THE TRADER REVIEW

market forecast & model portfolio

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The Fed Will Cave and Drop Rates

Prepared by

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Dear Readers,

When stocks go down the Fed literally always throws the entire playbook out the window and lowers rates in order to “keep the economy going”.

That’s because they always raise rates too much and then crash the market and then lower rates looking like the hero. Al based on flawed models and the flawed Phillips Curve that states high employment is bad (how can that possibly make sense?)

I studied the Fed in my Macro Economics classes.

We learned that when inflation is hot you raise rates.

We also learned that the Philipps Curve says you raise rates if you have high employment (wrong).

But one thing we never learned is that when stocks crash the Fed just says, “screw it” and drops rates and pumps the market.

Alan Greenspan, the former Federal Reserve chairman, said on Thursday the credit crisis had exceeded anything he had imagined and admitted he was wrong to think that banks would protect themselves from financial market chaos. “I made a mistake in presuming that the self-interest of organizations, specifically banks and others, was such that they were best capable of protecting their own shareholders,” he said. ***Oct 23, 2008***
https://www.ft.com/content/aee9e3a2-a11f-11dd-82fd-000077b07658

That’s the reason I am looking at housing stocks in the next few months. Also, the Fed knows that some market has to keep the wealth train going. From 2005 - 2015 it was the housing market using lower and lower rates for people to re-finance and use their houses as ATM’s to buy boats, build decks, and additions and who knows maybe put the money in the market after a refinance. It would be good to get the housing market going again.

Fed to deliver rapid-fire rate cuts if economic downturn happens, traders bet

Reuters | 1 day ago

The Federal Reserve won't lower interest rates at its policy meeting next week, but could deliver the first of a set of rapid-fire reductions in borrowing costs in June if rising fears of an economic downturn triggered by a trade war materialize.

The market always looks ahead 3 - 6 months. Whatever the economy is expected to be then is where the market will be now whether up or down.

We had the inverted yield curve a few weeks ago. That's not good. And sure enough, even though it barely inverted, stocks crashed.

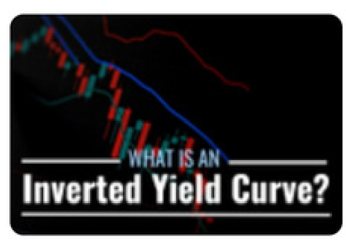
"Why did the market crash?"

"Because it was inverted." - Maverick

What Is an Inverted Yield Curve? Why Does It Point to Recession?

TheStreet.com | 3 years ago

When the treasury bond **yield curve** inverts (and remains inverted for some time), the likelihood of the economy slipping into recession is high. A **yield curve** is a graph on which bonds are ...



From Last Week:

The S&P500 has bounced off the 200 day moving average. That's an indicator to always have up during selloffs as that's often the first big bounce if it's already blown through the 50 day.

Keep an eye on NAIL, a leveraged housing and housing sector ETF that we've had massive gains on in the past of over 50%

Let's see if the market shrugs off the tariffs... for now and keep an eye on the 200 day moving average. ***If that breaks we're in for more downside.***

Market Outlook:

Tariff chaos.

Europeans desperate for war (why not peace?) Trump will do whatever it takes (hopefully) to stop WW3. Imagine the US moving toward Ukraine in order to stop Europeans from going in to fight for Ukraine so the US can negotiate PEACE in Ukraine. Ukrainians are being basically conscripted and then kidnapped into vans to fight on the front line. Will that be what it comes to? Ursula Von Der Leyen is the war monger in Chief and Starmer too. Will this be the war that Patton wanted when he said, “We fought the wrong enemy”? Let’s hope not. The US got suckered into two world wars already.

Fed cuts. Probably going to happen. If you buy a house not, you can refinance next year probably for lower rates.

Neil Batho

Meet The Expert

Neil Batho

Long-Time Trader & Investor

Neil writes commentary on the market, economy, finance, and trends in the marketplace in order to get you in the picks and sectors that can move right now.

Neil issues model portfolios for individual traders to trade in Stocks/ETFs, Options, and Crypto.

Neil has a Bachelor in Finance, Minor in Economics, and was an NCAA Div. 1 ski racer and on the University Dean's List and a former Series 7, 63, 65 fully licensed Financial Advisor.

Neil uses his knowledge and experience to see "through" what the Fed is saying while using historical trend analysis to get you into trades like technology since 2022 since he knew rising interest rates favor tech stocks since tech companies have billions in cash.

Long term readers were also warned of the crashes in 2009 and 2020, profiting in a big way on the downside while buying at the bottom. Or, at least staying out.

Recent successes were 55% in 2022 when the S&P500 was down -18% due in large part to being in the right sectors. Oil, Natural Gas, and Potash. In fact, energy was the only sector up the entire year proving that sector allocation is the most important thing in trading as we were heavily weighted in energy since the first trading day of the year. A $100,000 account in the S&P500 would have been only $82,000 at the end of 2022, while an account trading our picks would have been at $155,000, an 89% difference. We are still well ahead of the market since 2020.

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