HOW TO BALANCE EXPECTATIONS IN TODAY'S MARKET ENVIRONMENT

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On last week's "Behind the Markets" podcast, Liqian Ren and I were joined by Danielle DiMartino, CEO of Quill Intelligence, to discuss the February jobs report and global monetary policy. Later, David Keller, president and chief strategist at Sierra Alpha Research LLC, joined us to discuss behavioral finance and investment strategy.

DiMartino's Macroeconomic Outlook

DiMartino described Quill Intelligence as a research and analytics firm that is a continuation of her job under President Richard W. Fisher of the Federal Reserve Bank of Dallas. Quill Intelligence informs its clients where it believes the economy is going—unlike most economists, who make the mistake of simply explaining where it has been.

DiMartino didn't say the recent February jobs report, which came in below expectations, had any effect on her forward-thinking macro outlook; she pointed to pronounced weaknesses in manufacturing, which was previously validated by the Challenger, Gray & Christmas layoff data announced a day earlier. These reports have shown increasing signs of distress spreading throughout the industrials complex.

DiMartino then weighed in on Federal Reserve (Fed) policy. She attributed the "Powell Pivot," or the slowing of subsequent hikes in the Federal Funds Rate, to the freeze in the credit markets over November and December, which alerted Chairman Jerome Powell to the high likelihood that a spillover from the credit markets into the real economy could occur.

DiMartino also touched on the European Central Bank (ECB) and how its president, Mario Draghi, will leave his eight-year term as ECB head without having attempted to normalize monetary policy.

She went on to point out the undeniable failure of negative interest rate economies and hopes the Fed would never implement them in the next downturn, even though they were recently discussed by New York Fed President John Williams as an option to consider during the next economic slowdown.

Keller's Research Process

Later in the show, David Keller spoke with us about his firm, Sierra Alpha Research LLC.

Keller applies lessons of behavioral finance, data visualization and technical analysis to help institutional investors and financial advisors manage risk. He has translated much of the skills found in his hobby of flying airplanes to his career in investments.

"Sierra Alpha" is a term used among pilots meaning situational awareness. Keller has used this as a guiding principle at his firm and helps clients ensure they understand everything happening in the market, the different opportunities around them and every different option to pursue.

On an investment strategy level, Keller follows a disciplined trend based on different investing time frames. He categorizes the investing time frames into three segments: tactical, being a few days or weeks; intermediate or cyclical, being six to 12 months; and long-term or secular trends, being multiple years.

Keller primarily relies on technical analysis but notes the increasing need to utilize both quantitative and qualitative analysis in research, blending subjective judgments with objective, raw quantitative data.

These two guests both have a more defensive mindset at present on both the economy and positioning in the market, and it was a useful podcast to help balance expectations of the market environment we may encounter this year.

Listen to our full conversation below.

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Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Federal Funds Rate : The rate that banks that are members of the Federal Reserve system charge on overnight loans to one another. The Federal Open Market Committee sets this rate. Also referred to as the "policy rate" of the U.S. Federal Reserve.

Interest rates : The rate at which interest is paid by a borrower for the use of money.