How to predict and profit from the Fed's bubbles and crashes

Why stocks usually go up when the Federal Reserve starts raising rates

What if everything you read and hear about the Federal Reserve, rate cycles and the stock market is all wrong? It probably is. It sure has been for decades.

So how many money managers, hedge fund managers and home investors have told me that the stock market is in big trouble because the Fed is finally about to start raising rates. Everybody on CNBC and Fox Business and Bloomberg will tell you a litany of reasons why it's supposed to be a Very Big Deal and Very Bearish that the Fed's raising rates.

Yet for the last 20 years or so, as you'll see in this report, the exact opposite has been true — you would have wanted to be in stocks when the Fed was in a tightening phase in the late 1990s, while you would have wanted to be out of the markets or even short stocks when the Fed was easing again from 2000 to 2002.

Likewise, you would have wanted to be in stocks when the Fed was in a tightening phase from 2003 to 2007, while you would have wanted to be out of the markets or even short stocks when the Fed was easing again from 2008 and 2009. Long-time Trading With Cody subscribers remember that, as I explained in 2012, the Fed has been cutting QE since 2012 or so which was essentially a move into another tightening phase and, once again, stocks boomed.

I've been explaining why this seemingly now-outdated theory that has become conventional wisdom is all wrong for more than a decade now. If you want to understand the driving forces of our modern day economy and, more importantly, driving the stock market and how to know when we finally need to get bearish again -- read on, as we've collected the most relevant and important reports we've published since turning bullish back in 2009 as the economy and stock market did indeed bottom, as we'd predicted using these same theories back in 2008, just as we'd used them to turn bearish and sell almost all our stocks back in late 2007, right near the top!

Be sure to catch the conclusions and additional new commentary on pages 30

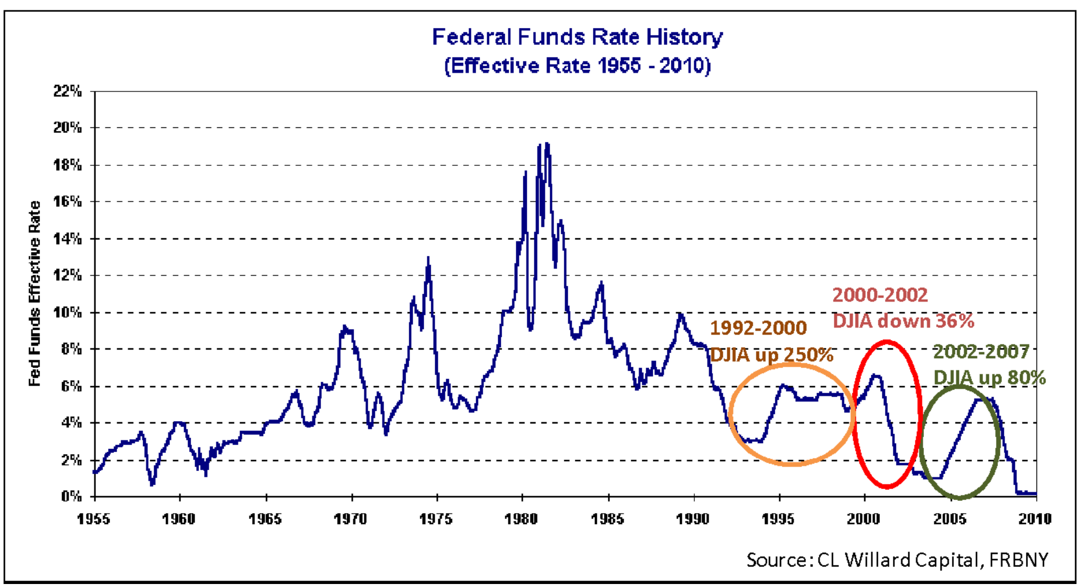
[It pays to fight the Fed]

Published on Marketwatch, March 16, 2010 by Cody Willard

"Don't fight the Fed." I've been hearing that ol' saw since I first got to Wall Street in 1996 and the brokers at Oppenheimer explained to me that when the Fed's raising rates that the markets get hurt and when the Fed's lowering rates that the markets benefit. Their logic centered around the liquidity and money supply changes that the Fed rate moves affect. In other words, the conventional wisdom says that when the Fed pumps more money into the economy that the stock market will go up and when the Fed drains money from the economy that the stock market will go down. On the surface, the logic makes sense.

But like most things in the market, making sense is often only skin deep and following conventional wisdom is always a bad idea.

Turns out that listening to that the conventional wisdom of never fighting the Fed has been the exact wrong thing for a trader to do for the last fifteen years. Take a look at the chart below that shows the Fed Funds Rates for the last half a century. Focus in on the chart starting in about 1992 or so when you see the Federal Reserve stopped lowering rates. The Fed actually started raising rates in 1994 and if you had stopped at any point from 1992 when the Fed stopped "accommodating" the markets through the year 2000, a full eight years later as the Fed had been moving rates pretty steadily higher, you would have missed out on a 250% rally in the DJIA. Yes, the boring ol DJIA was up more than triple in the eight years that the Fed was mostly raising rates and people who thought they shouldn't "Fight the Fed" were left sitting on the sidelines.



And then if those same people followed that same logic and started buying stocks as the Fed started (drastically) lowering rates in late 2000 and into early 2003, they would have seen their investments get outright crushed. I mean, the DJIA was down nearly 40% in that time frame (the Nasdaq was down 75% while the Fed was cutting rates!).

In 2003, the Fed started raising rates again, and what did those folks who thought they should get out of the market because they didn't want to fight the Fed see the markets do while they sat on the sidelines after taking their huge losses by "not fighting the Fed" in the couple years prior? They missed an 80% move in the DJIA as the markets nearly doubled as Fed steadily moved interest rates higher.

Finally, in 2007 and 2008 as the Fed moved rates down to 0%, taking them as low as they can go, what did those folks get for "not fighting the Fed"? The market dropped about 60%.

Where are we today then? Fed rates are still at 0% and they're likely to be there for the foreseeable future as the Federal Reserve and Treasury and powers that be have clearly and repeatedly said they'll keep them there as long as they can get away with it. But rates will have to rise at least a little bit and maybe, just maybe, that means the Fed's already got the juice moving thru the system and we'll inflate stocks once again with their cheap money. That is until the Fed starts trying to slow things down, keep prices lower and fight their bubbles again. And, if history is any guide, the Fed will eventually decide that it has to start lowering rates again. At which time, we'll want to be selling again.

Because it pays to fight the Fed.

Published on Marketwatch, March 16, 2010

Revolution Investing: Fight the Fed

Posted March 16, 2010

(Click the picture above to watch the interview, which was from 2010, on Marketwatch.com) Fox Business anchor Cody Willard explains to Simon Constable why the conventional wisdom of selling when the Federal Reserve hikes interest rates is all wrong.

[Why you must fight the Fed and get ready for a new stock market bubble]

Published on Marketwatch, December 31, 2010 by Cody Willard

What if things go right in this country for the next year or two?

Bull markets are built upon the bricks of skepticism and upon the backs of bears who are short the market and therefore will have to buy at some point to cover and/or chase the rallies. And, as I've been pointing out since July's lows, 25% ago, the bears and shorts have been aggressive in fighting the boom, despite the fact that both the fundamentals and the macroeconomic (i.e., Fed's relentless liquidity/money pumping) forces seem to point to much higher prices.

Nonetheless, it's always instructive to work through the other side's logic. As longtime readers know, I'm certainly willing to turn bearish when the cycles and markets get set up for bear markets, as they did in 2007 when I sold everything, and as I told readers at the time, moved my time and money to my media career instead of managing money.

Let's walk out the most likely macro-economy cycle for the next year or two.

One of the points the bears I know and love keep telling me is that corporate profit margins are at all-time highs and that's unsustainable. Excuse me while I gag myself with a spoon — I mean, this is one of the oldest and wrongest staples in the bear's arsenal.

Corporate profit margins have been setting new highs for my entire investing career, over the last 15 to 20 years. Those boosted margins have been in large part attributable to our economy having moved from a manufacturing-based economy to a service-based economy. Then in the last 10 to 15 years, that service-based economy turned into a information-based economy and that's helped push margins even further.

But any discussion of corporate margins and their future direction is completely misguided without focusing on the incredible corporate-welfare programs, such as the government-funded, but corporate-administered health-care expansion policies and especially the bailouts and Fed emergency-liquidity policies. We're talking trillions of dollars in direct and policy-directed corporate-welfare programs that have been created in the last couple years.

All that government help is indeed very likely to help its targets: the same corporations whose profit margins we're discussing right here right now. I think it's incumbent upon all of us as patriots to fight this trend of endless corporate-welfare programs with our votes, but as investors, we need to profit from it. That means betting on corporate margins' continued expansion.

One of the main reasons I've created Revolution Investing is because it's now so important for us as investors and savers to gauge the impact of these policies and their consequences, both intended and unintended. At some point, when it catches on to the same trends that we're seeing here at Revolution Investing, the Fed's going to have to start raising rates. There's an old saying on Wall Street that you "can't fight the Fed," but it's dead wrong. For the last 15 years, you always want to buy when the Fed is getting done lowering rates and sticking around til the Fed starts to lower rates.

In about 1994, the Fed stopped lowering rates and never went that low again for many years, as the overall trend in rates was higher. Meanwhile, the stock market went into a huge bubble by the year 2000. By 2001, the Fed started dropping rates and the markets literally crashed over the next couple years. By 2003, the Fed was done lowering rates and we once again went into an environment of rising interest rates — and the stock market doubled over the next three years.

By 2010, we're done lowering rates and easing. We'll likely see the overall trend in interest rates rise over the next few years. And I do think the most likely scenario is, indeed, for a booming or even a bubble in the stock market again.

One of the best ways to set our portfolios up to profit from this analysis is exactly what I wrote in last week's Revolution Investing about how I'd use some long-dated calls in some of the cheapest, lowest-beta tech names such as Cisco Systems Inc. Read column on Cody's "favorite trade."

Be vigilant, be careful, be flexible. I'll see you next week … and next year!
Published on Marketwatch, December 31, 2010

It's true that people actually trade off…

Published on Marketwatch, December 31, 2010 by Cody Willard

It's true that people actually trade off these types of headlines. But we don't have to, and therein lies much of our advantage — we can and do ignore the noise:

Bernanke lowers growth forecast

Fed lifts 2011 inflation view

Fed hikes forecast for inflation and cuts economic-growth view, though central-bank board members and presidents have become more optimistic on the jobless rate, Chairman Bernanke reports.

• Fed policy, promise intact | Text of FOMC statement | Expanded Fed coverage — plus live blog

• U.S. stocks get Fed lift | Gold gains ground | Financial stocks tick up | Treasurys, dollar slip after Fed

Look, what we do know is that the Fed's got interest at negative levels and that they've infused trillions of dollars into our banking system in the name of stimulating the economy. We know that the Fed is always late to the trend, and for months we've been investing for the inflation cycle they're just now seeing.

The economy's stronger than those idiots at the Fed realize too…and more importantly to us as traders, the fundamental earnings are through the roof and seem to be accelerating. Which is also exactly what we've been setting our portfolio up for too.

We also know that the Fed's 0% rates are forcing savers into the stock market and into other riskier assets…and that is again, why I expect we'll eventually hit new all-time highs in the DJIA and that many of our App Revolution and Cloud Revolution stocks will eventually not just go up big from here, but will eventually bubble like it's 1999.

Published on Marketwatch, December 31, 2010

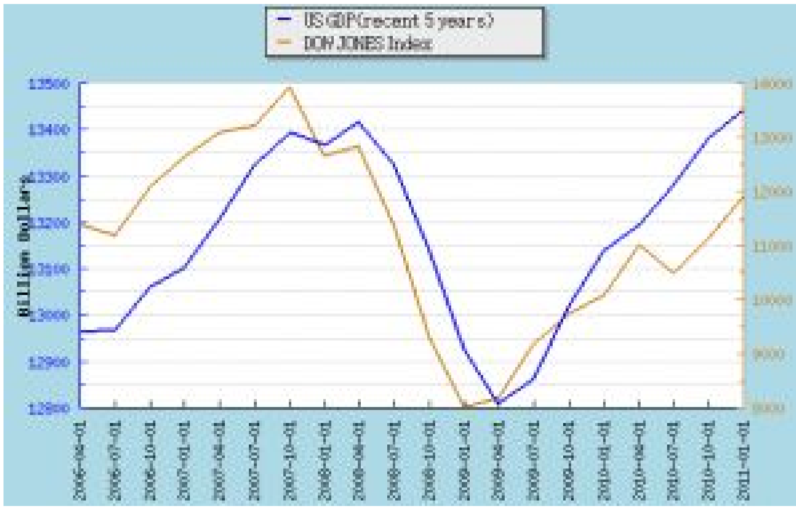
And what's the clearest trade on all these trends…

Published on Trading With Cody, December 31, 2010 by Cody Willard

Here's more on the macro-economy, the important trends inside of it, and how it is informing our analysis and portfolio positioning. I've spent the last couple weeks researching correlations between the broader macro economy and the stock market. We've been very successful and profitable in positioning for a new tech stock bubble since I launched this newsletter and my analysis continues to keep my bucket in front of that blowing up bubble. I've got several research associates putting together the charts and data for us and below we look at the major macroeconomic trends of the last handful of years and layer each one on top of the stock market.

First thing you'll notice is how remarkably correlated the macroeconomic trends are with the stock market in recent years. While the markets have always correlated with earnings over the long run and since earnings have always correlated with the broader economy over the long run, the market tends to reflect the broader economy over time. But never before has that reflection and correlation been this accurate and this direct and this quick.

First off, look at the mirrored charts of recent US GDP and the DJIA:

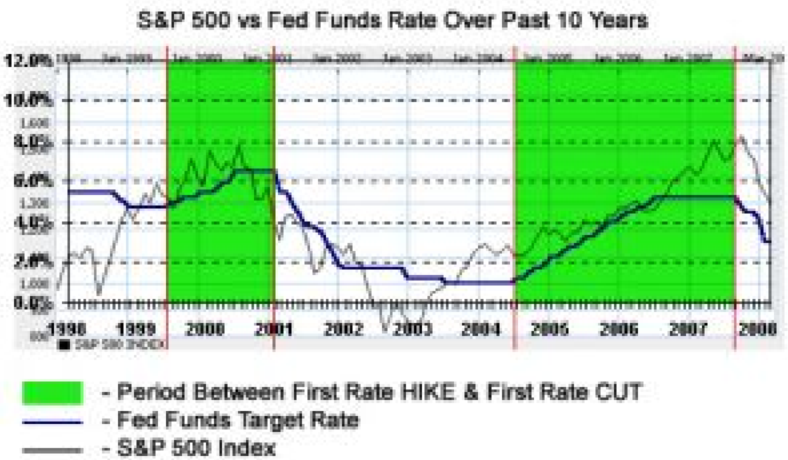


Source: CL Willard Capital Management, Marketwatch, Yahoo Finance and the US Bureau of Economic Analysis

Like I’ve been saying for a while now, I’m fully expecting to see a huge new tech stock bubble that I will call the “echo tech-o bubble” and we’re right now about 20-30% of how big it will eventually be before this monetary and stock market cycle turn.

Most pundits and investors are worried about when the Fed will finally start reversing this unprecedented monetary expansion. One of the most followed sayings on Wall Street is “Don’ fight the Fed.” But the fact of the matter is, as I’ve pointed out to you guys before, that the Fed is always late in starting to raise rates and that you want to own stocks up until the time when the Fed finally starts to look to lower rates.

Look at these two charts below and see how the stock market boomed up until just before the Fed started to cut rates:



Source: CL Willard Capital Management, Marketwatch, Yahoo Finance and the Federal Reserve

Here's another version with an extra ten years of history using the S&P 500 instead of the DJIA so you can see how much more correlated to the Fed Funds rate the stock market has become in recent years:

Source: CL Willard Capital Management, Marketwatch, Yahoo Finance and the Federal Reserve

I don't know whether I'm fighting the Fed or not fighting the Fed or what, but as investors our job is to analyze all of these factors and inputs to inform our analysis and maximize our returns while minimizing our risks…and all this analysis continues to lead us to conclude that the greatest asset bubbles our country has ever seen are being sown right now. Screw the Fed, let's just make money.

Published on [Trading With Cody](), December 31, 2010

[Let's think this through: Markets & economic analysis]

Published on [Trading With Cody], August 21, 2012 by [Cody Willard]

I just heard on the financial news tv station as I was brushing my teeth this morning that only 11% of long/short hedge fund managers are outperforming the markets this year. I've talked a lot all year about how the professional money manager has seemed to be overly bearish about the near-term and they've obviously been putting their money where their mouth is by being overly short and/or underexposed to the booming equity markets. And yes, despite the horrific problems going on with Main Street's economy, the Wall Street/Corporate economy is indeed booming and with it, the equity markets too.

Consider this:

Corporate profit margins are at all time highs. So too are corporate profits. So too are corporate profits as a percentage of GDP. So too are banking profits as a percentage of GDP.

The S&P 500 is at a four-year high. So too is the Dow Jones Industrial average.

The Nasdaq is once again near 12-year highs.

What were the problems our country back in 2009? Entrenched high unemployment. Spiraling wealth gap. Real estate/foreclosure/mortgage crisis. EU/Greek/Spain/Italy debt crisis. I wrote and analyzed each and all of those trends repeatedly back in 2009 and explained to you guys that despite all of those problems, that a Federal Reserve hell-bent on 0% interest rates and other revolutionary new easy money games along with the Republican/Democrat Regime and its policies of fighting any downturn in the economy by throwing more corporate welfare, stimulus and targeted tax tricks at the biggest corporations in the country would result in a booming stock market and continued record corporate profits for the biggest companies in the country.

What's changed? What are the biggest problems in our country's economy/market in 2012? Entrenched high unemployment. Spiraling wealth gap. Real estate/foreclosure/mortgage crisis. EU/Greek/Spain/Italy debt crisis. What does Robama and his so-called opponent Obomney propose to do to "fix" the economy? They both have identical themes of throwing more corporate welfare, stimulus and targeted tax tricks at the biggest corporations in the country. And what does the Fed have in mind to suddenly do their job to jumpstart the Main Street economy? That's right, more easy money for Wall Street's economy, of course!

And so I ask you, what is the most likely outcome of these policies over the next twelve months to two years? Is it more likely to result in a collapse of corporate profits and a market crash? Or are we more likely to see continued record profits and a market that climbs the wall of worry for another 15-30% of broader market gains?

Certainly the imbalances will at some point come back to haunt the markets and the whole of the economy. But trying to guess when those hauntings come has killed 89% of hedge funds this year, and I'm not sure it's going to get any easier timing the top in the markets and/or a drastic turn south in the corporate economy in the next 300 or 400 days or so.

And finally, looking at this set up from a near-term perspective, I'd note that those 89% of hedge fund managers who are indeed underperforming right now are right now looking at heading into the fourth quarter knowing that unless they have to somehow catch up and pass the booming stock markets before year end or they're likely to be out of a job for missing such a move as this year has had. That's a potential recipe for even bigger gains in the broader markets in the fourth quarter of this year as those guys cover their shorts and/or chase the momentum movers to try to salvage their businesses.

Published on Trading With Cody, August 21, 2012

A time and place for everything: Where are we now?

Published on Trading With Cody, April 23, 2013 by Cody Willard

There's a time and place to be aggressively long. And there's a time and place to let the markets play themselves out after a huge run.

Over the last few years, the markets have, despite most professional money managers fighting it every step of the way, been on fire.

Do you recall back in 2009 when the corporate economy was just emerging from the debt crisis and crash of 2008 with trillions of dollars of welfare, targeted tax cuts, stimulus and bailouts?

It was hard to look past the bust and crash and foresee that all those trillions of dollars funneled towards giant corporations along with a policy of zero interest rates would work to create a new stock market bubble. Even harder was betting that the smartphone/tablet and app revolutions would indeed become their own trillion dollar economies when the common refrain from consumers back then was "I just want a cell phone that doesn't drop calls."

Even harder was sticking with your conviction about that coming bubble and staying long and buying common stock and even call options when the markets would subsequently crash every time the debt markets burped over the subsequent years.

It's tempting to get greedy right now. You see the markets are up huge for the year already and are at all-time highs and you see them going up again this week and you feel like you're not invested in enough stocks right now. But the time to buy was when others were scared and prices were crashed. How many times have I talked to you guys about making the "hardest" trade because it's usually the right one to make? Right now it's hard to be patient and to not be greedy.

If we expect that the markets will bubble even more from here, and moreover if we believe that most of the stocks we've invested in are going to grow no matter what happens over the next few decades with the Republican/Democrat Regime, the Fed, housing, taxation and fiscal policies and so on, then we're probably positioned just about perfect for now. We've trimmed back some of our longs, added some short hedges and are not trying to get a bunch of near-term gains from gambling on earnings reports.

I get asked all the time what would I do if I were just starting to invest/trade right now? Which stock would I buy and how much of each of them?

You want to always allow yourself at least a few months to get fully invested. So start slowly.

And because the markets are already at all-time highs and are already up huge for the year, you'll want to start even slower than usual. Put about 1/5 instead of the usual 1/3 that I was preaching when the markets weren't at all-time highs and prices were lower in a basket of at least a dozen stocks, betting about twice as much on your favorite stocks in that basket as your lower-rated stocks in that basket.

And even if the markets finally do crack for a little while and the markets' year-to-date gains are erased, you still will want to go slow at first.

Be patient while others are greedy. And keep the steady-as-she-goes approach of investing in revolutionary companies and using the ups and downs of the markets to your advantage.

Published on [Trading With Cody](), August 21, 2012

The markets and the Fed, Fed, Fed

Published on Trading With Cody, October 20, 2014 by Cody Willard

No trades for me today so far. We took advantage of panicky sell-offs last week to get in a few trades and tranches and like I always remind you guys, we want to take the best pitches we can get before we swing. Steady as she goes then for now.

It was an an ugly open, IBM partly to blame, but only partly and thus stocks are roaring back early. And is IBM an indicator for the broader economy and markets? Well, my analysis points to more economic improvement, even for employment and Main Street in months ahead and inflation at the grocery store accelerating — though I don't think that means the Fed's going to react to those realities anytime soon.

With continued cheap money for corporations, margin-enhancing policies from the government at all levels and 0% rates still forcing savers into risk assets etc, I expect we still have more bubble-blowing bull market ahead of us. By the time the Fed finally acts to "tighten," the bubbles will likely be much bigger than they currently. Important to remember too, is that the bubbles will actually probably continue to inflate even after the Fed starts to tighten.

You can't flood the corporate economy and force savers into risky assets like stocks for years on end and then contain the effects of those policies by cutting back on your pumping. Jawboning the end of excessive, emergency liquidity measures isn't going to change anything, though it will likely give you a small-term market correction if and when the FED finally actually ends all forms of QE.

0% interest rates are going to inflate huge asset bubbles and especially stock market bubbles, as I've been saying for five years now. 1% will still cause bubbles. Maybe a 2-3% Federal Funds Rate might start to draw money out of the markets and shift inflation down to a lower gear. So until the 0% interest rate itself is actually being raised, you want to keeping trying to ride the bubbles being blown all around you.

So keep fighting the Fed and stay the course, follow the playbook and be vigilant as well as disciplined in your approach. You're not supposed to be trading for an adrenalin rush. Rather, keep the big picture and the long-run reasons for risking your hard-earned money in the markets in mind.

And in the meantime, I counted about 17 percentage points worth of moves in the SPY last week, as it ran from ups to downs. Absolutely crazy volatile lately. While today's looking like a reprieve from the gyrations so far, it's a long day ahead and an even longer 10,000 days ahead of that, so don't rush in.

My point is that with all this as a context, if I didn't own the stocks I wanted already, I'd still want to scale into some of the best most Revolutionary Investing stocks like my usual $GOOG, $FB, etc, nice and slowly as usual. Steady as she goes as the volatility gives you opportunities.

Published on Trading With Cody, October 20, 2014

[Why the Fed doesn't matter]

Published on [Trading With Cody], June 2, 2015 by [Cody Willard]

Will the Fed do another round of quantitative easing, which is a direct form of welfare for the giant banks who package and peddle securities and the corporations who borrow money, and an indirect form of welfare for homeowners and bond and stock market investors? Remember, of course that these 0% interest-rate and QE policies aren't "free," and they are being paid for by the poor, the renters, middle class, and rural America.

Or is the Fed going to raise rates finally because corporate and banking profits, buybacks, mergers, margins are at all-time highs and a higher percentage of GDP than ever before in our nation's history?

Or will they just leave rates near 0% for another year or two?

Does it matter? I have explained before that the last quarter century of history, and my entire time on Wall Street, show that a Fed hike phase is probably *bullish* for stocks.

Will there be a time to get bearish and get much more defensive in our portfolios? Of course. But it won't be easy.

How many analysts and investors do you know launched a tech hedge fund in October 2002 as the Nasdaq bottomed after a 75% crash? And how many analysts do you actually know who turned from bull to bear and closed their hedge fund in October 2007 to take a TV job? How many analysts and investors do you know who called for the stock market to go into a huge "Bubble blowing bull market" back in 2009 and 2010 as the markets were bottoming from yet another crash?

I don't think there are many. And look, I'm not trying to be braggadocios, but it's important to realize just how few analysts and investors are even able to change from bull to bear and manage their risk accordingly over the cycles. Will I nail the next top? I'm not sure we have to, but I will certainly be doing my best to nail it again.

In the meantime, there's more risk in owning stocks with the markets at all-time highs than there was in buying when the markets are crashed.

I have no way of answering what's an appropriate percentage of cash for you to hold is. I'd need to know your age, your risk tolerance, your income, your savings, etc. Let's put it this way — in 2010, I was aggressively net long with lots of call options and very little short exposure. In 2013, I was less, but still pretty aggressively net long. In 2015, I'm still mostly net long but I have reduced the number of positions I own and also the percentage of cash I have exposed to the markets.

Published on Trading With Cody, June 2, 2015

Stock-market cycles and the Fed

Published on Marketwatch, March 25, 2016 by Cody Willard

Let's step back and do some broader analysis here of the cycles and the stock markets and the economic setup for the short and longer terms.

The Fed and the near term

The currency wars around the world have resulted in a race to devalue every developed economy's currency. Negative interest rates are a reality in countries that account for more than one-quarter of the world's GDP. Because the dollar remains the world's reserve currency and will continue to be so for the foreseeable future, the U.S. Federal Reserve has much more leeway to cut rates, create new forms of quantitative easing (QE), and perhaps even move to negative interest rates here in the U.S.

All this means that I expect the Fed to move from its current tightening phase and expected two rate hikes this year to another easing cycle for the next year or two. Whether this is bullish for the stock market or bearish is a matter of debate.

There's an old saying on Wall Street that you "shouldn't fight the Fed," which means you should expect higher stock prices while the Fed is easing. But for the last 20 years or so, the exact opposite has been true — you would have wanted to be in stocks when the Fed was in a tightening phase in the late 1990s, while you would have wanted to be out of the markets or even short stocks when the Fed was easing again from 2000 to 2002.

Likewise, you would have wanted to be in stocks when the Fed was in a tightening phase from 2003 to 2007, while you would have wanted to be out of the markets or even short stocks when the Fed was easing again from 2008 and 2009. The Fed has been cutting QE since 2012 or so which was essentially a move into another tightening phase and, once again, stocks boomed.

When the cycles come in

On the other hand, the timing of these stock market vs Fed cycles is far from perfect, and overlaps and countermoves in stock markets can last for weeks or months and go further than you ever thought possible, both to the upside and downside.

Back in October 2007 when I closed my hedge fund and took a job as a Fox Business news anchor, I wrote a series of columns called "This won't end well." I spent the first few months on the new job warning people about the coming real-estate crash and how the repercussions of it would be enormous.

I just don't see that kind of a setup right now. Don't get me wrong, I certainly expect there will be more than one stock-market crash and/or economic depressions in my lifetime. And there's always the chance that the markets crash again near term, for a reason that wasn't on my radar.

Managing expectations

For now, though, I would guess that there's at least one more leg up in the Bubble-Blowing Bull Market. I would expect a couple of serious selloffs over the course of this spring and into middle summer, but I wouldn't want to try to game them other than to own some great stocks but have plenty of cash ready to put to work buying great Revolutionary companies with a focus on technology stocks in coming months.

After having been aggressively long stocks and a few long-dated call options with few or no short positions in 2011 and 2012, as I was wildly bullish about the economic setup, the Fed cycle, corporate earnings growth and most of all, the App Revolution/App Bubble, I've cut the number of stocks I own in half and have trimmed down the number of shares I own in my existing longs. I've added a few short positions, including Valeant Pharma six months ago before it became the poster child for profiteering in the health-care industry, Pandora and a few others.

Playing the odds

We don't have to be all in or all out at any given time. Jim Cramer once gave me a book by Andrew Byer called, believe it or not, "Picking Winners: A Horseplayer's Guide." Cramer told me that there were a lot of lessons about how to manage risk-vs.-reward scenarios in your portfolio that you can learn from Byer's work on horse-race handicapping.

In essence, it's that you want to bet big when the odds are terrifically in your favor, bet smaller when the odds are just somewhat in your favor, and to walk away entirely when the odds are against you. Right now, the odds are just okay in the stock market as I don't expect a big crash near-term but I also don't expect stocks to bubble to new heights in the near-term either. So we bet smaller for now, but we remain in the markets overall.

I don't plan on being as aggressively long stocks as I was in 2011 and 2012 until we've actually had another stock market crash. On the flipside, when I think the timing for the next major stock-market crash/financial crisis/Black Swan event to hit looks closer, I plan on having more shorts, even more cash and fewer longs on the sheets than I do right now.

The longer-term view

Speaking of stock market crashes, financial crises and Black Swan events, let's move to the long-term outlook for stocks and the economy. The fact is we have huge imbalances, central planning and out-of-control redistribution of wealth in the U.S. and global societies. And when I say redistribution of wealth, I mean the use of taxes and other governmental policies that are redistributing wealth upward. Imbalances, central planning and redistribution of wealth to a select few — these are not the things that long-term prosperity is built upon, and we all know it.

The reason that wealth disparity in this country has gotten to third-world levels is because every central-bank policy, almost every law passed by the Republican/Democrat Regime on a national level and many on a state and local level, every bailout — even the Obama/RomneyCare health-care system and wars themselves — are all done in the name of creating more profits for giant banks and giant corporations. Zero-percent interest rates, QE, bank bailouts ... these things hurt everybody reading this because you and your children are the ones who have to pay for them. I'll bet that the businesses that you all work for paid 30% or more in taxes last year, while Goldman, Apple and Wal-Mart paid less than one-third that effective tax rate. And that's another example of how wealth disparities can grow from unlevel playing fields created by big government.

It's the small town, hard-working, local communities that are truly being drained dry by these policies that take your wealth and funnel it through the government to giant banks and corporations in big cities. And every time another trillion of dollars of debt is added to the taxpayer's balance sheet, it's another trillion dollars of prosperity that the current generations are stealing from our children.

This is all very real, and it's tragic, and it will cause even more hardships, death and wealth disparity unless all of us as citizens of this country and this community stop the cycle.

What will be the likely catalyst for this house of card political and economic reality we live in to come crashing down? Higher rates, I would expect.

Not some measly 0.25% bump or two in overnight rates at the Fed. Rather, if and when you finally see interest rates across the board, from mortgage rates to corporate rates to long-term Treasury rates, start to rise sustainably, that will probably the time to really get cautious, as the hundreds of trillions of dollars of sovereign and corporate and bank debt around the world won't be able to be rolled over any more.

In the meantime, enjoy the good times and slowly but surely prepare for the bad. *Published on Marketwatch, March 25, 2016 by Cody Willard*

Economy is booming & Fed's going to tighten, so be bullish

Published on Marketwatch, May 21, 2016 by Cody Willard

This looks like an ideal time to be investing in Revolutionary Companies that are set to benefit from both the cyclical economic/market set up as well as the secular growth they are creating on their own in new technologies and markets. Let me explain.

Last Monday, I landed in NYC at 5:30am and was at my first meeting by 10am. I met with at least five different sources, partners, former co-workers and/or friends each day for four days, catching a flight back to Albuquerque at 7:45pm and after driving three hours back to my house and family, got to bed at just before 3am.

Here are some random notes from my trip:

* A former prime time television executive producer talked about the San Francisco-based millennial-targeted website media company his son works at, which has raised some money and hiring other people.

* Business trends at a major news site appear to be steadily strong and they are investing in technology and rich media.

* A friend who used to be publisher of several of the largest magazines in the country is deciding what his next move is and there's no lack of options for him.

* A fan of my old TV show has gone from college student to TV News reporter to a more high profile reporting gig and the world is her oyster, so to speak.

* A newsletter writer, trader, entrepreneur and TV personality. He's been in the Middle East, South America and Tennessee in the last couple months for meetings with investors and business partners

* At my friend's small biotech start up that's burning millions of dollars per month, they are about to raise more money — and the raising, while somewhat more expensive than they might hope, is going quite well. Money willing to speculate in early-stage biotech R&D is out there.

* The crowd at thethe Benzinga Fintech Awards/convention as strong. Would appear that funding of fintech startups isn't weak but not terribly bubbled or frenzied either.

* He's a sales executive at Nokia/Alcatel/Lucent/Nortel and she was a former co-worker at mine from the tech incubator I worked at 1999-2000. She later ran a wildly successful boutique in SoHo which she told me she had closed a couple years ago as her rent had gone from $4000/month in 2004 to $11,000/month in 2014. Business at Nokia sounds like it's pretty good and steady though the company is still digesting and has some more work ahead of it from the roll up of Alcatel-Lucent.

Stepping back and looking at the broader economic trends, the anecdotal data from my NYC whirlwind trip and the replies I got — my analysis continues to point to this economy being stronger than the consensus expects it is and most signs currently point to the economy continuing to expand, with some acceleration in the employment numbers too.

Given that economic analysis and forecast for more growth, I no longer expect the Fed to cut rates or issue any formal announcements of new forms of QE. This recently burgeoning tightening cycle from our US Central Bank appears more likely to continue than not. Remember that we want to be long when the Fed is in the early stages of a tightening phase, because for the last three decades the markets have boomed in the early- to mid-parts of the tightening phases (see 1996-1999, 2003-2007 for example). Conventional wisdom of “Don’t Fight the Fed” has been dead wrong during most of the cycles for the last thirty years.

Being more bullish *because* the Fed’s likely entering a tightening cycle is counterintuitive, perhaps, but it’s a fact that free thinking is the only way one can ever outperform the (oft-wrong) consensus long-term.

Meanwhile, there’s a lot of bearishness and general uneasiness about the markets’ ability to rally *because of the Fed’s tightening cycle* and the conventional wisdom being so widespread of “Don’t Fight the Fed.” Fund manager’s cash levels are nearing historic levels. Investor sentiment polls, not something I put much faith in but worth mentioning, are widely being reported as being at historic lows despite the markets relative strength of late.

Net/net, there are quite a few bullish underpinnings for this stock market. But as it often does, the market’s ability to truly rally to new all-time highs in the months ahead will likely come down to individual companies ability to grow their corporate earnings.

Really, this looks like an ideal time to be investing in Revolutionary Companies that are set to benefit from both the cyclical economic/market set up as well as the secular growth they are creating on their own in new technologies and markets. I’m comfortable with our mix of some high growth mega-cap winners like Google, Amazon, Facebook with a few down-and-out smaller companies with compelling valuations like Twitter and LGF, with a variety of other Revolution Investment names like Nvidia and Sony and our other longs plus a few small shorts like GWPH, Pandora and Hubspot and our others — our playbook has done its job, which means that I don’t have to scramble to change anything despite the fact I’m a bit more bullish. *Published on Marketwatch, May 21, 2016*

Trade Alert: Market / Fed playbook and a tranche buy

Published on Trading With Cody, March 1, 2016 by Cody Willard

Interesting from Rev Shark and old friend Brian Reynolds: "'A normal day in February would see investors buy $4-5 billion of new corporate bonds. Yesterday, they bought over $19 billion. That activity pushed new purchases of corporates over the quarter-trillion level for only the sixth time in the first two months of a year.' This is very bullish for stocks as the money that goes into corporate bonds is used for acquisitions, buy backs, expansion of operations and other things that bolster stock prices. Essentially this is the liquidity that drives the market higher when equity investors are focusing on big picture negatives."

This ties into why another round of QE and/or (less likely) negative interest rates in the US seem so likely to me in 2016. The Fed enables artificially lower interest rates which enables corporations to borrow billions to buy back stock to prop up their earnings per share and blunt market sell-offs and create bubbles and crashes and hope that the crashes are contained and kick the can down the road and bailout if you have to and so it goes

….this is the game the Fed has played for the for my entire life time, and they probably won't change this year. Cornered, they are, as Yoda might put it.

And all of this ties back into why we'll probably want to be ready for another leg of the Bubble-Blowing Bull Market when the Fed's made it yet even cheaper for giant corporations to borrow billions.

Feet to fire, I still expect some more panicky market sell-offs into the next few months and that we'll have the opportunity to do some stock picking at some very compellingly cheap levels. And that bear market action near-term will give the Fed the last bit of cover it needs to start another round of QE and/or those negative interest rates.

And then later this year as the Fed's started implementing that new QE program by purchasing trillions of corporate and other bond securities from the Too Big To Fail banks, we'll see months in which a normal day will see investors buy $20 billion of new corporate bonds, which would, as noted above, be considered huge numbers by today's standards.

Will the Fed successfully help create another round of strong corporate earnings growth (largely because of the aforementioned borrow-to-buyback-stock games) and another leg to the Bubble-Blowing Bull Market (partly through forcing savers around the country to put their cash into higher risk assets like stocks yet again)? Probably, at least for a couple years, I would guess. And maybe I'm wrong about all of this. Obviously, as I've noted many times in the last few months, I've raised a lot of cash and more than halved the number of longs we have and added some more short hedges than where we were back from 2011-2013. We don't have to be all in or all out or nail the top and the bottom in the broader market cycles. We can use our playbook to guide us, but we also leave ourselves room for error by remaining long great long-term revolution stocks and always being opportunistic, flexible and as objective as we can be.

Published on Trading With Cody, March 1, 2016

Chicken Little Fed

Published on Trading With Cody, September 21, 2016 by Cody Willard

All eyes are on the Fed today. But should they be? I mean come on, we all know what the setup is here. At least if you have been subscribed to Trading With Cody you do. Let me try to rephrase this global monetary set up in as few of words as possible.

Number 1, and most important, we are in a global currency war that is essentially a race to devalue every major currency in the developed world. After decades of this global currency war, we have gotten to the logical end game in that many governments now borrow money at negative interest rates and even some corporations too. The banks cry about zero percent and negative interest rates like Br'er Rabbit in the briar patch. Always remember that the banks own, literally own, the Federal Reserve. We also know that the Republican Democrat regime is owned by giant corporations in those same banks. The Fed doesn't want to create a spike in the dollar which is likely what would happen if they were to actually raise interest rates here in the U.S. So, I figure we will have more of the same today that we have had for months, nay years now—no way the Fed raises rates, but they will propagandize and threaten to raise rates with rhetoric.

What about the markets and how they are set up into this meeting today? Assuming that the markets are discounting what everybody I know says, the market is already discounting no rate hike. I would think that it would be more likely to see the market sell off after today's Fed announcement even if the actual result is no raise in rates. And if the Fed were to raise rates, I think at least intraday and probably for the near term over the next few weeks, stocks would probably sell off and I would probably be looking to buy.

Published on Trading With Cody, September 21, 2016

Desperate bears and the path of least resistance

Published on Trading With Cody, June 1, 2017 by Cody Willard

When I was preparing for today's conference call I was struggling to come up with what to talk about in regards to the market and doing the market's overview at the top of this call like I usually do. So I called up a few hedge fund managers and former hedge fund managers who are friends of mine. Some of whom are successful hedge fund managers and others who are very successful business people in general.

I called them up and chatted with them, hoping they could provide me with some thoughts about the markets and give me some topics to hang my hat on this morning. It was almost the exact opposite. It was more like they were more lost in their thoughts than ever, at least more than usual. To be sure, we are all lost in our thoughts when it comes to the markets and trying to analyze and especially trying to predict the markets near term or the economy:

- What's going to be a market-moving catalyst?
- Is the market going to top here or something?
- Is it going to bottom when things are bad?

Market analysis is always hard and convoluted and often circular. And "circular logic" is exactly howI described to one of my hedge fund friend's commentary back to himself afterwards. All market analysis is circular in some sense, of course. Sometimes I'm feeling like I'm stuck in a self-feeding loop when I'm analyzing the markets and the potential and existing catalysts for market moves including geopolitics, economy, charts, etc.

Stepping back and just looking at our own world, our own analysis and where we have been and where we are going with Trading with Cody and Revolution Investing type of thought process, here is one insight I got from both of those discussions::

Any bearish discussion or discussion about catalysts for a bear market, forced the hedge fund managers to be desperate in their attempts to find weakness in the economy. The Chicago PMI was bad or the total number of those out of work is still too large. It was like any bearish discussion had people chasing random macro economic minutia. Like, retail. Retail is really bad. But we have to, of course, counter any retail discussion with the fact that Amazon is eating everyone up.

But just how big of an impact impact can Amazon really have on retail itself? Well, you know it is pretty big and it is not just Amazon. People are changing their shopping behavior around Amazon whether Amazon is the direct beneficiary or someone else is.

I think sort of the insight we can take from that is that you almost have to be desperate right now looking for macroeconomic bad news. And long-time subscribers know that for the last five years, six years, seven years now, they have listened to me talk about how the path of least resistance for this economy has been upward and that the corporate economy especially has been booming. The giant corporations themselves benefit from zero or near zero percent Federal fund rate. Zero percent interest rates, extremely low interest rates, make it easy for financial engineering and/or just borrowing to be done and investing in your business. It is cheaper now to do it. If you can borrow money at 2% or in Apple's case negative 1% and buy back stock and invest in factories and hopefully create some innovations. (Hello Apple, Tim Cook.)

Near zero percent rates also force investors and savers and old people to invest in risker assets like stocks and real estate and low-interest rate corporate bonds, feeding the Bubble-Blowing Bull Market upon itself while times are good and rates are able to stay manipulated artificially lower. That trajectory is still here and it is still palatable.

Any bearish discussions with those hedge funds guys when they are desperate in their seeking of bad news, makes me wonder what world they've been living in. Many of them are now locked in perma-bear status because they've been bearish for the last few years and now can't bring themselves to get out of that mode. Most of you have read at least some of the perma-bears out there or you have friends who on Facebook who have been explaining for the last ten years why the world and the US economy is going into a depression and the stock market is about to crash. Even as it has gone straight up and the economy been booming.

Don't get me wrong guys. Main Street and rural America are still not benefitting as much from today's policies that the Republicans and Democrats in power have built our economy around, as giant corporations and really rich billionaires and a hundred millionaires benefit. Poor people, in particular people on welfare, children whose parents are on welfare, are struggling as much or more today than they were ten years ago. But Apple, the giant technology companies that we have invested in, Axogen and some of the small caps that we have invested in, some of these names that we have bought over the last few years have clearly benefitted and been on fire with their stocks.

Meanwhile, there's no denying that for the economy, in general, the trajectory for the last few years has indeed been upward.

I feel like a broken record for the last six months or six years writing about how I am desperately looking for that Black Swan event, that catalyst to take the markets and/or the economy level. But we have avoided falling for false "tells." At least so far. We have been patient in riding our winners higher and boy have they gone higher and pat ourselves on the back.

And boy, aren't we geniuses?

And we're right to a circular logic loop. Because the next thought for me when we start feeling like a genius around here is: Crap, its usually time to trim or at least hedge. When you feel like a genius it's usually just about then that the market kicks your butt again.

No easy answers. Don't you just wish I could point to some charts and tell you this is the answer. That's not how it really works though, is it?

So let's continue to acknowledge the path of least resistance for the economy and the markets remains upward. And more importantly, let's continue to try to find the great next Nvidia, Axogen, Apple, Facebook, Google, Impinj, etc in the midst of the market doing whatever it's gonna do.

Let's find another stock that will triple in a year. We've done it many times in the past. Let's do it again. I've got some names that I think might be the next one. I think we've got some names might want to put our toes in the water with.

Published on Trading With Cody, June 1, 2017

What have we learned?

Cody back in real-time July 2017 now. We would be remiss if we didn't mention again that eventually, we will want to get bearish, probably after the Fed's actual tightening phase gets longer in the tooth. And then perhaps the cycle will play out once again, as we get a market crash, the Fed and the Republican-Democrat Regime go crazy with new "emergency measures" and bailouts and other tools they create in the name of helping you at home.

In fact, here's an article I wrote back in late 2006 that outlined just exactly what it was time to start getting bearish, including mentioning that the Fed was soon going to have to start cutting rates again.

Waiting for the noise pollution to die down

Published in The Financial Times, August 25, 2006 by Cody Willard

Is a US recession already a foregone conclusion? Is that really what the markets, the fundamentals and the Federal Reserve are telling us? I'd argue that the set-up at the moment is more "binary". Two starkly different outcomes look possible.

Certainly, the US economy has cooled from the torrid pace that had surprised all those economists that shoot off their guesses about the future of this $13,000bn economy in the first few months of the year.

Now, after they all chased the strength by upping their estimates for the rest of the year, the economy is beginning to surprise them on the downside. But just because the economy is cooling (or has already cooled) and is weaker than most traders and economists expected, we cannot necessarily extrapolate a Snoopy-like Joe Coolness out for the next few quarters or years.

Though I have been a rather vocal bull for most of the past three and a half years of running my fund, on May 10 I pulled my horns in, moving almost entirely into cash and Microsoft except for my long-held Apple and Google positions. It was one of the luckiest timing calls of my life.

The reasons for the move were threefold and I think we should look for a reverse of those factors to help guide us as to when (or whether) to get back into the market:

1. The chatter on the technology conference calls turned from "we can't stay up with demand" to "we are comfortable with our inventory levels". It is now at the stage of "we've got to work through some inventory."
2. Most commodity stocks went parabolic and their customers were scrambling to secure five, seven or 10-year supply deals.
3. The world's central banks seemed to have crossed the fine line between "please take this money" and "if you want capital, it's gonna cost you".

The good news is that the tech markets – especially the volatile and often-leading semiconductor sector – have tried already to price in the inventory problems, as the decline of more than 30 per cent in the SOXX index indicates. Many former high-flyers and the fastest growers, from Broadcom to Qualcomm, warned about the second half of the year. Also good news is the decline of more than 30 per cent in many commodity indices, which in May blew the top off their parabolic charts. Parabolic no longer describes that action.

Then there are the central banks, which have continued to use the tools at their disposal, including interest rate increases, to sap liquidity from the world's markets. Housing in the US has all but collapsed and the inventory situation in that sector is far from being worked through. And that leads me to what is really on most traders' minds. Just how binary is this set-up? On the one hand, if the US heads into recession and housing really collapses, can we avoid an outright depression?

If the economy continues to cool and those housing and tech inventories continue to pile up, things could get really ugly really fast. The markets would probably continue to falter, reducing multiples and taking growth stocks to yet lower lows. Of course, it's not as if the Fed and the markets will just stand still. At some point we have to figure that the politically motivated Fed (yes, the Fed is politically motivated) and many other central banks will have to step in and work to reliquefy the world's economies – and markets. And then, of course, we'd be back off to the races.

I use the term "echo-techo bubble" to refer to the possibility that such a reliquefication would fuel another speculative fervour in the market. Tech would probably lead once again as growth became the mantra and all that liquidity would boost the fundamentals and the markets in a fantastic reflexive manner that fed on itself in a virtuous cycle.

And if the Fed acts too late and/or if the reliquefication works only to devalue the world's currencies and immediately spike inflation?

Depression, right? It's happened before. Couldn't it happen again? Talk about binary!

In Alan Greenspan's final days as Fed chairman, economists used to talk about the Fed's supposed conundrum. But I think that, not unusually, the economists' timing was wrong. It is now that the conundrum is headed the Fed's way.

Is the set-up really so binary that the Fed has to choose between another bubble or another collapse? Of course, maybe things will all work out smoothly and the Fed's actions, the inventory issues, the action in commodities and the rest of it are just noise.

Then again, as AC/DC might tell us, "Rock 'n' roll ain't noise pollution" – and I don't think this set-up, which is likely really to rock or just roll over, is noise. I'm anxious to get back to trading and investing and being my usual bullish self. But not until the noise dies down.

Published in The Financial Times, August 25, 2006

Cody back once again in real-time July 2017. You can also see that our approach to analyzing the Fed and the market cycles worked along with our contrarian leanings caught, quite literally, the exact bottom from the Financial Crisis in March 2009. Here's the article I wrote on the very day that the stock markets bottomed back in early 2009 in the midst of the financial crisis I had explained in 2006 was likely coming in that FT article just above when I wrote, "Housing in the US has all but collapsed and the inventory situation in that sector is far from being worked through.

If the economy continues to cool and those housing and tech inventories continue to pile up, things could get really ugly really fast. The markets would probably continue to falter, reducing multiples and taking growth stocks to yet lower lows."

Read on...

Don't Panic Now That We're Here:

Published on Marketwatch, March 5, 2009 by Cody Willard

Long-time and even new readers know that I've been bearish and have taken my price range on the DJIA from 7k-9500 down to 6k-8k. Well, the good news is that we're closer to the bottom part of that trading range right now.

I am not going to call a bottom today. Or ever, frankly. I don't even like the idea of trying to "catch the bottom" of the market.

And for years when I used to write a trading blog every single day while running a hedge fund, I used to talk about how important it was to never be contrarian just for the sake of being different or ironic.

But when everybody in the green room — and I mean EVERYONE from the hair artists to the janitor to the security guards to the guests and the reporters — is bearish and talking about the end of the economy and throwing out DJIA 4k targets as if they're fait accompli…Well, guys, it's probably time to take the other side of the trade or at least to stop being short/bearish. The fact is that some of the biggest rallies come in bear markets. And we're certainly in a bear market.

The economic news is horrible. The earnings news is horrible. I wasn't joking when I screamed last that there was absolutely no way that GE would keep their dividend this year back when Immelt said it was safe last month. It wasn't. But that's also now reality and that reality is now priced into the market.

I still wouldn't touch GE or any other company that's become dependent upon welfare infusions or welfare guarantees from TARP, the Fed, Treasury, TALF, etc.

But as I proposed to Ron Paul, Peter Schiff and Judge Napolitano on Strategy Room yesterday — we might want to consider the idea that all these trillions of worthless dollars that the government is injecting into the economy might actually provide some fleeting, temporary, illusory cushion of economic activity. It won't change the on going real estate crash that's finally just arrived in NYC and elsewhere. But in places like California where real estate is trading at less than half of what it was a couple years ago, the pricing isn't awful anymore.

Whatever the reasons, the economy and markets will have counter trends against the ongoing bigger bear market and economic downturn that we're locked into. It's ridiculous to think that the US economy "should" bounce back to positive growth in 2010, simply because "it usually does". But we might get a few quarters in which the actual economic and earnings results aren't going to be quite as bad as people are expecting.

The time to freak out was at DJIA 14k and the millenials on Happy Hour were telling us that they could and should demand nap time in their contracts because there's so much more demand for their labor than supply (true story!)

Don't freak out now that we're here near my DJIA 6k target. If anything, catch your breath. I'll go out on a limb here and say that we're more likely to see DJIA rally 15-20% before it falls another 10% from the 6600 level as I write. Remember that just last week DJIA was close to 7500.

Published on Marketwatch, March 5, 2009

Cody back in real-time July 2017 again. And what happened next? Just as I'd also predicted in that FT article from 2006 above:

"Of course, it's not as if the Fed and the markets will just stand still. At some point we have to figure that the politically motivated Fed (yes, the Fed is politically motivated) and many other central banks will have to step in and work to reliquefy the world's economies – and markets. And then, of course, we'd be back off to the races.

I use the term 'echo-techno bubble' to refer to the possibility that such a reliquefication would fuel another speculative fervour in the market. Tech would probably lead once again as growth became the mantra and all that liquidity would boost the fundamentals and the markets in a fantastic reflexive manner that fed on itself in a virtuous cycle."

Our approach here at Trading With Cody and with our Revolution Investing analysis to Fed and stock market cycles has, frankly, been by far the most accurate way to predict and profit from them.

I promise I will do my very best to predict and help us try to profit from the next turn and the cycles after that too. Stick around, I'll continue analyzing, writing and investing as the cycles come and go.

And if you're not yet a Trading With Cody and Revolution Investor, maybe it's time to change that and get in front of the cycles instead of behind them?

Cody Willard invests in publicly-traded and private companies and might have long or short positions in some of the companies mentioned in this report and his positions can change at any time. Be sure to check out TradingWithCody.com to see all of Cody's personal positions and to get a trade alert every time he makes a move. Let them know you read this report and Cody will give you your first month of Trading With Cody for free!