<u>The Outlook: May 12, 2023</u>

Old sayings don't count for much on Main Street.

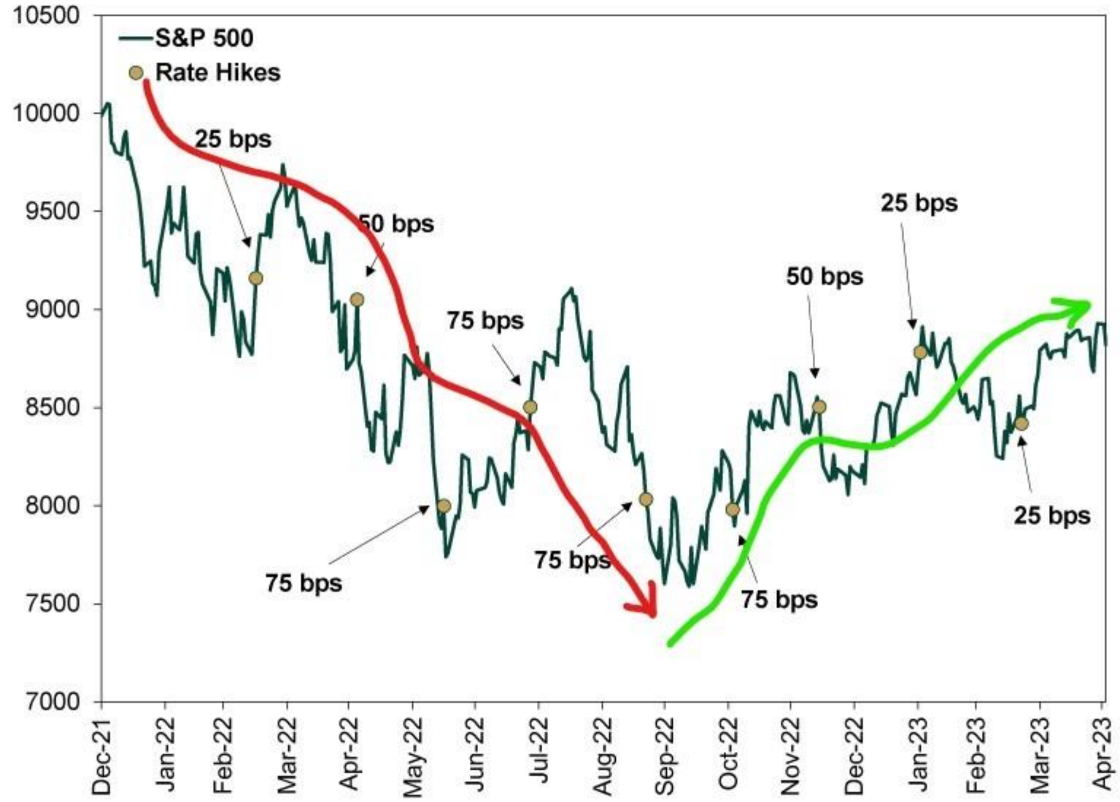
"Sell in May and go away!" "Never fight the Fed!" "Don't try to catch a falling knife!"

Long ago when a young analyst began working in the investment world, he was quickly introduced to that world's "rules of survival:" old sayings (about how to invest or not invest) which seemed to have a lot of true believers, in the business. Those are three of them, above. They seemed worth studying, long ago, until the young analyst found himself overwhelmed by a flowing river of such "rules of survival." There were so darned many of them, he soon realized, that to test them all out he'd have to quit his day job and bury himself in a library 40 hours a week.

So he settled for keeping an eye on them, watching for someone to actually do the studying which they seemed to deserve. As the years rolled by those studies showed up, one by one. The result? Yup, a batting average of pretty close to zero, for the old sayings. Almost every time someone took the trouble to really look at how well they worked, the answer turned out to be: "Nope. Forget it."

But the investment world never forgets them. "Never fight the Fed!" is in fashion right now, meaning: "Don't own stocks when the Fed is hiking interest rates! You'll get your clock cleaned!"

Well, no . . . you won't. As they so often do, the professional debunkers at Fisher gave us this chart recently:



Source: FactSet and Federal Reserve, as of 5/3/2023. S&P 500 total return index, 12/31/2022 – 5/2/2023.

That's a picture of the Fed's "war on inflation" since early 2022. At first the market's betting crowd all sang from the old "Never fight the Fed!" hymnal. There are 5 straight rate hikes, and there's at least a generally falling stock market. Then the rule stopped working, with 4 straight rate hikes and a generally rising market over the last 8 months. And we'd certainly think the last 4 hikes should have been more damaging than the first 5, with each successive hike piling more heavy rocks on the camel's back for the economy and the market.

What happened?

Well, every one of those treasured "old sayings" in the investment world actually amounts to a short-term trading rule. Yes . . . no wonder the betting crowd refuses to drop them. If we're going to live or die from our bets about the near future, we're going to be terrified about ignoring anything which might help us survive such a dangerous way of making a living. But if our minds are fixed upon that problem, it'll be very hard indeed to step back and actually think about what really matters to the economy and the market, if not the old sayings.

Financial strength, management determination and engineering invention are what really matter to Main Street (the economy) of course. The Fed's 5 rate hikes just don't have the power to affect those fundamental forces. They are why Main Street has stubbornly refused to keel over and faint, in the face of the "war on inflation" and the pessimists' expectations. And they are why the market's betting crowd eventually sat up and noticed . . . as that crowd always must notice hard facts from Main Street in the end, and value them (as they deserve) more highly than short-term trading rules.

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