Transcript – Michael Angelucci – WBEN Radio – August 5, 2024

Michael Angelucci of Level Financial Advisors is with us live on WBEN this morning. We're seeing a global sell off. Michael Markets spooked because of what's happening here in the us. What are you expecting when the markets open this morning?

Well, the futures are definitely signaling that it's going to be a bad day on Wall Street. It's already been a bad day globally. That's really a result of where it all started was the bad job report on Friday. A lot of investors had felt that the Fed had been waiting too long to do something, and when this report came out, the 4.3 unemployment rate triggered something that's known as the SOM rule. The SOM rule is a rule that was put out by an economist, Gloria Som. A lot of people that invest look at this and it's a signal for recession. So what that told people was the SOM rule was in play, so to speak, and now a recession could be coming and therefore the Fed waited too long to start cutting interest rates. And so investors start selling stocks. I always like to point out, usually when this happens, these are big investors, hedge funds, pension funds, insurance companies that have short-term cash needs or are making bets on certain individual stocks, but that triggers a sell off.

They're finding that their models based on this new information aren't working and that results in the sell off. And then I'll add two other quick things. That also reinforced the sell off of some of the big tech stocks because a lot of people felt that tech stocks were overvalued and AI hasn't been playing out yet to how people had thought. So those stocks got bit up. And then the Bank of Japan, which you've probably been hearing about a little about, but they started raising interest rates, which there was a big bet by a lot of big investors. What they would do is they'd borrow from the Bank of Japan at almost no cost and buy US stocks. Well now US stocks are going down. They have to unwind those bets. And in addition, the Bank of Japan is raising interest rates, which is also causing that bet to go bad for these investors. So that's why you're seeing some of this. That's a long answer, but that's really what's going on and what's going to continue to go on in the markets today.

Well, you mentioned two things in there. One, the jobs report, and it's kind of a two part question. The first part is, well man, how bad was that Jobs report really if it's causing all this, but two was the Fed and maybe waiting too long to roll back on some of these high interest rates. But we're all expecting them to do that in just a month's time. So we can't be patient, I guess is the second question. Why are these two things have such a big impact?

I know to your point, some of that may play out, but I think it was the sediment. I re-listened over the weekend to Bloomberg's surveillance opening and watching that jobs report and the initial response was, whoa. And I even said, well, it's 4.3, that's still a good unemployment rate. But the key point there was that it triggered this SOM rule that frankly I had not heard of until it was triggered on Friday. But apparently it's a very popular thing. It signals recession and it says that the Fed, what that reinforces is that the Fed waited too long. The Fed is always supposed to, the story or the analogy is the fed's supposed to, when things are good, pull the punch bowl away from the party when things start getting going and they're supposed to bring the punch bowl or open the bar back up when things are slow and people were feeling they should have been opening the bar and getting the party going again based on other data. And so that's when this came out, this 4.3 and triggering the sound rule, this really upset the investors and whether the Fed does anything or whether people to your point say, okay, we were expecting this. We know the Fed was going to lower in September. They signaled this. Let's slow down a little bit. But it's also magnified a little bit around what's going on with the Bank of Japan and some of these trades that are unwinding that are holding you as stocks.

Well Michael, a lot of people have 4 0 1 Ks and are kind of feeling sick about it this morning. What's your best advice?

My best advice is to stay the course. If you look at people anchor to the last high, so we've been up year to date, what's my number here? Year to date in the s and p 500 is still 13% over the last five years, we're up 14 point a 5% a year. So your a hundred dollars is worth $150 after five years. So we've been doing pretty good for a long time and actually we've been doing better than average over the last 10 years. So stay the course. If you don't need to touch your stocks for the next five to 10 years, then there's probably nothing to worry about. Stocks are your long run holding. What's going on in the markets is not Main Street actions, it's Wall Street actions. It's those big investors that are unwinding trades or have cashflow issues or trying to beat the market and selling one stock and buying something else, or moving to US treasuries to try to make money for the investors they're investing for.

Well, all of this. Are we expecting this to be a one day thing? Will it bleed into tomorrow and the rest of the week? Is it impossible to tell? What info can you give us?

I wish I had that crystal ball. One thing I'll point out is that this is not a macro shock like we had in oh eight when people were finding, geez, the real estate market was a bubble. There were all these investments that were based on faulty models. This is nothing like this. This is the Fed. People are worried. The Fed didn't act soon enough that we might go into a recession and taking some actions to protect against that. But I don't think that this is something that's going to be longstanding. Call me back on Friday. Maybe we will. We'll find out if I was right or wrong, but I'm not thinking that this is the start of any sort of market crash. We'll probably have some bumpy days, but as Brian as you said earlier, people may start to reevaluate all the numbers and say things aren't so bad. Let's slow down a little bit here and get back in.

Alright, I think we needed to hear that. So Michael, thank you.

Great. Alright, have a great day. You too. Michael Angelucci with Level Financial Advisors.