

Channeling Dr. Martin Zweig

Tuesday on CNBC's Mad Money, Jim Cramer discussed Marty's two famous adages, "Don't Fight the Fed" and "Don't Fight the Tape". These are two topics our Head of Market Research, Michael Schaus (worked with Marty Zweig for more than 20 years), has been discussing in our recent research pieces and how both relate to the market's recent rally.



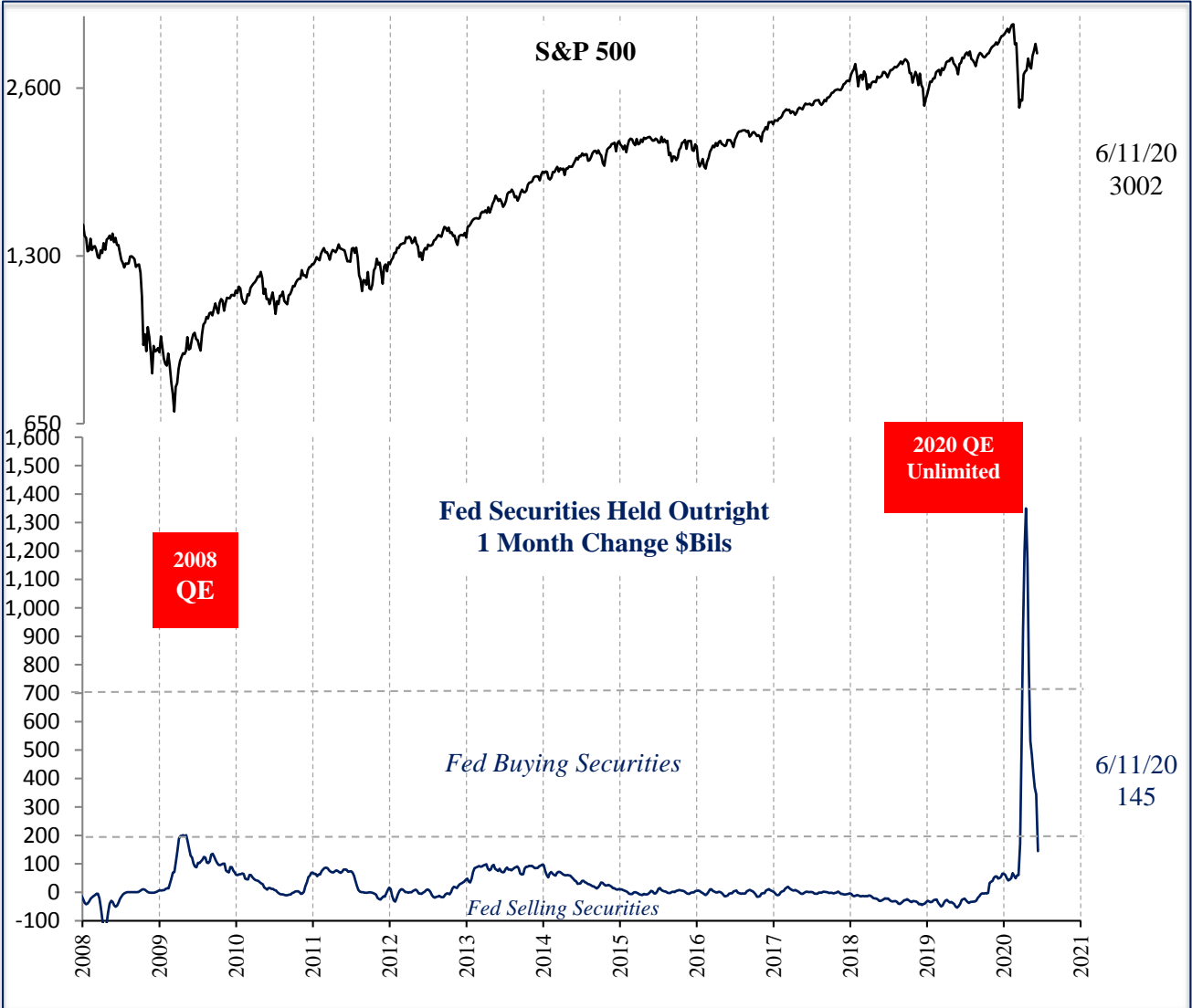
Link to CNBC

<https://www.cnbc.com/2020/06/16/jim-cramer-dont-fight-the-tape-dont-fight-the-fed.html>

Don't Fight the Fed

The recent Federal Reserve support of the economy through balance sheet purchases is unprecedented. Historically, Fed support was done through interest rate cuts, which is very effective for the economy by lower borrowing costs. Starting in 2008 the Fed added balance sheet purchases of bonds. This is a more direct injection of dollars into the economy and attempts to ensure funding is available for companies to operate. In Fed Chair Powell's March Today Show interview, he made possibly the strongest Fed statement ever, saying the Fed would not run out of ammunition. In other words, he would buy whatever amount it took to support markets. He was not kidding. At the peak of buying in April the Fed purchased \$1.3 Trillion of Treasury and Mortgage securities in a month, over 6 times the peak from 2009. This unprecedented amount of stimulus is positive for the economy and the stock market. Such buying marked the stock market low in 2009 as well as 2020 for good reason.

Unprecedented Fed Support For Markets is Bullish
Fed Balance Sheet Purchases



Don't Fight the Tape: One Month Thrust is Bullish

Marty Zweig coined the phrase, "Don't Fight the Tape." Since the March 23rd low, we have seen extremely strong tape (the rally in stocks). For instance, on April 14th the S&P 500 was up 27% within a month, up so sharply it was 10% above the one-month average, what we call a one-month thrust. There were only 8 prior times this happened since 1928, and only 2 since 1950, in September 1982 and April 2009. After these two cases the S&P was up a further 30% in 6 months and 40% in a year. So far since that April 14th signal, the S&P 500 is following the pattern of those two cases. From this point, those two cases were up 22% 6 months later. Despite the rally, investor positioning remains neutral, with cash on the sidelines to potentially drive stocks higher.

One-Month Thrusts: 2 Prior Post War Cases: Sep 1982/Mar 2009





June 17, 2020

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