

## Data Myopia Foils The Fed

For months, we have been warning that the labor markets are not as strong as the BLS data attests. Six months ago, we [wrote](#):

*While labor market data is generally good, there are signs the labor market is at a standstill. Continuing jobless claims are steadily rising and at their highest level in over three years. The JOLTS hires rate is at ten-year lows. While the number of layoffs remains low, employers aren't hiring either.*

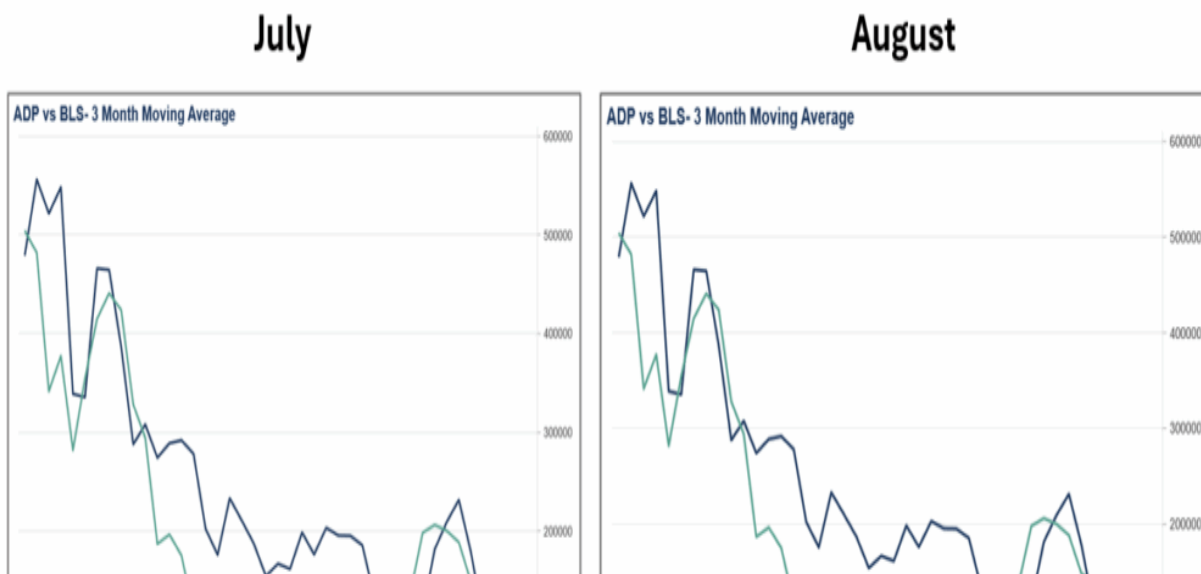
Further, in early July, we [wrote](#):

*According to the ADP, June saw the largest decline in service sector payrolls (-66,000) since March 2020. While 52k of the losses came from education and healthcare, which tend to be seasonally volatile, the trend is poor. The current estimate for the BLS is +100k. ADP data argues we could get a surprise catch down (in regards to the coming BLS data). Stay tuned!*

The point is not that we told you so. Much more importantly, we want to point out that the Fed appears to be data myopic. They over-rely on some data while seemingly ignoring other sources of data. Primarily, they seem to prefer government data on labor and inflation. Not only has government data proven unreliable at times, but in some cases, it is less robust. For instance, the BLS employment data is compiled via surveys, whereas ADP uses actual paycheck data from its clients. Another example is Truflation, which uses 18 million price data points. Compare that to approximately 100,000 used in the BLS CPI report.

The economic and market risk is that the ?data-dependent? Fed is relying on faulty data. Thus, they may wait too long to cut rates, or not cut them enough to stave off a recession. To wit, they waited too long to raise rates and stop QE when inflation was starting to increase in 2021.

The graphs below show how ADP was ahead of the BLS, post-revisions, in predicting the decline in payroll growth.



## July



## August



## What To Watch Today

### Earnings

Friday Aug 8	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
<b>EOG Resources</b> EOG.US	2.20	2.20	3.16	5.44B	5.44B	6.03B	\$61.13B	Q2	PM <span style="color:red">★</span>
<b>Lamar Advertising</b> LAMR.US	1.36	1.36	1.34	575.35M	575.35M	565.25M	\$12.59B	Q2	AM <span style="color:gray">★</span>
<b>Plains All American Pipeline</b> PPL	0.32	0.32	0.31	13.94B	13.94B	12.93B	\$12.23B	Q2	AM <span style="color:gray">★</span>
<b>Freedom Holding</b> FRHC.US			0.58			439.38M	\$8.69B	Q1	<span style="color:gray">★</span>
<b>Plains GP</b> PGP.US	0.35	0.35	0.31	13.25B	13.25B	12.93B	\$3.66B	Q2	AM <span style="color:gray">★</span>
<b>Wendy's</b> WEN.US	0.26	0.26	0.27	560.61M	560.61M	561.1M	\$2.57B	Q2	AM <span style="color:gray">★</span>
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### Economy

- *No notable economic releases.*

## Market Trading Update

[Yesterday](#), we noted that the market continues to struggle with the 20-DMA. What will be most important is where we finish the trading day today. A close below the 20-DMA this afternoon will likely suggest further weakness in the market, although buyers have been eager to *?buy the dip.?* The back-and-forth action keeps us more cautious momentarily, and we prefer to wait for improved clarity before further adding to equity exposures.

While we wait for further clues, I have received a lot of emails lately asking about cryptocurrency. I was preparing to write a more detailed piece, but the brilliant guys at [Sentimentrader.com](#) beat me by discussing a 3-pronged system for bitcoin. To wit:

*?As cryptocurrencies become a more viable investment vehicle, demand is growing for exposure to the asset class but some protection from its notorious swings. To keep things as simple as possible, we'll focus on one measure each of price action, sentiment, and breadth within the crypto space. During healthy trends, we tend to see at least 40% of traders bullish on bitcoin. We can approximate this using the Crypto Fear & Greed model.?*





We can combine the three factors into a Triple 40 system:

1. Bitcoin is above its 40-day moving average
2. At least 40% of traders are bullish
3. At least 40% of cryptocurrencies are above their 200-day averages

This is shown in the chart below, with the system receiving 1 point for meeting each condition.





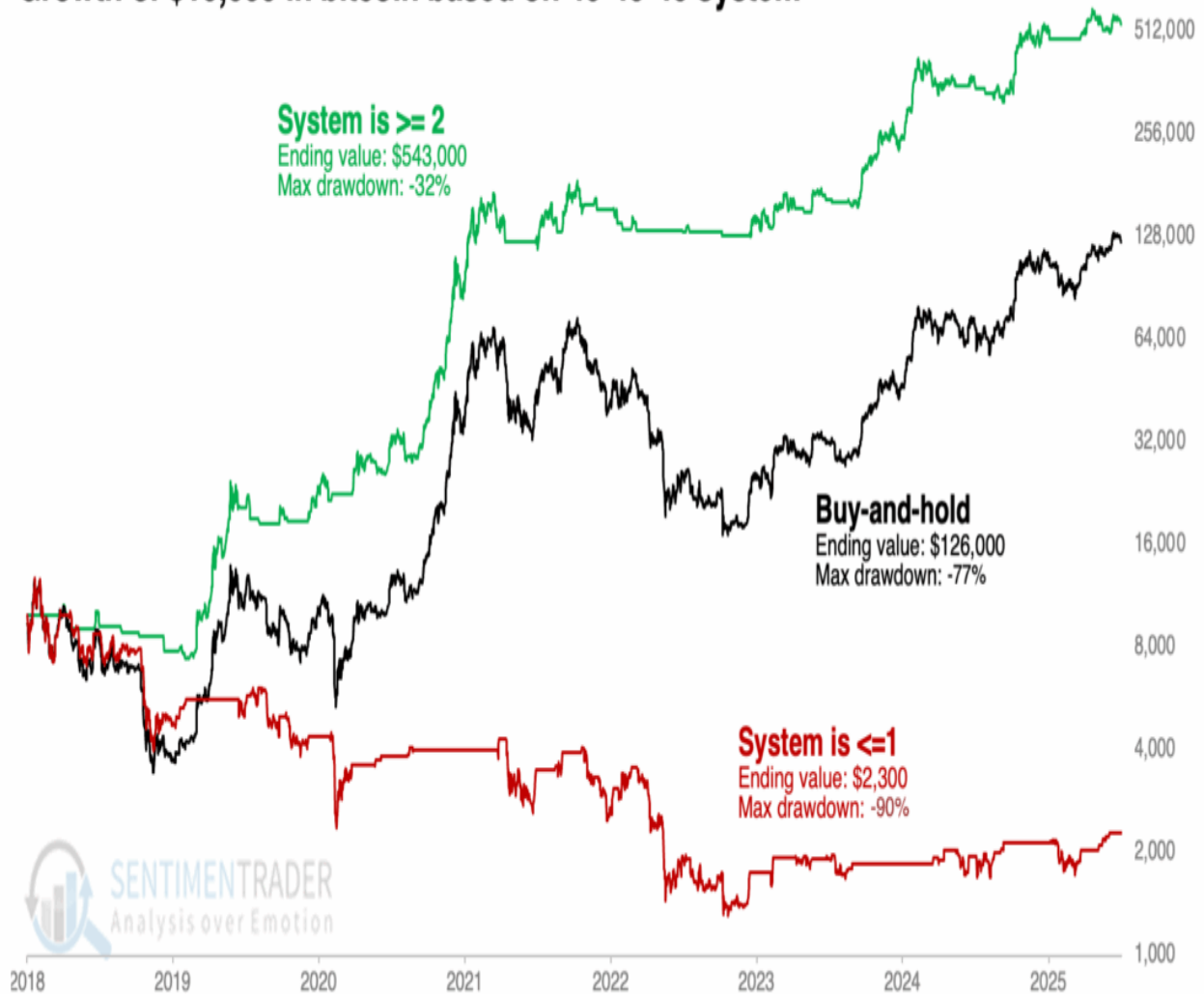
Of course, the obvious question is, does the system work?

*?With an asset with such impressive returns, it's better to show the chart on a logarithmic scale. We can see below that using these parameters, \$10,000 would have turned into \$543,000 when at least two factors were bullish. That's more than 4x a buy-and-hold return, while suffering less than half the drawdown.?*

### Growth of \$10,000 in bitcoin based on 40-40-40 system



## Growth of \$10,000 in bitcoin based on 40-40-40 system



As Sentimentrader concludes, there has been a recent deterioration in the percentage of cryptocurrencies trading above their 200-day moving averages, and the recent decline pushed bitcoin below its 40-day moving average. So, the Triple 40 system only has one of its components in positive territory, which has been a riskier environment for the currency. Generally, it pays to monitor these basic measures to gauge the market's health, especially for shorter-term traders.

While no system is perfect, and past performance is not a guarantee of future returns, it should be evident that some systems are better than none at all.

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## Eli Lilly (LLY) Stock Falls On Great Earnings

By all accounting measures, Eli Lilly (LLY) had a great quarter. The company had an EPS of \$6.31, well above estimates of \$5.57. Furthermore, its revenue came in about 5% above what Wall Street was expecting. Such was a 38% year-over-year increase. Recently, we have seen many companies report good earnings, but there has been a negative reaction by investors. Often, that is a function of weaker-than-expected earnings guidance. However, for LLY, that was not the case. The company increased its revenue guidance by \$2 billion and EPS by \$1 a share. Below are a few quotes from its CEO, David Ricks:

*Our strong results in the second quarter reflect the continued robust demand for our medicines, particularly in the cardiometabolic space with Mounjaro and Zepbound, as well as our oncology and immunology portfolios.*

*Right now, it's really a kind of a golden era? the main priority we have is to keep our discovery engine rolling, make important medicines, and get them produced at scale.*

*The underlying business is super strong.*

Along with earnings, the company reported promising FDA Phase 3 trials for its orally taken obesity drug Orforglipron. While great news, the stock fell. Investors were expecting the drug to result in a 15%+ weight loss in trials. The average weight loss was 12%. Its chief competitor, Novo Nordisk (NVO), has shown its test users lost 15% on average using its oral GLP, which is also in Phase 3. NVO is opening higher on the LLY data. The graph below shows LLY has grossly outperformed NVO this year. This is in part because investors think LLY has advantages over NVO regarding obesity drugs.





## The Inheritance Conversion ? Love Or Turmoil?

I understand how much we all disdain planning for our inevitable demise. As a Certified Financial Planning professional for over 25 years, I truly get it?! I, too, find estate planning a necessary but unpleasant endeavor. However, only you can decide whether the inheritance conversation is love or turmoil.

My father decided, upon finding out about his terminal illness, to conveniently stop paying Federal taxes, which resulted in some uncomfortable interactions with the IRS. Not a good plan.

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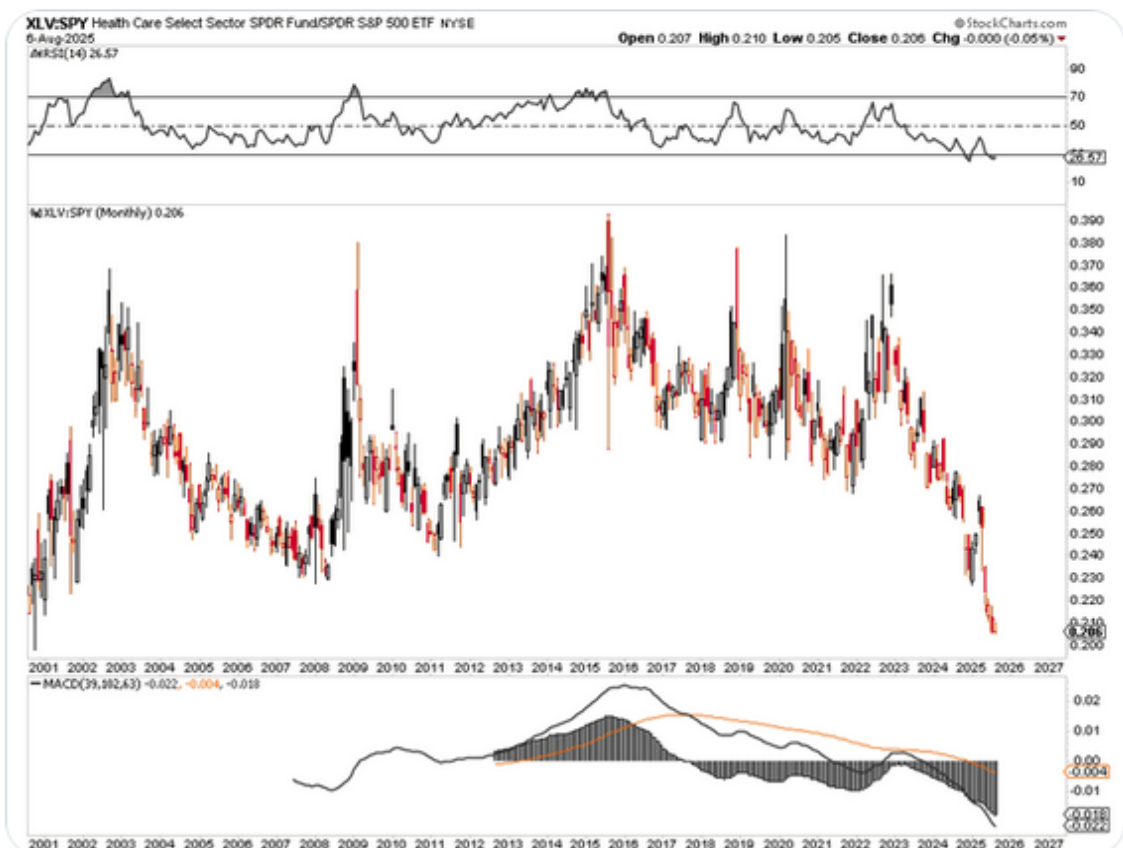
## Tweet of the Day



**Lance Roberts**  @LanceRoberts · 3h



#Healthcare underperformance, relative to the S&P 500 is now the worst in 25 years. From a #contrarian view, this could smack of potential opportunity if the high-beta trade falters.

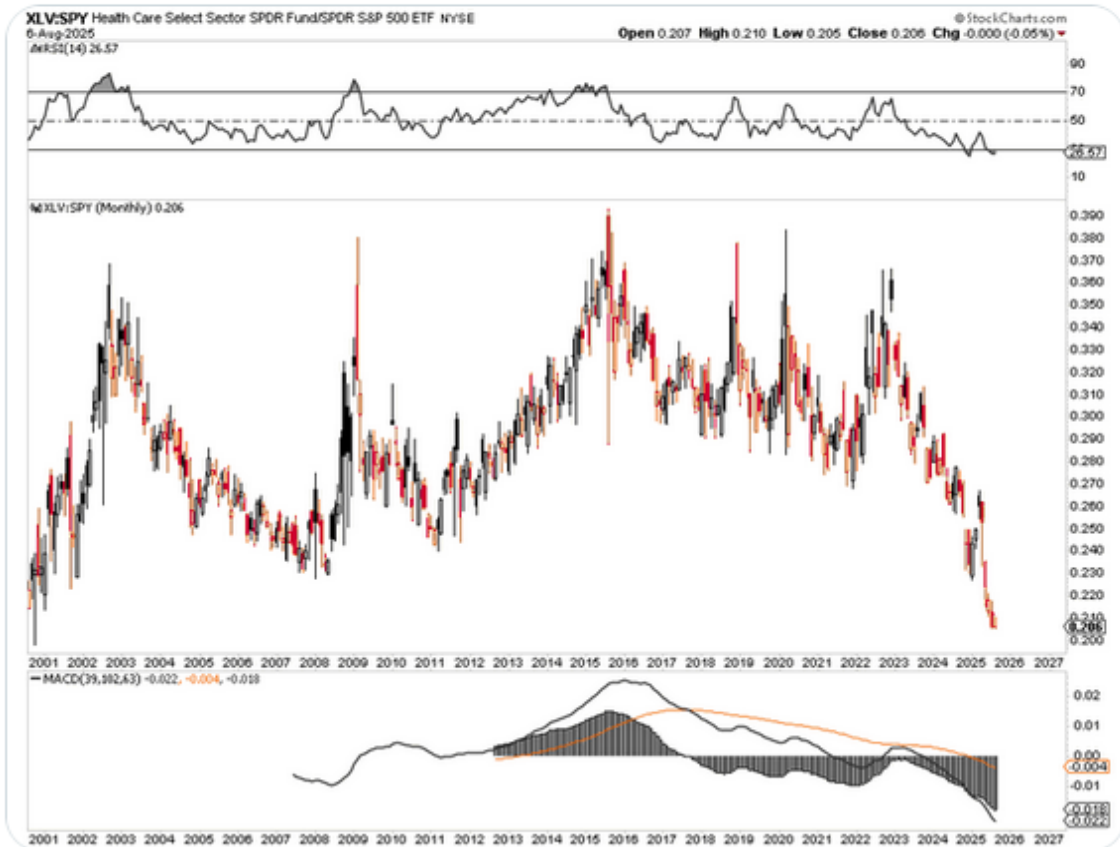




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