All Eyes on the Fed

Beyondbond

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After several sizable swings during this week, the Dow was up 0.2%, the S&P 500 gained 0.1%, while the Nasdaq dropped 0.4%. Overall, the markets ended up little changed since the beginning of the week. On the bond market, the 10-year Treasury note increased 15/32 to yield 4.9%. Although the markets have been jumpy throughout the week, all eyes are on the Fed for their coming FOMC meeting next Tuesday.

According to the Labor Department report on Friday, the U.S. economy added 113,000 non-farm payrolls in July, less than the consensus expectations of 145,000 new jobs. In addition, the unemployment rate rose to 4.8% from 4.6%. While the payroll data suggested the economy is cooling, the average hourly earnings, a key inflation measurement increased by a higher-than-expected 0.4%. Given the inflation pressure and a slowing economy, the Fed's interest-rate-hike-or-pause decision will at least show a dim light in this mist.

In the meantime, investors should focus more on specific companies instead of sectors. Examples on the financial institution sector would be banks (e.g. Bank of America, BAC) with less interest rate sensitive business lines such as credit card and mortgage.

Although the majority of the retail sector is going south, one promising area is the teen retailing area. Currently, one-fifth of the sector targets teenagers. However, since it is hard to predict teenagers' shopping behaviors, investors should be very selective and find stocks that are currently trendy. Moreover, with the inflation concerns overshadowing the markets, it is wise to avoid consumer-related sectors in general.

Energy sector, which rose by 5.2% (one of the best performing sectors in July), is where the money flows. On Monday, natural gas had its biggest rally of the year (soared 14%) due to the concerns that a heat wave in the U.S. may push up electricity consumption. The same thing happened to crude oil, which jumped more than a dollar per barrel. However, investors should be very cautious and treat them as volatile stock. Even though the inventory for natural gas is high because of a mild winter last year, one hurricane can immediately wipe out excess inventories. As for crude oil, the price dipped after a weaker storm outlook for the year was unveiled by forecasters on Thursday. With these volatile stocks, investors should sell when there is a spike, but only around 20-30% at a time. By doing so, when the prices are down, you have the money to buy them back.

While the Fed is facing a tough decision on whether to fight the war of inflation or slowing economy, for the investors, who do not watch the market closely,

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November or December will probably be a better time to come back to the markets. For the money manager, stay with what you are familiar with and don't venture out your comfort zone.