

Why I Think This Equity Market Rally Will Last

I rarely make predictions because I hate being wrong. But I shall make this prediction to help make my short positions profitable. Except that you can't wash your car to make it rain. So here goes.

As long as there is serious skepticism about the fundamental underpinnings of the current equity market rally, as long as there are sufficient bears in the market, as long as omens of Armageddon abound, the current bull trend will be sustained as the flow of capital is modulated and drip fed into equities.

Once the perma bears throw in the towel, once the perpetual prophets of doom call an end to the bear market, once the skeptics swing to the side of optimism, then the rally will fade and the market will fall. Until then, the trend is your friend.

Take care, however, for the voices of optimism are rising. As recently as 1 month ago, investors were acutely pessimistic and expecting the worse recession since the Great Depression. With equity markets over 20% above the lows in March, suddenly the green shoots of optimism are sprouting. Once optimism rises to a crescendo, it is likely that markets will snap back to reality again.

Do I know where valuations should be? Do I know what are the fundamentals underlying the markets? At best, I have a hazy view. At worst, I haven't a clue.

But I do know what it is like to be an emotionally driven speculator bereft of sextant or compass, and sailing in the mist.