Rodney's Take

September 19, 2022

Start Buying Your Wish List

Well, that escalated quickly. I wrote my Wednesday Take for last week on Tuesday as the market sold off hard and suggested that all of us take at least a week or so to breathe, but now things are getting interesting. With the S&P 500 down more than 5% and the Nasdaq down more than 6% last week, this is starting to look like a decent time to establish starter positions, but don't expect the going to be easy this fall. It's likely to be a volatile repeat of the last 90 days, with a better ending.

As the summer started, I warned about a selloff that would last until Labor Day. I was right, then wrong, and then right again. That's par for the course when trying to figure out what the Federal Reserve and investors will do over the short run. I thought the central bankers would remain hawkish through the August meeting and then soften their language at the September meeting as the wheels started to come off of the U.S. economy. The change in stance would give investors the confidence to jump back into the markets, on the premise that the bankers would raise rates at a slower pace in November, stop raising rates in December, and then lower rates by next summer. Today, that timeline doesn't look promising, but our goal is to get in front of market turns, not behind them.

With unemployment still at 3.7%, mortgage rates back over 6%, and consumers still packing bars and restaurants to complain about higher prices, the Federal Reserve still has room to raise rates after September without killing economic growth. Granted, the Atlanta Fed GDPNow model estimate of annualized growth for the third quarter dwindled from 2.5% to

just 0.5% as of Thursday, September 15, but with inflation at 8.3%, that means we're increasing our spending by 8.8%.

That's not shabby, but I don't think it will last, so we need to get ready for the next market pivot.

So many things could go wrong here at home and internationally that I can't list them all. We might see a third quarter of real economic contraction, FedEx earnings crush could bleed into other sectors, employers could start laying off workers in big numbers, or consumers could turn to higher inflation expectations, which would work against the central bank. Russia might take the war up a notch, the Europeans could get hit with a cold snap and have to ration energy, and the yuan and the yen might fall further, creating havoc in currency and capital markets. I don't know which of these scenarios will happen, if any, but I expect some bad news between the September and November meetings, which should be good for stocks by the end of the year and even better for them by next summer.

If you're the best market timer in the world, then wait until you see the turn and then buy everything. If you're merely a human trying to figure out a good time to step into the markets, consider averaging in rather than trying to go from zero to hero. The first step is to decide what you want to own by the middle of next year, the second (and arguably harder) part is to decide when you want to own it.

As our paid subscribers know, we bought Amazon (Nasdaq: AMZN) ahead of the split at the beginning of the summer, sold it right afterward, bought it again when it dipped in June, and then sold it again when the market shot higher in late July and early August. We made good money but then held off this month, because when the markets go down, most stocks, especially growth stocks, get hammered.

Instead of buying such companies, I've been focused on income plays for most of the year, adding names like Altria (NYSE: MO) and others to capture big, fat dividends at lower prices. I still think that's the way to go, with a few growth names added in. Maybe you like Nvidia (Nasdaq: NVDA) or Microsoft (Nasdaq: MSFT). Perhaps you love Tesla (Nasdaq: TSLA),

although I don't. Whatever it is that you've had your eye on, consider establishing a starter position after the Fed's announcement and press conference on Wednesday, and then be ready to buy again by the end of October. You don't have to pull the trigger next month until you get confirmation from the Fed about what they will do next, which will be easy to discern.

While the central bankers won't outright tell you how they will vote ahead of their meetings, they do all they can to telegraph what they are about to do, and then they go further. As I have mentioned before, Nick Timiraos of the *Wall Street Journal* seems to have an amazing ability to forecast what the Fed will do at policy meetings, a skill he learned from Jon Hilsenrath, who was able to forecast what the Fed would do in the 2010s. It's almost as if someone were feeding each of them information to report to the world and keep readers on track.

After the Consumer Price Index numbers came out last week, Timiraos wrote that the Fed likely would raise rates by at least 0.75%, which sent the markets into a deep freeze and caused the CME Group FedWatch Tool probability of a 1% rate hike to go from less than 10% to more than 30% in an instant. Since then, the probability has fallen to less than 20%, and it looks like it will ease back to less than 15% or 10% by next week, which should take a little pressure off the markets ahead of the meeting.

I don't know whether we will get a change in tone in the monetary policy announcement or the press conference. If we do, the markets will soar. If not, I expect the markets to be disappointed, at least for a little while. We'll know that things are about to turn when we start getting economic hits that weigh on the U.S. economy and when Timiraos tells us so.

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Got a question or comment? You can contact us at info@hsdent.com