

## The Outlook: Feb. 2, 2024

### *The betting crowd's endless fancies.*

We mention “the market’s vast betting crowd” a lot. That phrase gets across the main idea all right, but even the best such “sound bites” can mislead us if we aren’t careful. So it’s pretty important to keep repeating the deeper truth. The market’s betting crowd is real; it’s vast; it’s filled with clever people . . . all trying to make a fast buck, when we get right down to it. It does that by betting on the day’s passing impressions, mostly courtesy of news headlines. By definition, news headlines are 99% distorted, misleading or, ahem, plain lies. They’ve been that way since the first newspaper or maybe the first town crier, not just lately. The media survives only by getting our attention—which we have to divide up among hundreds of things—and the best way to do that is to frighten us, most of the time, not to delve into the time-consuming whole story.

So the betting crowd bets on the impression the news ought to make on . . . the betting crowd, and cancels 99% of its bets after an hour or a day, ready to wake up tomorrow and do it over again.

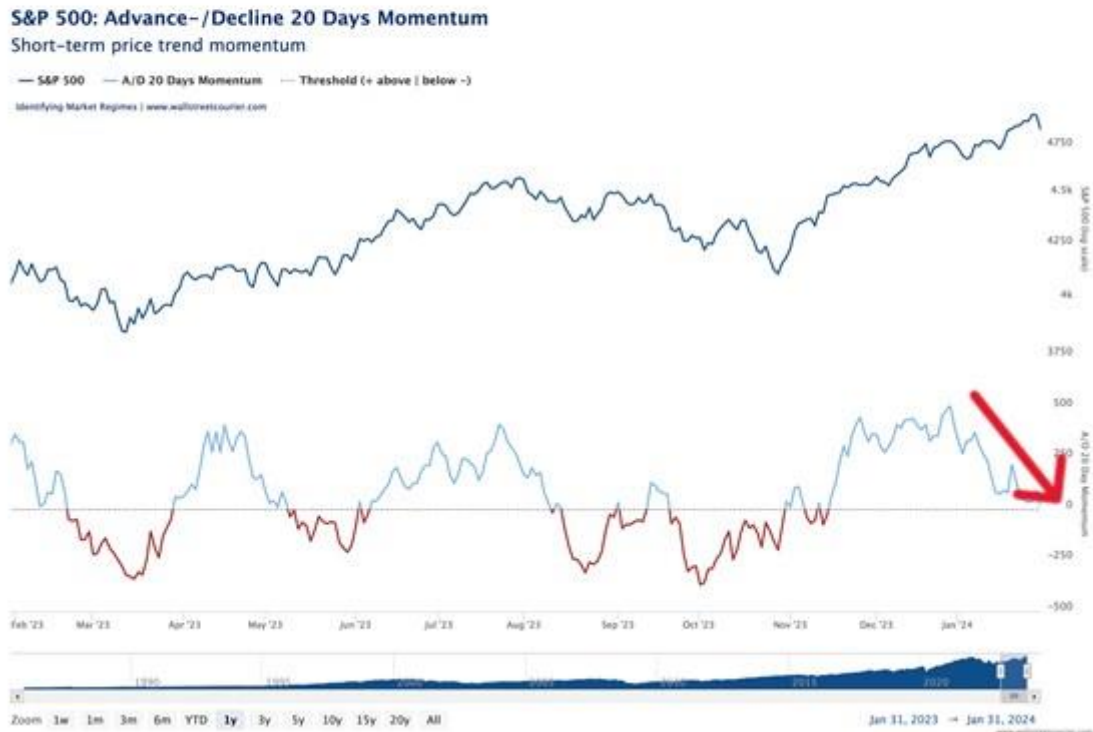
That sounds like a casino . . . and a ridiculous place to invest our sacred fortunes. But one thing saves it. What the crowd is betting on, in the end, is something hard, clear and real: Main Street USA. One of the best movie lines ever spoken was by Steve McQueen, facing up to the bad guys in *The Magnificent Seven*. “Let’s make a deal,” said their boss. “You take some money, then you go, and we stay. Everyone is happy! Except this poor village, and they are made to suffer.”

“We deal in lead, friend,” said Mr. McQueen, and that was that.

Main Street deals in cash: not impressions, not headlines . . . just hard cash. It also deals in facts. Either it earns cash—more of it all the time, generally—or it doesn’t. Either it thanks us investors by sending us cash—more of it all the time, generally—or it doesn’t. Main Street’s hard facts about hard cash sweep away a thousand misleading headlines and false impressions. That betting crowd knows it, so it must pay attention to those hard facts as they show up. It must bet on them, too. That’s why the market is not a casino . . . in the long run.

But in the short run that clever crowd endlessly scrutinizes anything it thinks might clear up its crystal ball. This item below is just one of hundreds or thousands of such hoped-for magical insights.

**27. A/D momentum.** SPX short-term momentum—as measured by the difference between advancing and declining issues within the past 20 days—has been fading since the end of December.



“A/D Momentum” means “advance/decline momentum,” which in turn means, roughly, how many stocks have been rising lately compared to how many have been falling. So the clever crowd’s idea is that if the fallers have been swamping the risers for a while—especially if the whole market has somehow been rising at the same time—why, that surely means the foundation’s about to be knocked right out from under the silly, over-optimistic market. Hence that red arrow up there, meaning “Watch out below!” if we’d like to hang onto enough of our fortunes to pay for lunch at McDonald’s once in a while.

A long time ago, a young analyst pondered such things and was bewildered. “Looks and sounds convincing,” he thought, “but how on earth can I know for sure?”

The answer was, well, “We can only know the hard way: by watching such things so long, and seeing them break down so often—fogging the crystal ball instead of clearing it—that we feel pretty good about just doubting them on principle.” And if we need more, “Let’s act on Main Street cash over Wall Street advance/decline lines, every time!” Yes, it’s a Golden Rule. We are still doing quite well by trusting them rather than the betting crowd’s endless fancies.

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