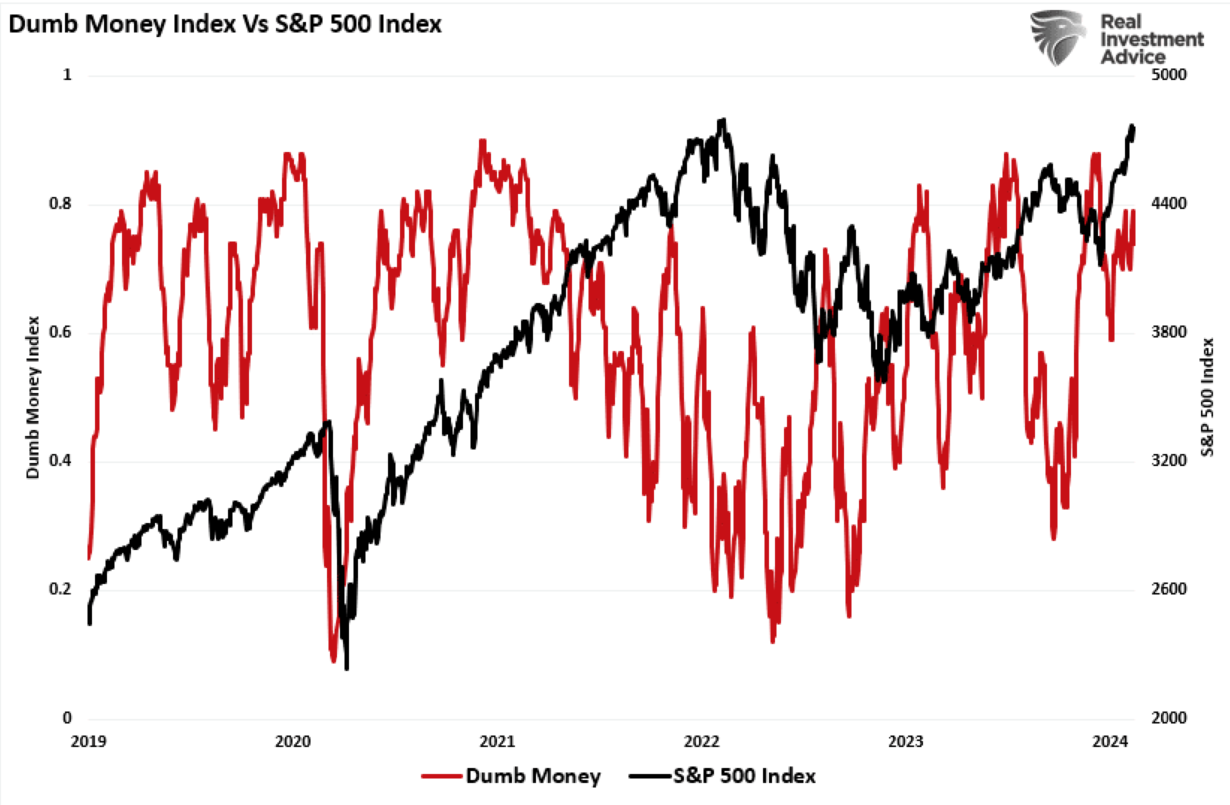
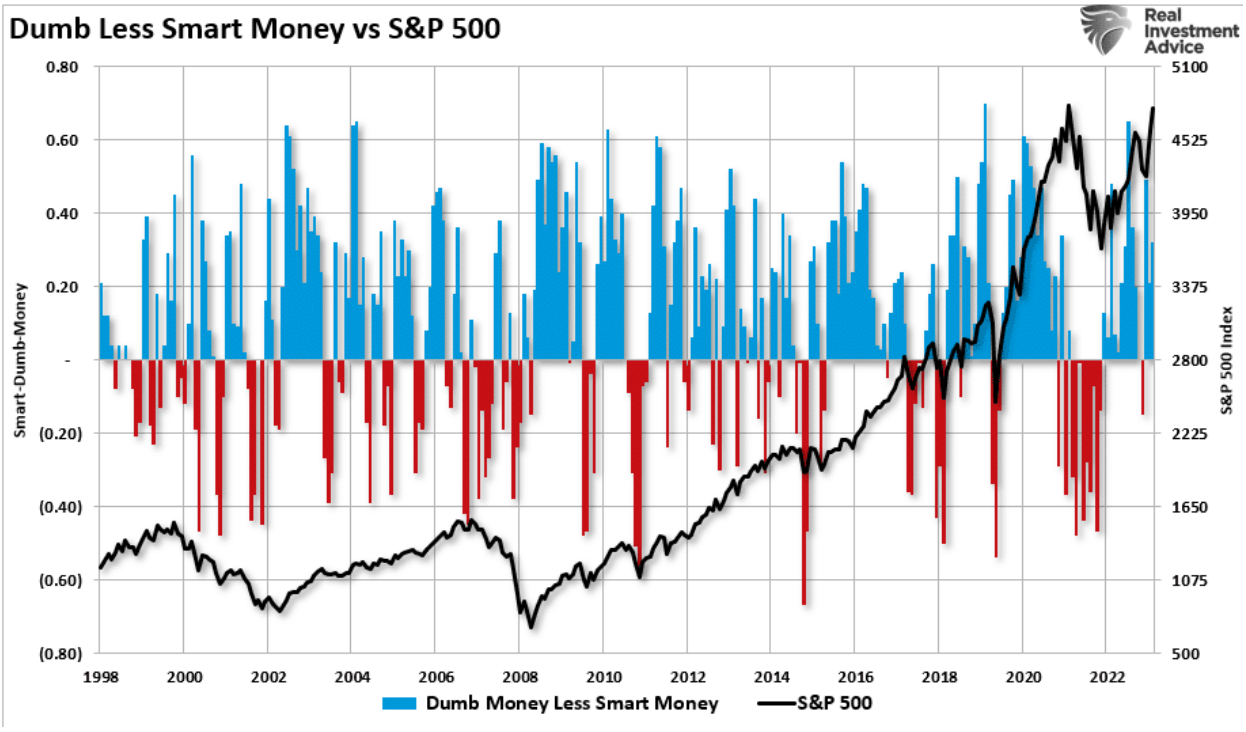
Over the last few years, digital currencies and gold have become decent barometers of speculative investor appetite. Such isn't surprising given the evolution of the market into a *"casino"* following the pandemic, where [***retail traders have increased their speculative appetites***]().

> *"Such is unsurprising, given that retail investors often fall victim to the psychological behavior of the ?fear of missing out.? The chart below shows the ?dumb money index? versus the S&P 500. Once again, retail investors are very long equities relative to the institutional players ascribed to being the ?smart money.?"*

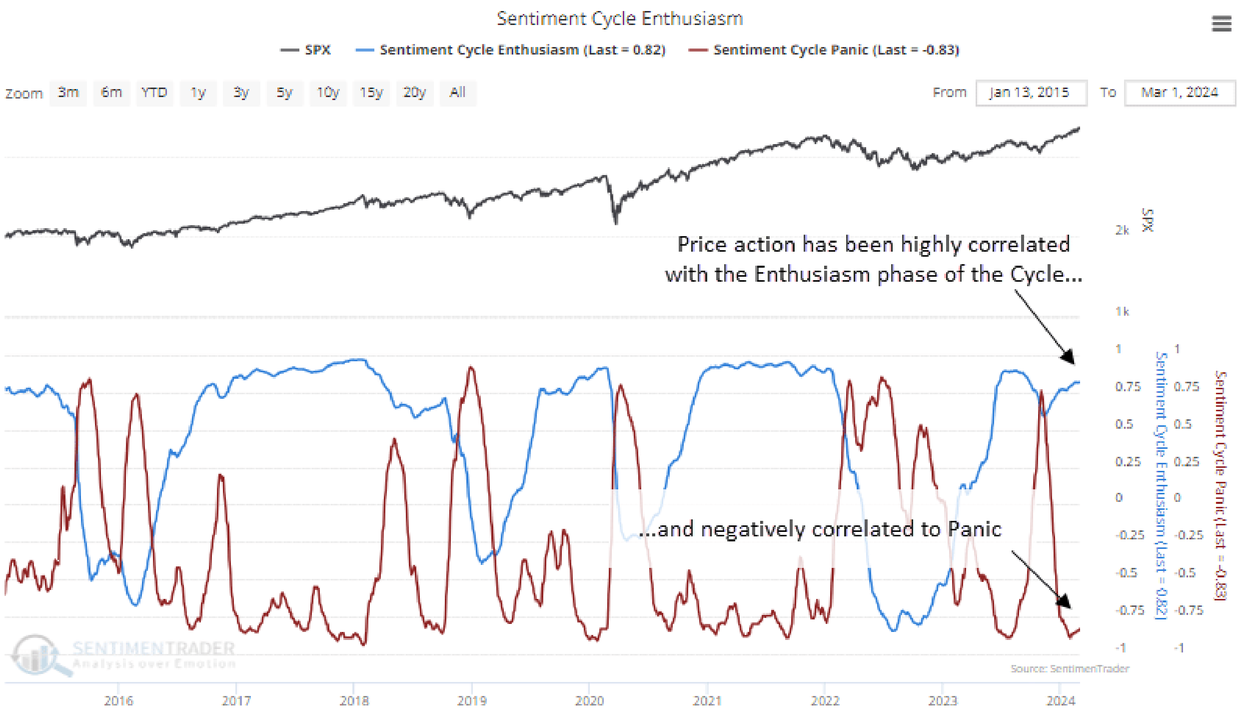


> *"The difference between ?smart? and ?dumb money? investors shows that, more often than not, the ?dumb money? invests near market tops and sells near market bottoms."*



That enthusiasm has increased sharply since last November as stocks surged in hopes that the Federal Reserve would cut interest rates. As noted by Sentiment Trader:

> *"Over the past 18 weeks, the straight-up rally has moved us to an interesting juncture in the Sentiment Cycle. For the past few weeks, the S&P 500 has demonstrated a high positive correlation to the 'Enthusiasm' part of the cycle and a highly negative correlation to the 'Panic' phase."*



That frenzy to chase the markets, driven by the psychological bias of the *"fear of missing out,"* has permeated the entirety of the market. As noted in ***"This Is Nuts:"***

"Since then, the entire market has surged higher following last week?s earnings report from Nvidia (NVDA). The reason I say ?this is nuts? is the assumption that all companies were going to grow earnings and revenue at Nvidia?s rate. There is little doubt about Nvidia?s earnings and revenue growth rates. However, to maintain that growth pace indefinitely, particularly at 32x price-to-sales, means others like AMD and Intel must lose market share."

Of course, it is not just a speculative frenzy in the markets for stocks, specifically anything related to *"artificial intelligence,"* but that exuberance has spilled over into gold and cryptocurrencies.

Birds Of A Feather

There are a couple of ways to measure exuberance in the assets. While sentiment measures examine the broad market, technical indicators can reflect exuberance on individual asset levels. However, before we get to our charts, we need a brief explanation of statistics, specifically, standard deviation.

As I discussed in ***"Revisiting Bob Farrell's 10 Investing Rules":***

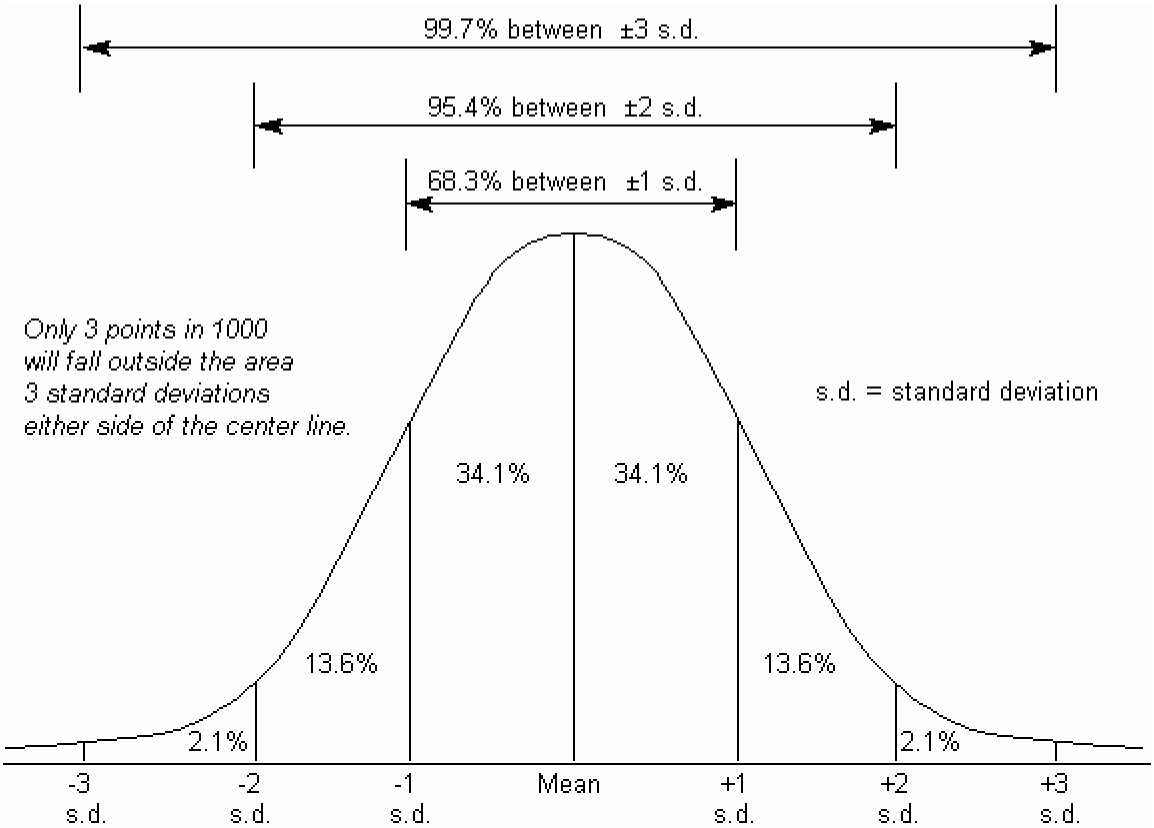
> *?Like a rubber band that has been stretched too far ? it must be relaxed in order to be stretched again. This is exactly the same for stock prices that are anchored to their moving averages.* ***Trends that get overextended in one direction, or another, always return to their long-term average.*** *Even during a strong uptrend or strong downtrend, prices often move back (revert) to a long-term moving average.?*

The idea of *"stretching the rubber band"* can be measured in several ways, but I will limit our discussion this week to **Standard Deviation** and measuring deviation with *"Bollinger Bands."*

"Standard Deviation" is defined as:

?A measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is calculated as the square root of the variance.?

In plain English, this means that the further away from the average that an event occurs, the more unlikely it becomes. As shown below, out of 1000 occurrences, only three will fall outside the area of **3 standard deviations**. 95.4% of the time, events will occur within two standard deviations.

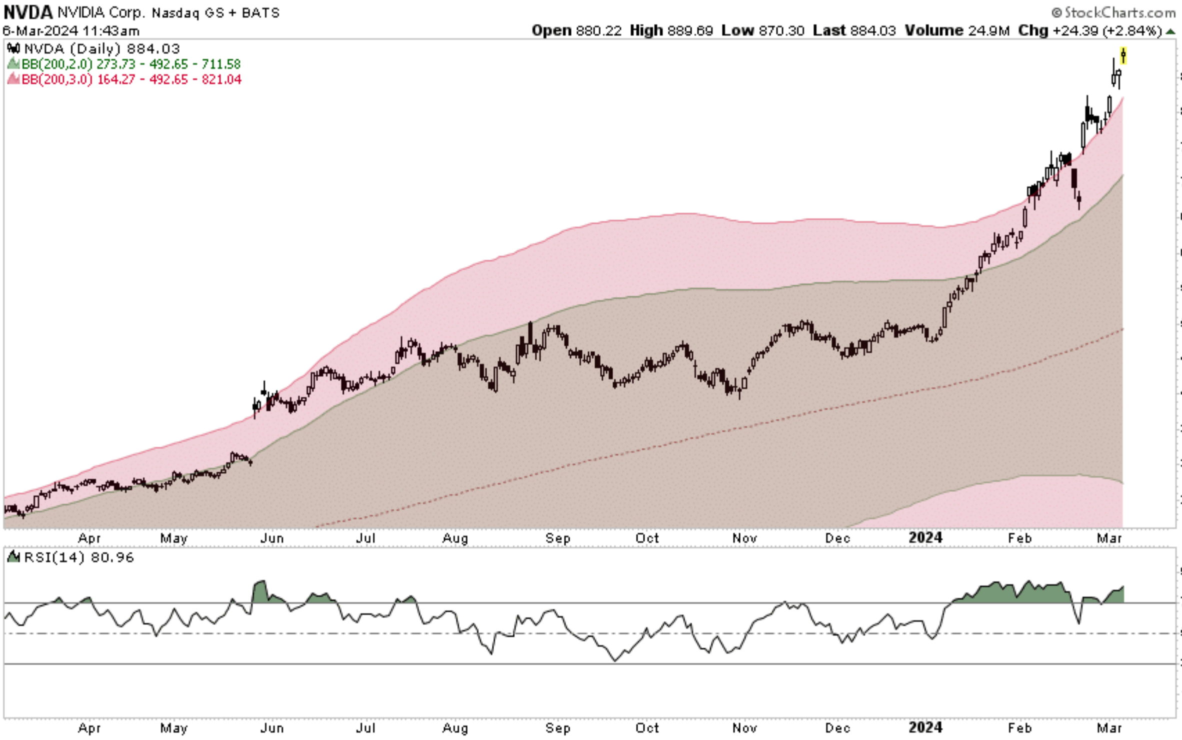


A second measure of *"exuberance"* is *"relative strength."*

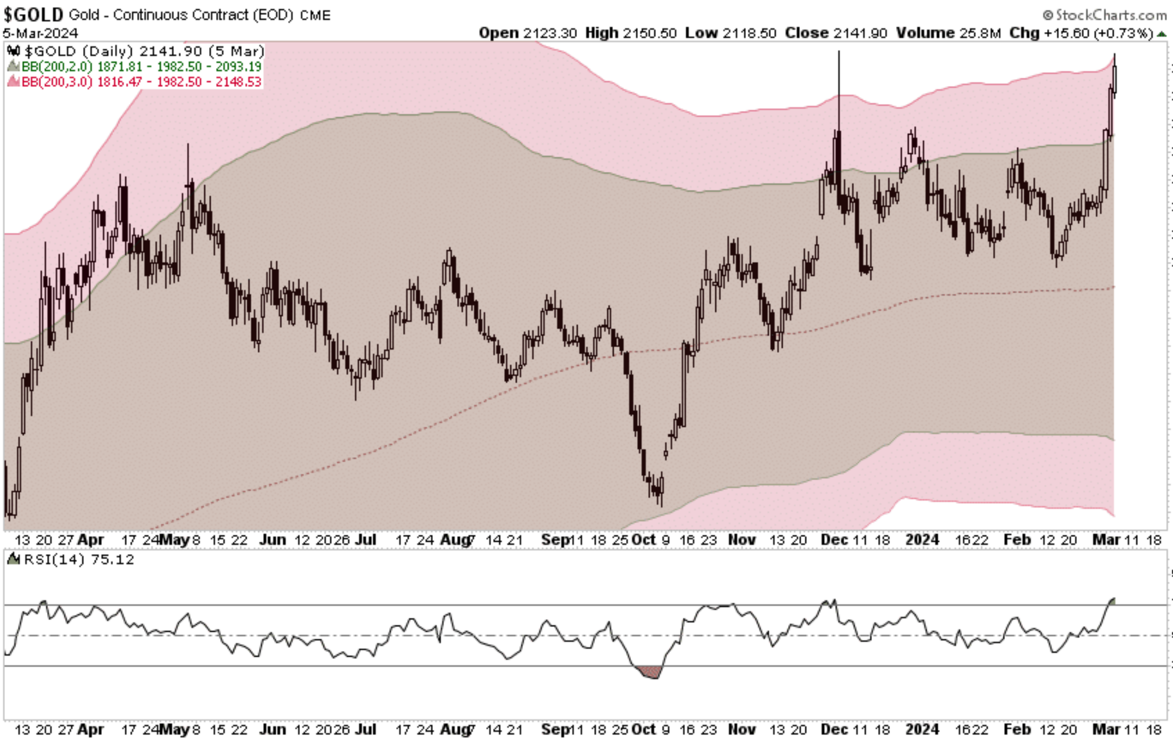
"In technical analysis, the relative strength index (RSI) is a momentum indicator that measures the magnitude of recent price changes to evaluate overbought or oversold conditions in the price of a stock or other asset. The RSI is displayed as an oscillator (a line graph that moves between two extremes) and can read from 0 to 100.

Traditional interpretation and usage of the ***RSI are that values of 70 or above indicate that a security is becoming overbought or overvalued and may be primed for a trend reversal or corrective pullback in price.*** *An RSI reading of 30 or below indicates an oversold or undervalued condition." - Investopedia*

With those two measures, let's look at Nvidia (NVDA), the poster child of speculative momentum trading in the markets. Nvidia trades more than 3 standard deviations above its moving average, and its RSI is 81. The last time this occurred was in July of 2023 when Nvidia consolidated and corrected prices through November.



Interestingly, gold also trades well into 3 standard deviation territory with an RSI reading of 75. Given that gold is supposed to be a *"safe haven"* or *"risk off"* asset, it is instead getting swept up in the current market exuberance.



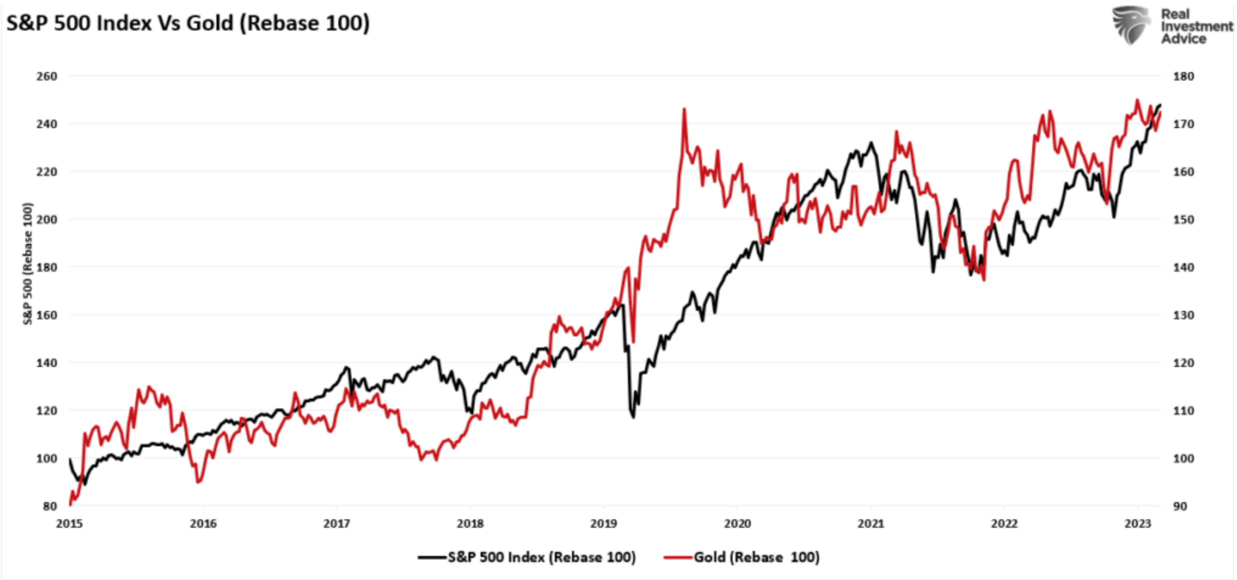
The same is seen with digital currencies. Given the recent approval of spot, Bitcoin exchange-traded funds (ETFs), the panic bid to buy Bitcoin has pushed the price well into 3 standard deviation territory with an RSI of 73.

In other words, the stock market frenzy to *"buy anything that is going up"* has spread from just a handful of stocks related to artificial intelligence to gold and digital currencies.

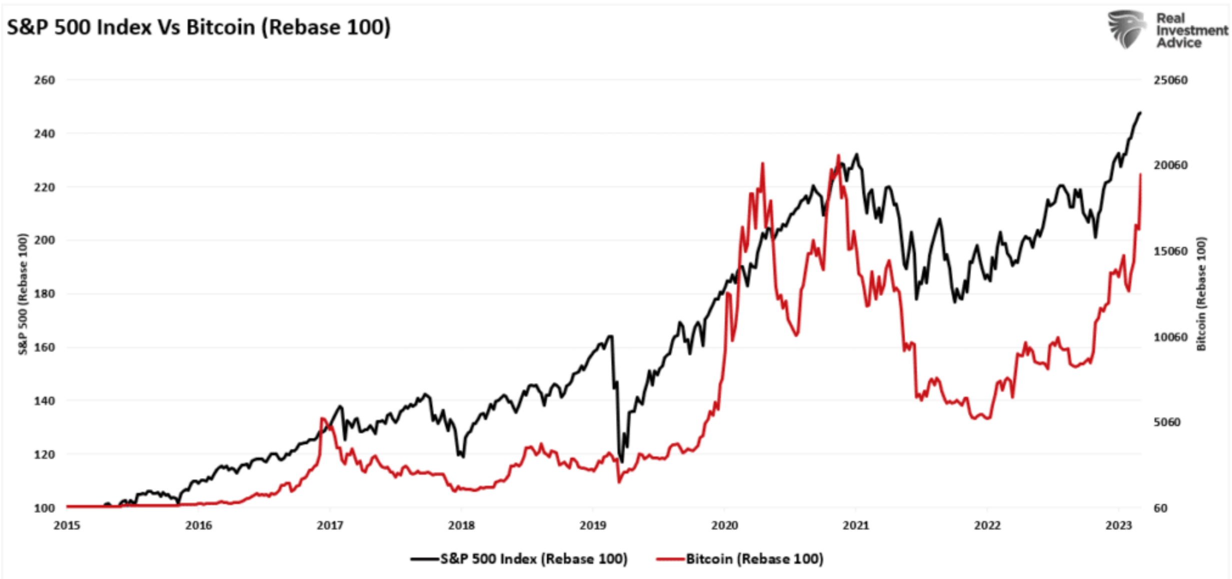
It's All Relative

We can see the correlation between stock market exuberance and gold and digital currency, which has risen since 2015 but accelerated following the post-pandemic, stimulus-fueled market frenzy. Since the market, gold and cryptocurrencies, or Bitcoin for our purposes, have disparate prices, we have rebased the performance to 100 in 2015.

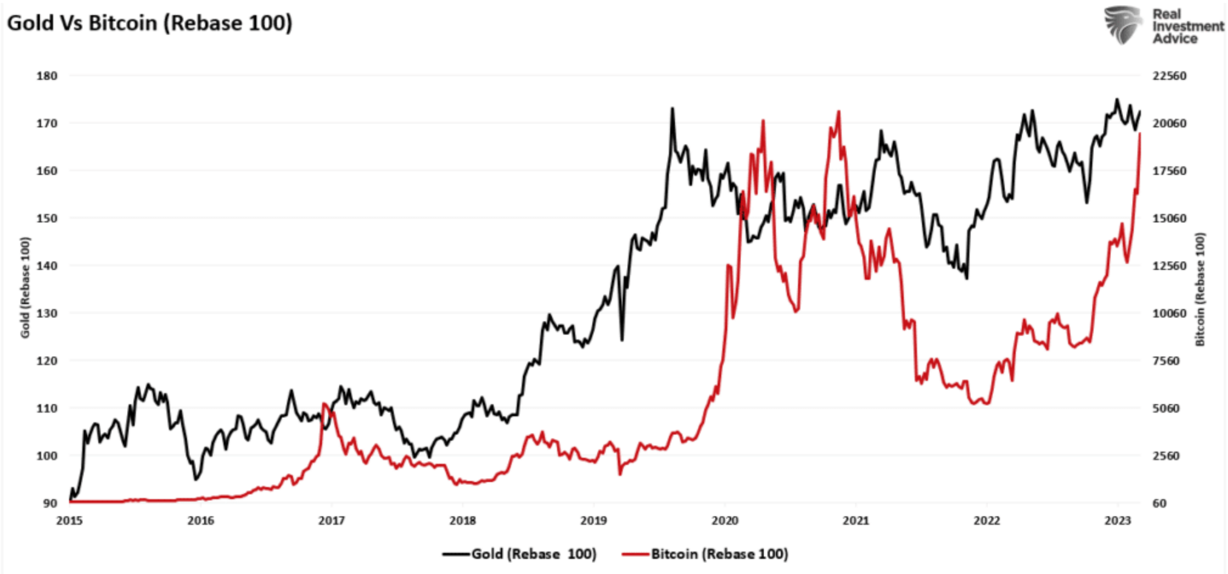
Gold was supposed to be an inflation hedge. Yet, in 2022, gold prices fell as the market declined and inflation surged to 9%. However, as inflation has fallen and the stock market surged, so has gold. Notably, since 2015, gold and the market have moved in a more correlated pattern, which has reduced the hedging effect of gold in portfolios. In other words, during the subsequent market decline, gold will likely track stocks lower, failing to provide its "*wealth preservation"* status for investors.



The same goes for cryptocurrencies. Bitcoin is substantially more volatile than gold and tends to ebb and flow with the overall market. As sentiment surges in the S&P 500, Bitcoin and other cryptocurrencies follow suit as speculative appetites increase. Unfortunately, for individuals once again piling into Bitcoin to chase rising prices, if, or when, the market corrects, the decline in cryptocurrencies will likely substantially outpace the decline in market-based equities. This is particularly the case as Wall Street can now short the spot-Bitcoin ETFs, creating additional selling pressure on Bitcoin.



Just for added measure, here is Bitcoin versus gold.



Not A Recommendation

There are many narratives surrounding the markets, digital currency, and gold. However, in today's market, more than in previous years, all assets are getting swept up into the investor-feeding frenzy.

Sure, this time could be different. I am only making an observation and not an investment recommendation.

However, from a portfolio management perspective, it will likely pay to remain attentive to the correlated risk between asset classes. If some event causes a reversal in bullish exuberance, cash and bonds may be the only place to hide.