



Weekender: On the Importance of Themes (and Getting Around)

In a recent Weekender we talked about [feedback loops and stores of value](#).

The gist was a situation where investors shift their preference to hard assets in the face of Western fiat debasement – this, in turn, creating a feedback loop of further debasement (as rising food and energy prices hobble the real economy), which leads investors to shift their preferences even more.

This theme, dubbed the “hard asset feedback loop,” has been prominent on our radar screens for quite some time.

(And that’s a literal statement – within the [Mercenary Live Feed](#) there is a “radar screen” feature, updated weekly, showing our various trading themes, ranked in ascending order of tactical importance.)

After a period of dormancy, last week the hard asset feedback loop kicked back in with a vengeance. We saw this most prominently displayed in precious metals, and used the opportunity to [build on our exposure](#).

So what’s the takeaway here?

Mainly that the market is not just bulls versus bears, or investors versus traders. These are artificial distinctions, sometimes useful and sometimes not.

On a deeper level, the market regularly expresses itself in *themes* – collective opinions as to what the future will hold, often keying off some scenario or basic logic chain, expressible in a standard format.

“Because of X, such and such industry group will do Y.... in light of A, stocks will do B,” and so on.

We prefer to think thematically – to think in themes – because these ideas and belief sets are like powerful ocean waves, pushing sectors, industry groups, or even whole asset classes up and down.

Sometimes these themes are logical and sensible. At other times they are downright loony. (Remember how ‘eyeballs’ were the measure du jour of dot com stocks?)

And there can be dozens of themes running through markets at the same time – some loud and dominant, others barely a whisper.

Some themes directly conflict with one another. Others dovetail and mutually reinforce each other. And of course, the market can (and often does) drop one theme in favor of another with surprising speed.

Sound messy? Welcome to markets. It’s the swirling, bounded chaos of tens of thousands of market professionals (and countless non-professionals) all trying to make sense of things in real time.

Why does this matter?



“Markets tend to move in fits and starts, adopting a thesis and then abandoning it. We try to catch them if we can, but if we can’t, we are better off not trying.”

~ George Soros



Because if you can peg the themes, you can figure out where capital is going to flow. And if you can figure that, you know how to position yourself.

Through a combination of observation, intuition and hard work, you can get a sense of which themes have 'legs' and are likely to dominate for some time yet... which ones are tired and overextended (and prone to rude reversal)... and, best of all, which themes could go from obscure and overlooked to powerful and popular in a tight space of time.

The trick is, it's no good knowing yesterday's dominant theme (unless you know why it will CONTINUE to dominate). You want to suss out what could work tomorrow or next month or next quarter.

John Maynard Keynes thought of this process as a beauty contest, where the idea is to guess at what others' best guesses will be:

It is not a case of choosing those [faces] that, to the best of one's judgment, are really the prettiest, nor even those that average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth and higher degrees.

As the Keynes comment shows, it's important not to get carried away with this stuff. The risk of being "too clever by half" is getting caught in an infinite loop, forever trying to outguess the guessers.

On the bright side, there are means of avoiding this infinite loop.

For one thing, it helps to know that Mr. Market is a straightforward type of guy. He may change his mind incessantly and act like a manic depressive from time to time, but his opinions – the crowd's opinions – are ultimately not that complicated.

In fact, sometimes the trick is not in being savvy or sophisticated, but stepping back and recognizing what a damned simpleton Mr. Market can be.

("Does the market actually believe that? *Really?* Yep, guess so...")

Then too, charts are a great help – an indispensable help actually. Because truth be told, we're not at all concerned with "guessing" correctly so much as making money.

As Buzzy Schwartz says, ego is for suckers. It's all about "making the cash register ring."

And so, if you can get a bead on the top themes running at any given time, you don't have to "decide" which ones are best to act on. **You can let the charts decide for you.**

By the way, do you know what a relief it is not to have to predict the future?

Look at all these poor guys racking their brains trying to figure out what's going to happen six to twelve months from now – an impossibly convoluted task.

It is so nice not having to do that! All we have to do is get a workable sense of what could happen, gaming out the various scenarios and themes. Then, in terms of our main goal – making money as

"Charting is a little like surfing. You don't have to know a lot about the physics of the tides, resonance, and fluid dynamics in order to catch a good wave. You just have to be able to sense when it's happening and then have the drive to act at the right time."

~ Ed Seykota



traders – we sit back and let the charts give us the green light. No stress or strain of trying to be Nostradamus! A beautiful thing!

To think of it another way, thematic development is like tide watching for surfers. If you have half a dozen good themes on your radar, it's like having your pick of half a dozen beaches in a reasonable travel radius.

Rather than deciding in advance where to surf, you wait for the waves to show up – and then that's where you go.

I'm gettin' bugged drivin' up and down the same old strip! gotta find a new place where the kids are hip...

The Beach Boys had a hit song, "[I Get Around](#)," which captures one of the big differences between flexible, fluid traders and more rigid investors.

The typical investor takes a stationary position and then waits for the wave to come their way. **As traders, that's not our style.**

We prefer, like the Beach Boys, to "Get Around" instead.

In other words, we don't develop and track the key themes of the day so we can have concrete opinions as to what will happen next... or so we can make table-pounding pronouncements as to which themes will pan out and which won't.



Rather, our pragmatic aim is to be constantly appraised of the tide conditions at various "beaches" -- ready to hop on our boards and ride the best waves at any given time.

JS

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