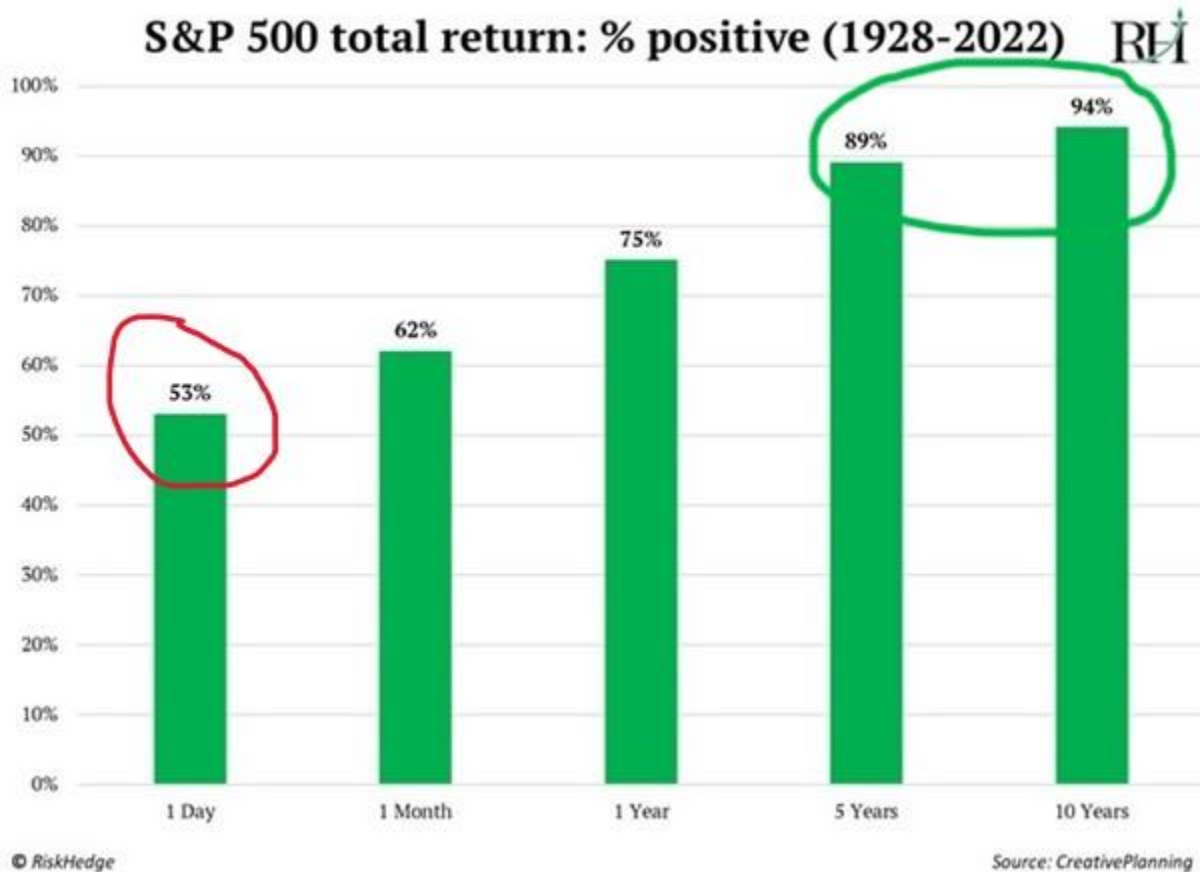


The Outlook: May 14, 2024

Stories about the betting crowd.

At Outlook we are constantly going on about “the market’s daily betting crowd,” and our clients are probably tired of hearing about it. But we are putting our sacred fortunes into something called “the stock market,” and it would be a good idea to really understand the nature of this thing . . . which we can’t, unless we first understand that crowd.

Here’s one picture of the betting crowd in action.



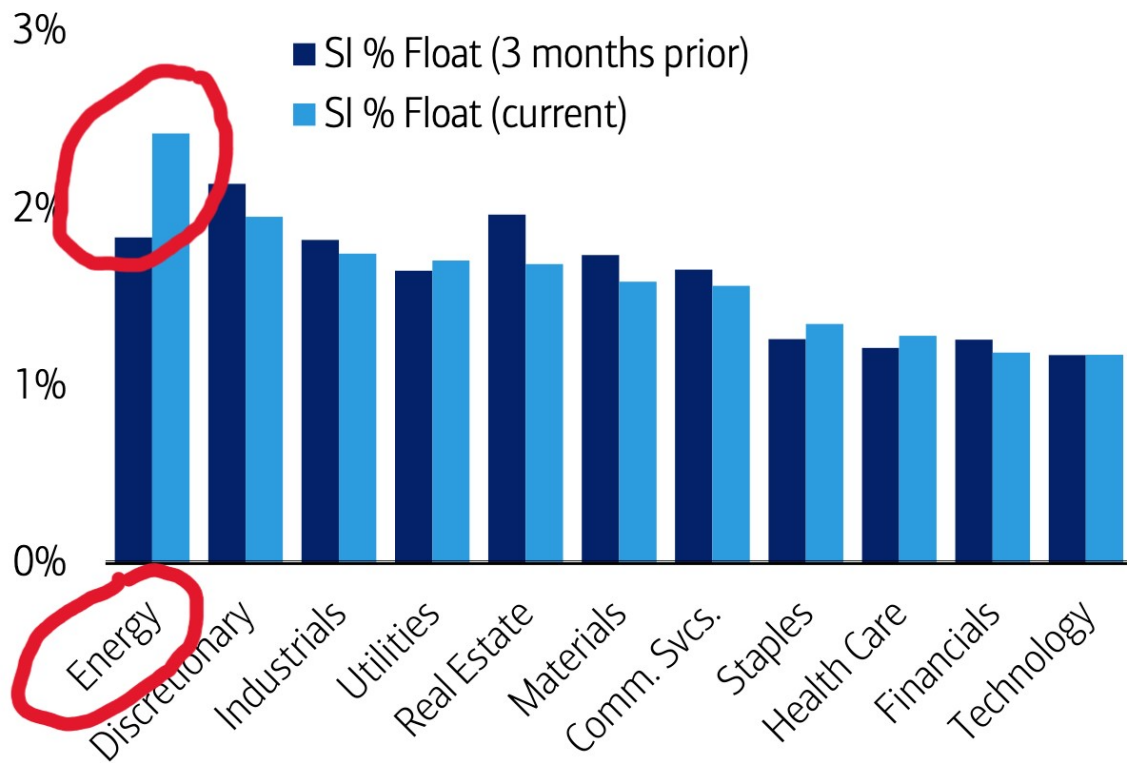
Let’s begin with the red circle, in which a century of history informs us that “for every up day, there’s a down day.” Then glance at the green circle, which tell us that we make a lot more money on the up days than we lose on the down days, if we just sit back and wait a few years.

But the market’s betting crowd lives and plays in the red circle, always and forever. That crowd isn’t in the “waiting” business; it’s in the “make money today” business—well, in the “hope to make money today” business. The red circle tells us one more thing about that crowd: when half the days are up, and half down . . . there is no way on earth for all those gamblers to avoid guessing wrong, at least half the time. For the scientific-minded among us, we might flip a coin a hundred times, pretending to bet on heads or tails before each flip. The result will tell us to get out of the crystal ball business.

Let's wander from the "general nature of the crowd" to the specific—always more interesting. The picture below came out about 5 months ago. It told us that the gambling crowd's favorite bet, lately, had been to "short" energy stocks, like Outlook's Conoco and Exxon. ("Short" meaning bet they'd go down soon, and make a killing.)

Exhibit 27: Energy has seen the largest increase in short interest over the last three months

Current short interest as a % of float vs. 3 months prior



Source: BofA US Equity & Quant Strategy, FactSet

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What happened next? We all know, of course.



There's Conoco since its 2020 Bear Market bottom . . . up 434%. But the green circle is where we'll look, today. That's when the betting crowd piled into its latest sure thing: selling Energy. Hmm. The crowd appears to have picked a temporary bottom. Those short sales would have burned the crowd's fingers over the next couple of months, as Conoco went up instead of down. Yup. The crowd "Sold low, and bought high," which isn't quite what JP Morgan, or Bernard Baruch, or whoever said "Buy low, sell high!" had in mind, a century ago.

There are experts in everything, in the investment world. Lots of them—like the people who made our middle chart—think the key to success is scrutinizing exactly what the betting crowd is doing every day—or hour or minute. At Outlook we suspect that if we asked those experts to draw green circles in that Conoco chart around every single time since 2020 the crowd "went short" on Energy . . . we'd see a lot of green circles. And half of them would be just like ours, above: "They sold low, and bought high." We might wonder, then, how they stay in business. Outlook suspects the answer is, "They don't. But "fast money" people being "fast money" people, there is always a line waiting to replace those who go bust."

It is a lot more fun, though, to ride that long green arrow, even when it means enduring the rollercoaster ride to get there.

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