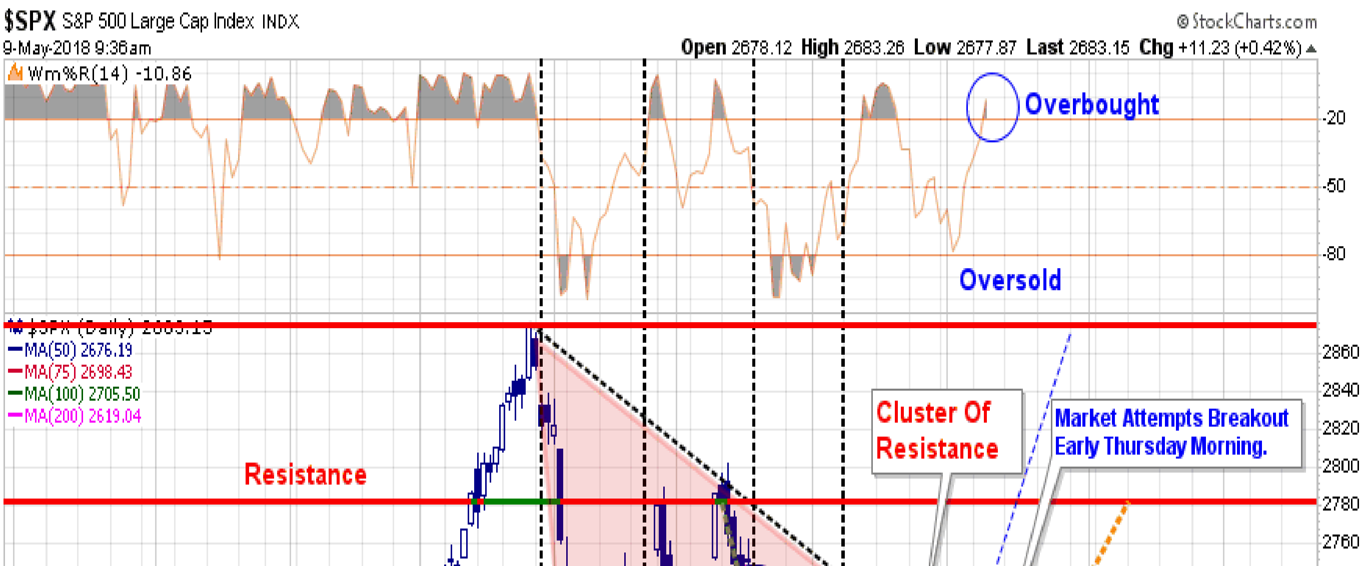

Yesterday, I discussed the *"compression"* of the market being akin to a *"coiled spring"* that when released could lead to a fairly decent move in one direction or another. [To wit:](#)

> *"As you can see in the 'reddish triangle,'•prices have been continually compressed into an ever smaller trading range. This 'compression'•is akin to coiling a spring. The more tightly the spring is wound, the more energy it has when it is released."*



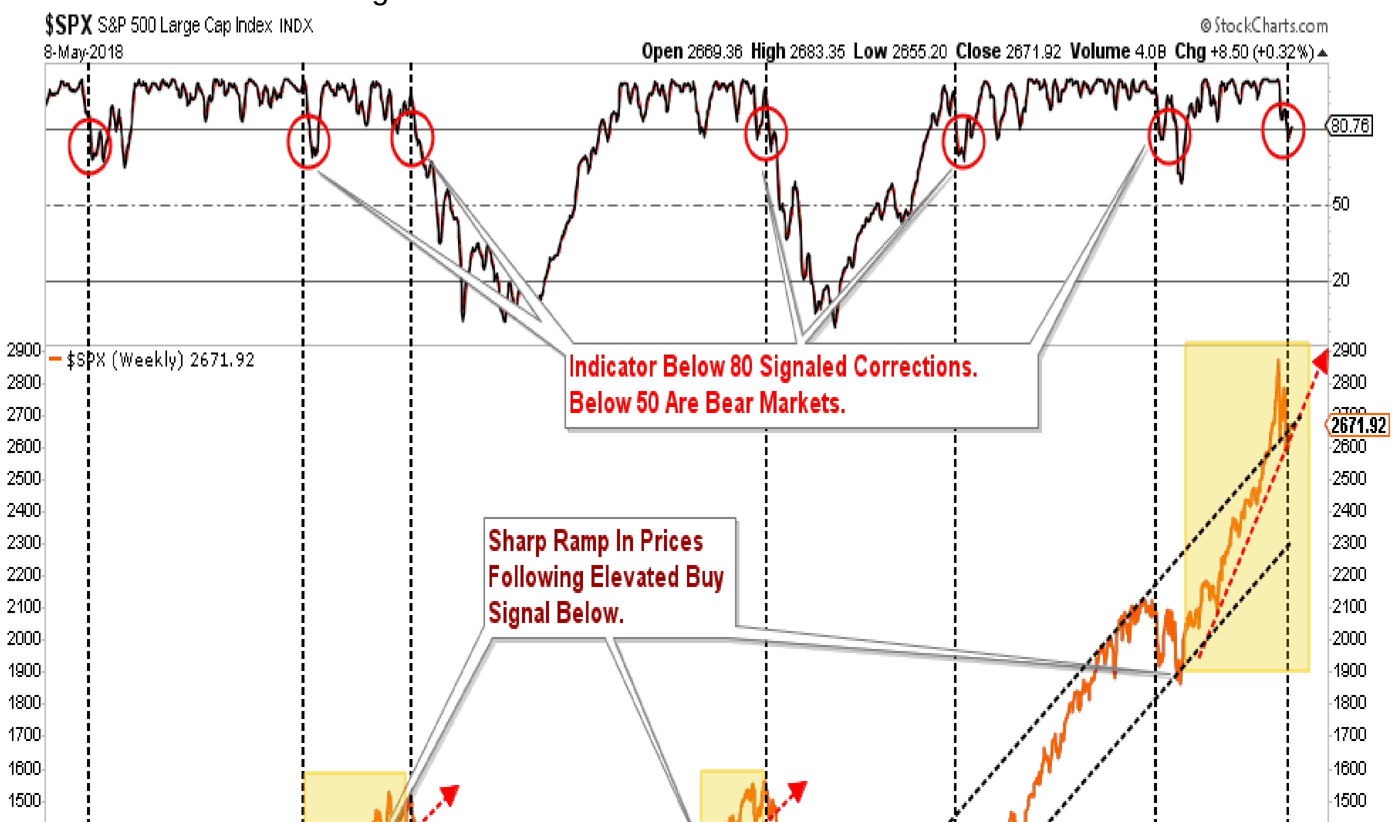
**As shown, the bulls are *"attempting a jailbreak"* of the *"compression"* that has pressured markets over the last two months.** While the breakout is certainly encouraging, there isn't much room before it runs into a more formidable resistance of the 100-day moving average. Furthermore, with interest rates closing in on 3% again, which has previously been a stumbling point for stock prices, it is too soon to significantly increase equity risk in portfolios. This is just one day. As I stated previously, as a portfolio manager I am not too concerned with what happens during the middle of the trading week, but rather where the market closes on Friday. This reduces the potential for *"head fakes"* as we saw last week with the break of the of the 200-dma on Thursday which was quickly reversed on Friday. The weekly close was one of the two outcomes as noted in our previous Quick-Take:

> ***"If the market closes ABOVE the 200-dma** by the close of the market on Friday, we will simply be retesting support at the 200-dma for the fourth time. This will continue to keep the market trend intact and is bullish for stocks."*

**This breakout will provide a reasonable short-term trading opportunity for portfolios** as I still think the most probable paths for the market currently are the #3a or #3b pathways shown above. **If we get a confirmed break out of this *"compression range"* we have been in, we will likely add some equity risk exposure to portfolios from a *"trading"* perspective.** That means each position will carry both a very tight *"stop price"* where it will be sold if we are wrong as well as a *"profit taking"* objective if we are right. Longer-term investments are made when there is more clarity about future returns. Currently, clarity is lacking as there are numerous *"taxes"* currently weighing on the markets which will eventually have to be paid.

- *Rising oil and gasoline prices (Tax on consumers)*
- *Fed bent on hiking rates and reducing their balance sheet. (Tax on the markets)*
- *Potential trade wars (Tax on manufacturers)*
- *Geopolitical tensions with North Korea, Russia, China and Iran (Tax on sentiment)*
- *Traders all stacked up on the "same side of the boat." (Tax on positioning)*

We continue to hold higher levels of cash, but have closed out most of our market hedges for now as we giving the markets a bit more room to operate. With longer-term indicators at very high levels and turning lower, we remain cautious longer-term. However, in the short-term markets can *"defy rationality"* longer than anyone can imagine. But it is in that defiance that investors consistently make the mistake of thinking *"this time is different."*



It's not. Valuations matter and they matter a lot in the long-term. Valuations coupled with rising interest rates, inflationary pressures, and weak economic growth are a toxic brew to long-term returns. It is also why it is quite possible we have seen the peak of the market for this year. I will update this *"Quick Take"* for the end of the week data in this coming weekend's newsletter.• *(Subscribe at the website for email delivery on Saturday)*