John’s Take 1-23-25

Wild Ride Ahead

Recently, I sold my primary residence.

Our home sold faster and for a higher price than I expected.

That's good news. The bad news is I don't have another primary residence. Fortunately, I’m not homeless, either.

I'm in a small ski cabin I inherited when my Dad passed away. I fortunately beautifully renovated the place a couple of years ago, and it's livable for an extended period of time. It's quite nice, actually. Small but nice.

I heard many opinions about the real estate market during my recent real estate journey.

They’ve been wrong.

The first opinion was that things would pick up after the election. I'm not sure why people held off until after the election to list or buy a property, but I guess they did.

It's bad for them, though. Both the market I sold in and the market I'm looking to buy in have slowed dramatically

That leads to the second wrong opinion.

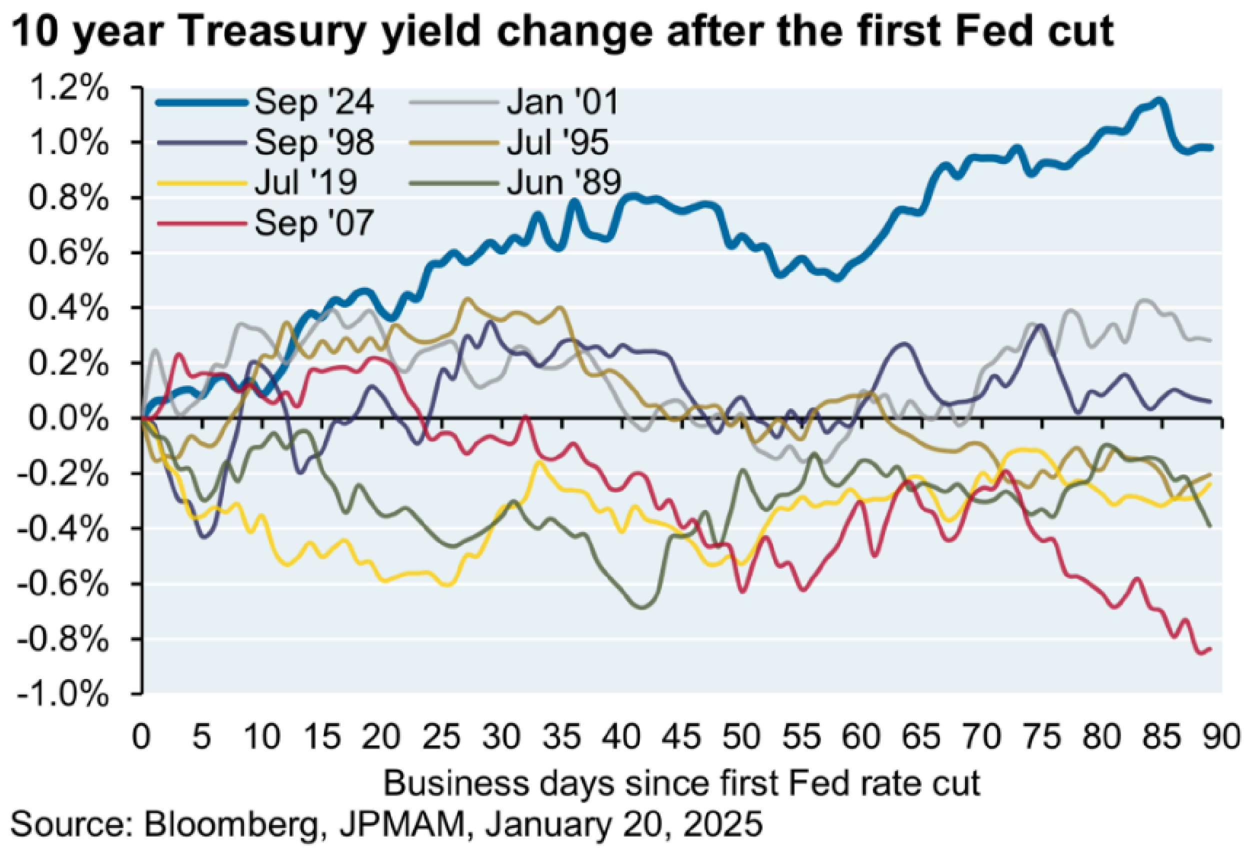
Interest rates would go down.

They didn’t.

The Federal Reserve cut Federal Funds rates, which went down. However, 10-year rates have skyrocketed since Donald Trump won the Presidential election.

So people who don't know what they're talking about (e.g., the Federal Funds rate does not dictate mortgage rates) were wrong and got caught with their pants down.

Take a look at this chart:



Since federal fund rates have been cut, 10-year rates have increased by about a percentage point. As a result, mortgage rates have *surged* to multi-month highs. Current rates moves have bucked historical trends.

I don’t see the point of predicting interest rates or waiting around. Many people have been caught leaning in the wrong direction. Higher rates are killing buyers and will bring real estate prices down, hurting sellers too.

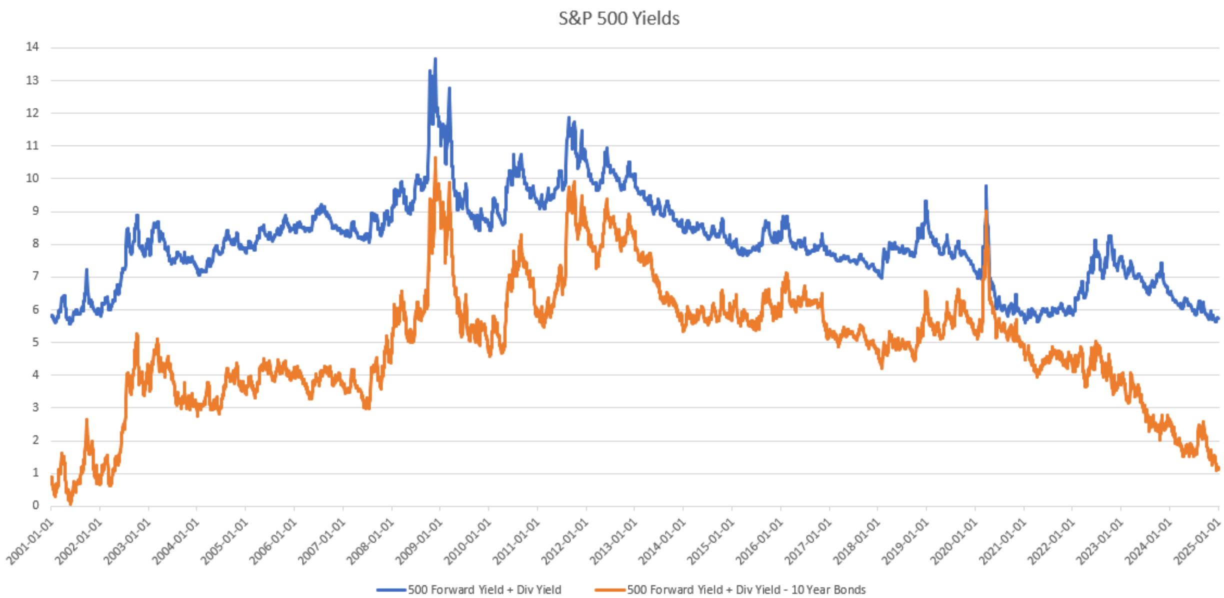
I lived in a seller's market. One piece of advice my Dad always gave me was to “strike while the iron is hot, kid.”

The iron was hot, so I capitalized on the opportunity.

I also do my best to do the opposite of everyone else. So, when I heard that rates would go down from nearly everyone who gave me an unsolicited opinion, I was skeptical.

Rates are surging at a time when stock market valuations are rich. Take a look at this chart.

The forward earnings and dividend yields on the S&P 500 (orange line) are crashing compared with 10-year Bonds. Eventually, investors will ask themselves whether it's worth the risk of owning stocks for about an extra percentage point when they can hold intermediate-term bonds.



And here’s the rub. Market breadth has been poor. I’ve been warning readers about this for a couple of months. If I sound like a broken record, it’s because I am.

Look at the Nasdaq Composite. Recently, the index has made 3-year highs, but less than 40% of stocks were up on the day, and more stocks made 52-week lows and 52-week highs.

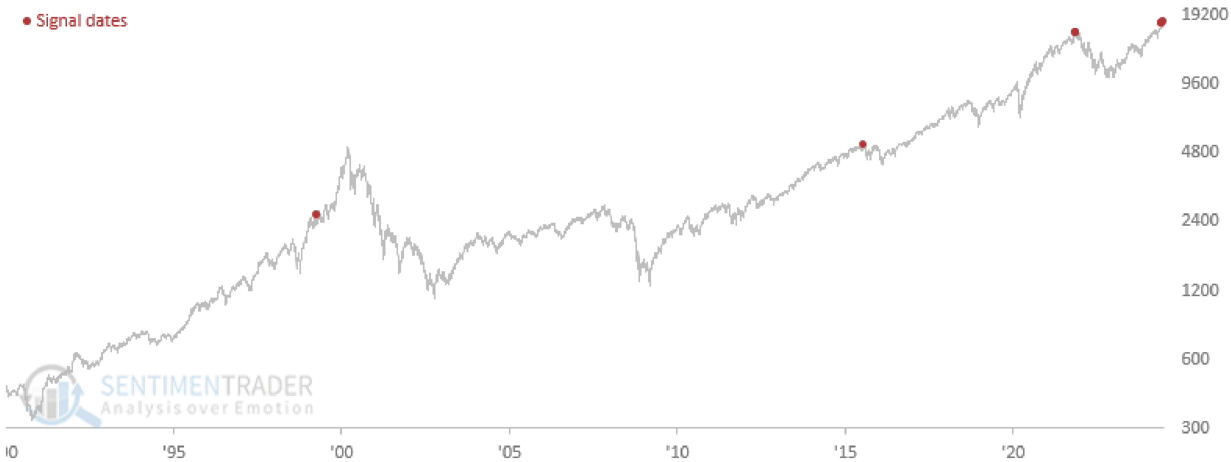
Not good!!!

The median return 12 months later when these conditions occur is a 16.9% loss.

However, that statistic may not tell the whole story, as 1999 saw a high gain due to the Internet Bubble.

Today, it could be much worse.

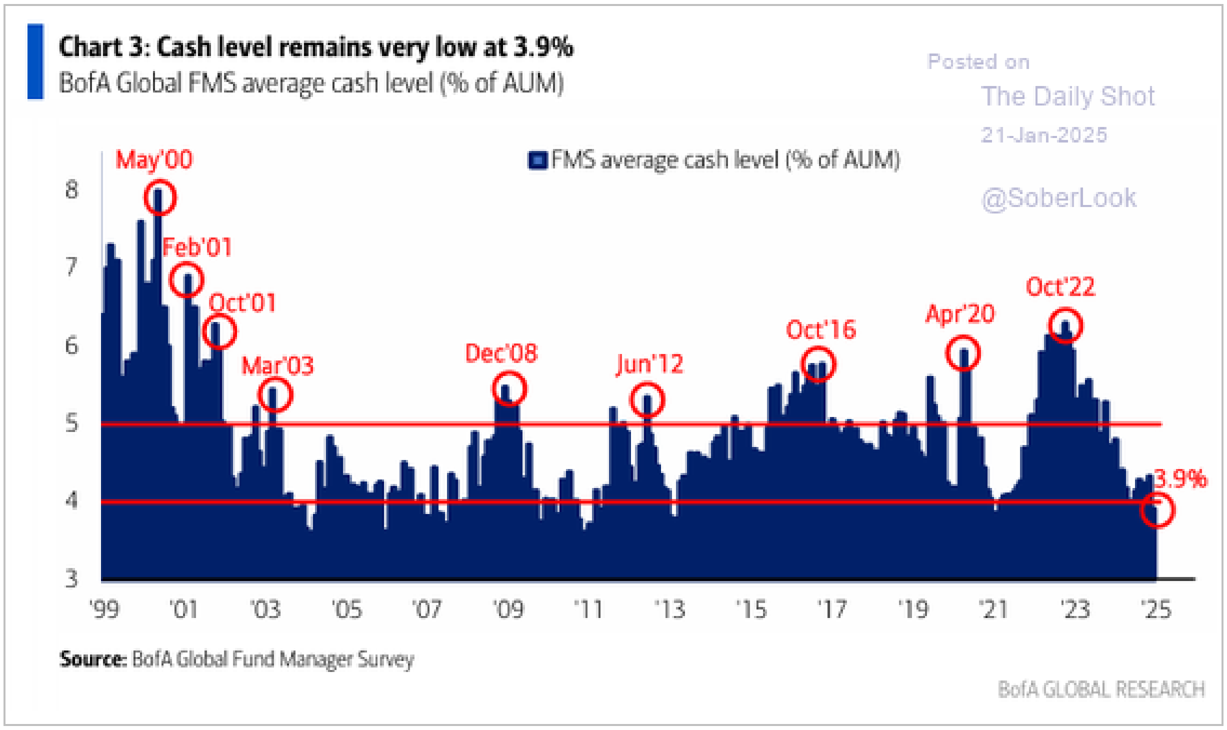
Nasdaq Composite after 3-year high with < 40% up issues and NH < NL



Dates of 6 Signals	1 Week Later (%)	2 Weeks Later (%)	1 Month Later (%)	2 Months Later (%)	3 Months Later (%)	6 Months Later (%)	12 Months Later (%)
1999-04-06	0.8	-6.0	-1.1	-3.3	6.8	9.1	64.8
2015-07-20	-3.4	-2.0	-3.1	-6.2	-6.4	-14.2	-3.5
2021-11-18	-3.1	-5.7	-6.3	-11.5	-15.3	-29.0	-30.3
2021-11-19	-1.7	-5.2	-4.5	-14.3	-16.7	-28.2	-31.3
2024-06-13	0.1	0.4					
2024-06-14	-1.1	1.1					
2024-07-01							
Mean	**-1.4**	**-2.9**	**-3.7**	**-8.8**	**-7.9**	**-15.6**	**-0.1**
Median	**-1.4**	**-3.6**	**-3.8**	**-8.9**	**-10.8**	**-21.2**	**-16.9**
% Positive	**33%**	**33%**	**0%**	**0%**	**25%**	**25%**	**25%**
Avg Max Loss	-2.0	-4.3	-6.3	-12.0	-13.9	-20.2	-24.5
Avg Max Gain	0.6	0.7	1.0	1.0	1.8	3.3	24.3
Z-Score	-2.3	-3.1	-4.2	-4.3	-2.5	-3.0	-1.2

 Numbers are % return after signal; Risk = avg max loss; Reward = avg max gain; Z-Score +/- 2 suggests significance.

Meanwhile, money managers are fully loaded into stocks. Cash levels are at just 3.9%, which is low by historical standards for this century. What happens when asset managers are forced to sell?



I suspect we are in for a wild ride in 2025. Lots of people were very wrong about interesr rates. So, they are off on the wrong foot. The market could go up more from here or reverse. The good news is that we don't need to predict what will happen. We can simply *react.*

My strategies all involve trend following. While you won't pick tops and bottoms in such strategies, you do capture the meat in the middle. My *Microcap Millions* is off to a strong start in 2025, up 4.83% compared with *the index's loss* of 0.89%. That's on top of a 58.78% gain in 2024. *FAST Profits* returned 39.99% last year as well.

While I don't know what 2025 will return, there will be opportunities, and a consistent strategy is needed to capitalize on them.

Don't let the wild ride make you sweat. Stick with your system and seize the opportunities!

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