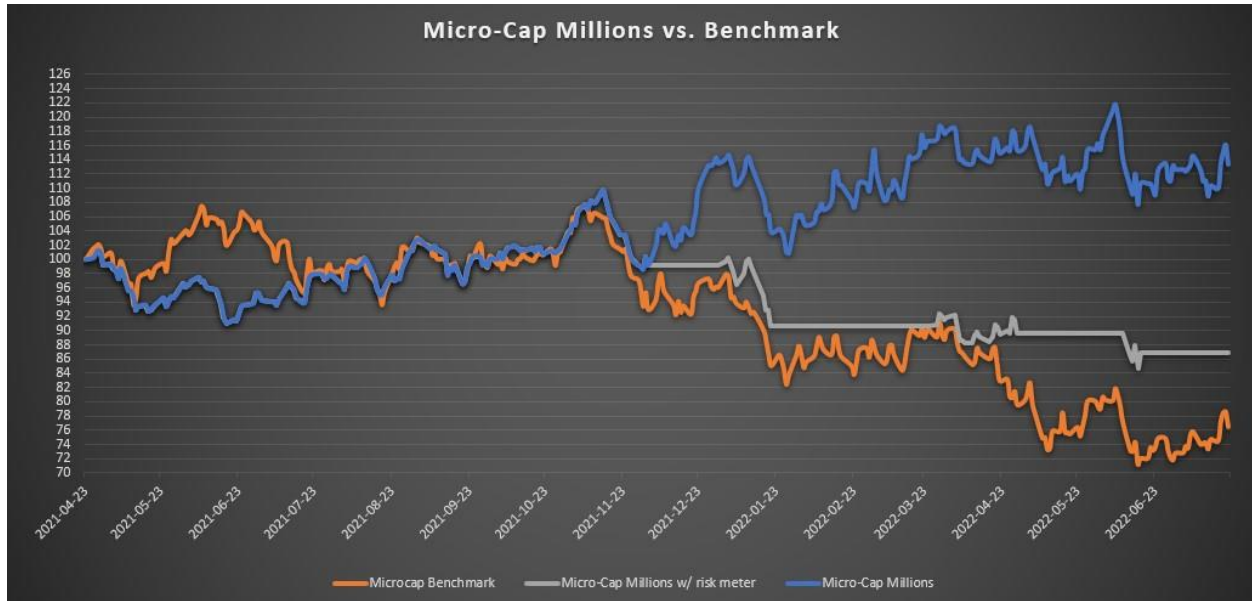
The *Risk-O-Meter* remains in the middle of the range.

The market is becoming overbought. Risks remain elevated.

It's difficult for me to get excited about stocks here.



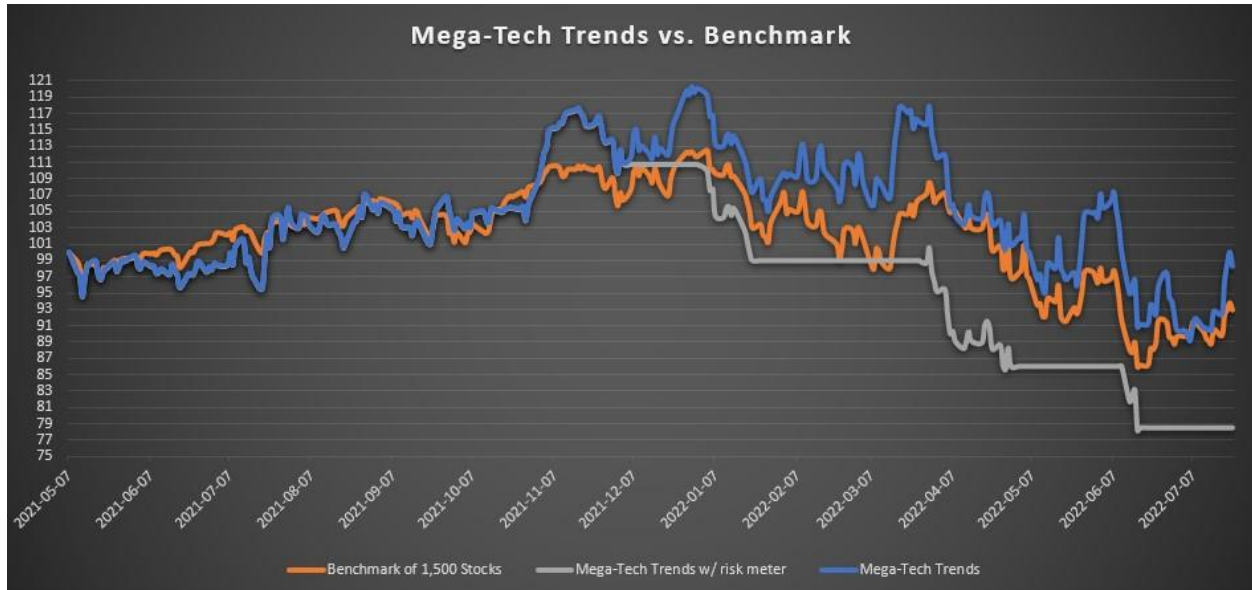
Micro-Cap Millions



No trades this week. Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ALPN	Alpine Immune Sciences Inc	-4.44%	4	Healthcare
ASRT	Assertio Holdings Inc	13.92%	25	Healthcare
CCRD	CoreCard Corporation	1.02%	4	Technology
CTG	Computer Task Group Inc	-3.45%	46	Technology
HCKT	Hackett Group Inc (The)	-5.13%	123	Technology
IRMD	iRadimed Corp	0.68%	4	Healthcare
PERI	Perion Network Ltd	7.86%	4	Technology
SCSC	ScanSource Inc	-18.84%	53	Technology
SRTS	Sensus Healthcare Inc	3.34%	4	Healthcare
WSTG	Wayside Technology Group	-17.04%	60	Technology

Mega-Tech Trends



There is one trade this week.

Buy Prestige Consumer Healthcare, Inc. (NYSE: PBH)

Sell Hologic, Inc. (Nasdaq: HOLX)

Here is the current portfolio. There are still nine positions.

Ticker	Name	Return	Days Held	Sector
ACLS	Axcelis Technologies Inc.	13.26%		4 Technology
ARLO	Arlo Technologies Inc	13.72%		4 Technology
CDW	CDW Corp	6.18%		60 Technology
LFUS	Littelfuse Inc	-2.62%		67 Technology
NTCT	NetScout Systems Inc	-4.03%		25 Technology
PBH	Prestige Consumer Healthcare Inc	0.00%	new	Healthcare
PLAB	Photronics Inc	27.07%		130 Technology
SCSC	ScanSource Inc	-18.52%		46 Technology
SNX	TD SYNEX Corporation	4.31%		4 Technology

Large-Cap Leaders



There are no trades this week.

Here is the current portfolio:

Ticker	Name	Return	Days Held	Sector
ADI	Analog Devices Inc	-2.55%	53	Technology
APH	Amphenol Corp	-11.35%	165	Technology
AVGO	Broadcom Inc	2.78%	32	Technology
CDNS	Cadence Design Systems Inc	8.42%	137	Technology
CDW	CDW Corp	-0.30%	74	Technology
CRM	SALESFORCE INC	9.02%	4	Technology
CTSH	Cognizant Technology Solutions Corp	4.92%	4	Technology
FTNT	Fortinet Inc	3.55%	25	Technology
IT	Gartner Inc	-0.70%	67	Technology
KLAC	KLA Corp	11.73%	11	Technology

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