When Jerry Met Janet

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Who hasn't seen the movie "When Harry Met Sally"? Billy Crystal (Harry) plays the snarky, self-indulging paragon of singlehood who meets up with the quirky, slightly shy, self-doubting Sally (played by Meg Ryan). Their on-again/off-again relationship (mostly 'off') spans beyond a decade until they realize they were either made for each other all along or they simply ran out of other options. I'm not sure. In the end, they decide what they have is real, and they hook up just in time for the big New Year's Eve (clock striking midnight) movie-ending embrace, leaving the viewers holding back their tears.

Last month we had an updated version of an equally contrived but tortured relationship play out between Fed Chair Jerome (Jerry) Powell and Treasury Secretary Janet Yellen, herself a former Fed Chair. As we were coming into the month of October there was a looming showdown in the Senate and House over whether or not the debt limits that were due to expire at the end of September could be lifted. Too much debt, not enough leeway to pay the current bills. Jerry and Janet were both making the rounds, doing publicity with anyone that would give them a platform, urging the Republican Senators to put aside their gripes about not being included in any discussions about the newly proposed (massive) spending bill but to just support the Democratic majority by voting alongside them anyway to push the limits for spending much higher. Janet was calling for a doomsday-like outcome if something wasn't done immediately and Jerry was using his bully pulpit as head of the Fed to urge unity. I replayed the scene from the original movie in my head where Harry calls Sally late at night (neither was on a date and both were exhausted), "just to talk". They lie comfortably in their respective beds, heads on their pillows, gazing up at their ceilings. However, my replay version had Jerry and Janet online, with fawning mutual respect for each other, and from the comfort of their high-rise condos while looking into their respective monitors showing different ceilings, the ones of debt, messaging back and forth and commiserating just how awful the markets would react if something, anything, didn't get accomplished immediately. Oh, Hollywood!

In the meantime and back in the real world a concession was made, more time was added to the clock, and now the same cast of legislative characters have until early December to once again come up with a scheme that will allow federal invoices and federal employee payrolls to be paid for the fiscal year. However, this does not clear the way for the markets, and we may be seeing some tremors under the surface. There was a stock rally, for sure, as the legion of "dip buyers" once again showed up on cue. Still, the interest rate on the 10-year Treasuries have continued to inch up (when rates go up, the prices on this benchmark bond goes down), more stocks have slipped below their 50-day and 200-day moving averages, and the projections for growth in the economy by the Fed continue to diminish *(on Friday, October 22, CNBC reported that the estimate has dropped from near 7% at the beginning of the year to now under 1% for the 4th quarter)*. I am fully prepared to see the debt ceiling drama return between the two major parties, but there could be even more hyper-partisanship. A war of words may be right around the corner, just in time to spoil your Thanksgiving. Stay tuned.

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When was the last time you got a really good bargain on something? You know, like a great price on a slightly used car, or a plot of land? What about a collectable item like a rare coin or an antique that you really admired? Did you ever get such a great deal on something that it left you with feelings of guilt? Perhaps you wondered why the seller let it go for the price that they did. Did you truly take advantage of them, or could it have been a simple case of desperation by the other party to get any price that would move the merchandise? There shouldn't be any guilt at all. Every seller can set a price (the bid) and every buyer can make an offer. That is how negotiating works. Sometimes the seller has a floor, and sometimes the buyer has a ceiling.

Publically-traded securities work in much the same way. At any given time during the market hours, bids and offers are posted and it is up to the buyers and the sellers to come together at an agreed upon price. Too many buyers create a demand surge and generally can push the offers higher and higher. At any point along the way those potential buyers can withhold their offers, or even remove them altogether. At such a moment when the offers are pulled (but where sellers remain), prices can go into a free-fall until such a price can be determined wherein a new buyer can be found. This frequently happens when there is a sudden negative news development or in the case of some stocks, a disappointing earnings (or pre-earnings) release.

Bargain shopping in the public securities marketplace can be a full-time endeavor. There are thousands of stocks to choose from and it's highly likely that at any given time many of those could be considered by even the most rigorous analytical standards to be a great value. You've likely heard the old saying, "One person's trash is another's treasure". However, simply being a bargain isn't enough when it comes to investing for the long term. Somewhere ahead you'll want your capital to grow, and in order for that to happen others need to see the value proposition that you see, and then they have to become buyers too. Strangely, when it comes to the publically-traded markets, simply being "cheap" isn't enough to generate buying enthusiasm. A catalyst is often needed. This is where the local flea market separates itself from the market of stocks.

There are many factors that go into the price action of a stock. In the modern era there are gobs of so-called "Artificial Intelligence" pre-programmed high speed computer models that are constantly hitting the bids, but sometimes it feels like the word "Intelligence" is an oxymoron. Price momentum has become such a factor today that one can often see a disconnect between "value" and "price". The greatest irony of all, of course, is the frequency in which stock prices can become so far removed from rational valuations, both on the up and down directions. Go to a grocery store and see chicken on sale for a dollar a pound and you will see customers loading their carts with chicken to take home to their freezers. Look at a chicken company stock that may be dropping in price (i.e., "going on sale") and you might likely see even the most committed shareholder give up hope, have a moment of doubt simply because the stock price is in decline, and join in on selling their shares. Fear, angst, but mostly, an emotional trade. Funny how this could ever happen, but it does, all the time.

This doesn't only happen on the sell side. It happens on the upside too. Momentum can be a powerful magnet that creates even more momentum. It is not uncommon for a steadily rising stock to eventually have the vertical slope of the rise increase dramatically, often ending in a near straight up surge. This is a "buying panic" and it is the result of greed (FOMO, fear of missing out), but this too is an emotional trade. It can pull in a lot of participants who believe that they will get rich quickly while hoping to get out before everyone else right at the top. Those who fail to exit on time are commonly called the "bag holders"; and so it goes.

Such is the life of a publically-traded security, but the emotional journey for many can often lead to frustration and poor decision making, particularly from the uninformed. Fear and panic causes more selling on the downside while greed and panic causes more buying on the upside. You can see what the common denominator is here: panic. Stock traders and day-traders will often give in to their worst instincts, but they are usually only there for a quick buck anyway. They are making their gains and taking their losses, and whether they win or lose over a specified time frame is irrelevant to the rest of market participants. True blue long-term investors may follow a different pathway. Their job is to find good investments that have good long-term potential to create future cash flows, and then seize upon the price when it is most favorable to do so. A selling rout that has had downward momentum may be a true friend to the well-informed long-term investor.

This brings us to the market of today, here in the last quarter of 2021. There are many reasons to be invested in the current market, as the world continues to change at an amazing pace and new technology and new concepts continue to change the way we live, work, and play. However, we are also experiencing a fiscal climate like no other before us, one where powerful forces have intervened to create significant upward momentum and where greed has been the dominant emotion. It appears to me that many rising stocks have already developed into a much steeper upward slope and some are going straight vertical. Value appears to me to have been left far behind. The odds of more and more late-term buyers becoming the future bag holders has potentially increased substantially. The disciplined buyer, the long-term focused investor, may have a much harder time in here finding the most coveted of opportunities. However, I've seen it all in my long career, and I have little doubt that this too may pass and that a much better opportunity may avail itself somewhere ahead. Of course, no one can predict the markets with any certainty. I've seen prices go to the moon and I've seen them collapse. I have seen it in our domestic market as well as many foreign markets. I've seen it happen in stocks, bonds, real estate, the art world, and beyond, and every time a collapse has come it has left a dearth of exasperated late stage buyers who never saw it coming. Could it be different this time? Of course it could, but I doubt it. Given the apparent lopsided nature of the markets today, there could be a lot of sellers in the next correction. Some of them could easily become so desperate to get out just to hang on to what they have left. It wouldn't be the first time to happen and it won't be the last. Let desperate sellers who might let go of their positions "at any price" do so, and don't have a moment of guilt when you decide to come in with the low price offer and your orders fill. Once a position is taken at a bargain basement price, sit back and wait for the tide to turn. Wait for your catalyst. Let the cycle repeat.   Happy Thanksgiving, everyone!

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