Gentlemen Prefer Bonds, and Don't Miss the Upside as Yields Peak

Back in August, hedge fund titan Bill Ackman, who runs Pershing Square Capital Management, tweeted that he was shorting long-term U.S. Treasury bonds, with the 30-year bond yielding about 4.2% at the time.

On Monday, the 30-year Treasury yield hit a multi-year peak at 5.15%. And Ackman tweeted that he covered his bond market short in what was a very profitable trade.

Although you and I may not command billions of investable dollars like Bill Ackman does, it could be a similarly profitable trade to now go long Treasury bonds, as I'll explain.

But first, since a picture is worth a thousand words, check this out.

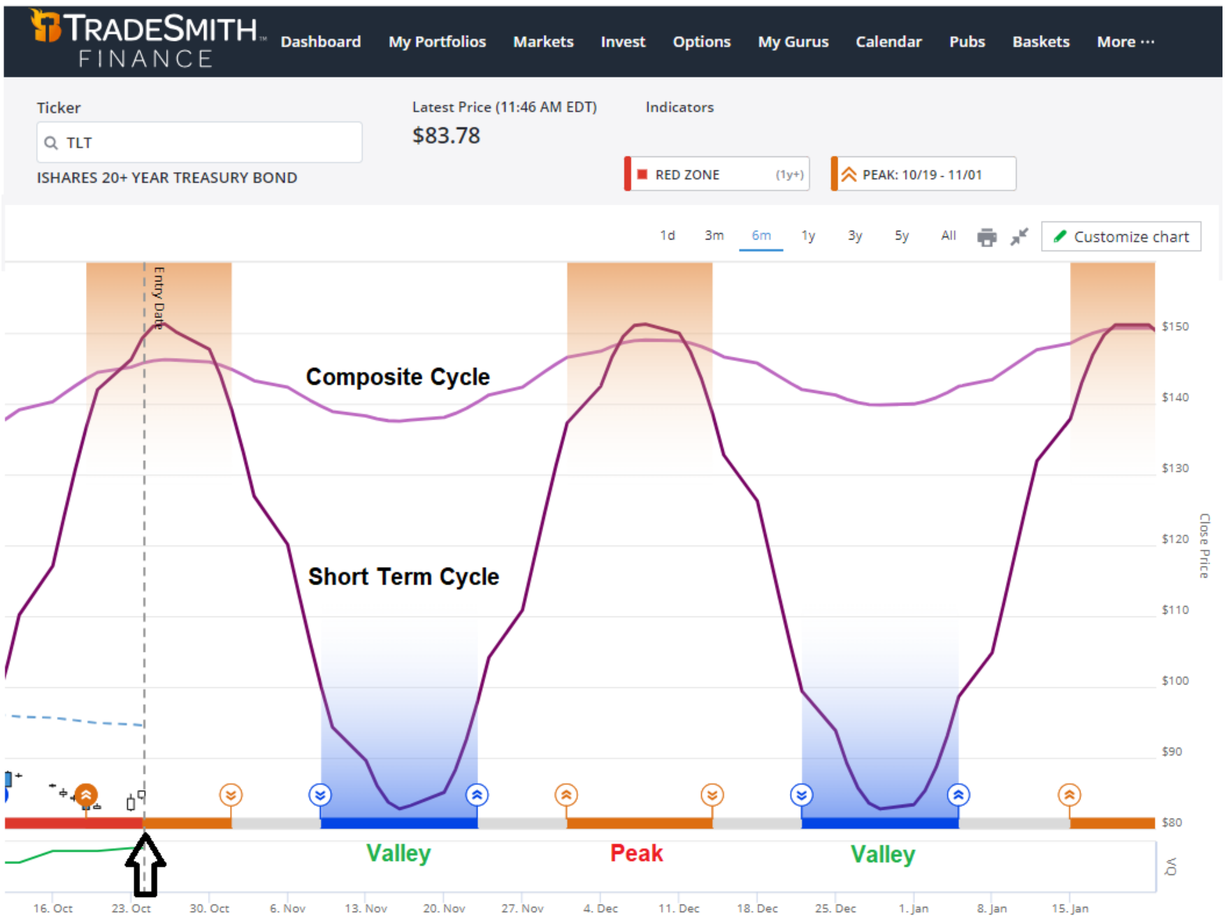
This chart tracks the 30-year Treasury bond yield. And as you can see by the blue arrow in the middle of the chart, the move higher in yields went parabolic over the last few months. Keep in mind, bond yields move in the opposite direction of bond prices. So, a big move up in yields like this means bond prices were tumbling.

Perhaps this unusually sharp move was fueled by Ackman's tweet, with other hedge fund managers jumping on the same trade to short bonds.

But whatever the reason, the move higher in yields (or lower in bond prices) looks unsustainable to me, which means this may be a good time to go long boring old bonds, expecting a reversal.

Our own *Trade Cycles* timing indicators are showing the same thing: upside ahead in bond prices, although not today or tomorrow. (Note, you'll need *Trade Cycles, TradeSmith Essentials*, or *TradeSmith* Platinum to access the chart tools I demonstrate below.)

Here's a timing cycle chart of the **iShares 20+ Year Treasury Bond ETF (TLT)**. This ETF closely tracks long-term Treasury securities like the 30-year bonds.



The black arrow marks where TLT is right now, around $83.78. Keep in mind, that's down 19% just since July. That is a monster move for the staid Treasury bond market. So, it makes sense to expect at least a partial reversal to the upside – even if only an oversold bounce – at some point soon.

The *Trade Cycles* timing chart above shows you the upside move may start as soon as Nov. 9 – when the next valley turn area arrives – and extends to about Thanksgiving. The next cycle peak follows in early December, but then a valley turn area starts again just before the end-of-year holidays and carries into the New Year.

Folks, if this cyclical pattern plays out as I expect it to, that's the definition of the beginning of an uptrend for TLT.

Now, TLT is in the Health Indicator Red Zone currently, as you would expect after such a steep drop in price. So conservative investors may be inclined to wait for a fresh Entry Signal into the Green Zone before buying. But that could come at much higher prices.

Here's an alternative that conservative investors can get behind.

The **SPDR Bloomberg 1-10 Year TIPS ETF (TIPX)** hasn't stopped out and remains in the Yellow Zone. That means it's possibly a good buy-the-dip candidate.

As you may know, TIPS stands for Treasury Inflation-Protected Securities, and it's designed to pay a real yield after adjusting for inflation. TIPS currently yields more than 2%.

Granted, that may not sound like much in yield, but it's the upside potential in TIPS prices that is even more compelling. In fact, this is kind of a "heads you win, tails you win" trade.

You see, if inflation remains elevated or even rises from here, TIPS will have you covered as the rate of return it pays out will also adjust higher with inflation.

And if Treasury bond yields have peaked above 5% and decline from here, TIPS returns could be just as lucrative as TLT.

Plus, the *Trade Cycles* timing chart for TIPX looks even more compelling than TLT, as you can see here.

Like TLT, TIPX is in a cycle peak right now, but a valley area (signaling an upturn) lies just ahead, starting early November. That means TIPX should soon be trending higher. If you want to integrate these cycles and valleys into your investing research, go here.

Mike Burnick's Bottom Line: Remember the old Wall Street saying: "Gentlemen prefer bonds." At a time when stocks are searching for a bottom to begin a year-end rally, bond prices likewise appear to be bottoming. In fact, these trend reversals could come hand-in-hand. And if we are at or near "peak" bond yields, then the upside potential in Treasury bonds or bond ETFs could be substantial.

Good investing,

Mike Burnick
Senior Analyst, *TradeSmith*

P.S. If you have any questions or concerns, please reach out to me at emailmikeburnick@tradesmith.com and include "Inside TradeSmith" in the subject line.