Context

Context is everything in life, and the same is true in markets. The more our world moves towards boiling everything down to 140 characters or a 10-second Snapchat, the less context is included and the more critical it becomes.

How can you judge one sentence or soundbite without reading the rest of the article or hearing the whole speech? In the same way, not all price rallies are bullish and not all declines are bearish, but how is an investor supposed to know the difference? Context.

When it comes to markets, understanding the current context of price action is crucial. It's the difference between successful investing and undergoing investing death by a thousand cuts because you're constantly on the wrong side of the market moves.

No market needs more context right now than gold. Gold seems to be equivalent to politics or religion in terms of people feeling the need to take sides and defend their turf. Is gold a currency? Is it an inflation hedge? Is it a crisis hedge?

Gold is up 7.3% to start 2017. Its lustrous price action has emboldened the Pamplona running of the gold bulls all over the blogs and air waves. Gold bugs would have you believe that gold is always a good investment and can cure whatever may eventually ail the global economy. If war is coming, gold's the investment solution. If inflation is coming, gold's your answer. If the Eurozone breaks up, turn to gold. If your in-laws are coming to town, invest in gold.

But in truth, as for every other market, there are times to be bullish and LONG gold, and there are also times to be bearish and SHORT. There is one problem for gold bugs and the "gold is always the best investment on Earth" crowd: the current context of gold's price action means it's time to be bearish and SHORT.

Bearish Point #1: Growth
U.S. economic growth accelerated for the last six months of 2016, and that streak has now extended. Last week's January retail sales data was the latest in a growing number of economic data points showing that U.S. growth continues to improve for the seventh straight month.

The most important aspect of the monthly retail sales report is the trend in annual growth of the "control group," which accelerated from 3.4% in December to 4.0% in January. The control group's sales number is critical because it's the number used in the official calculation of GDP. January's sales were a strong start to the year, and not only imply that consumer demand is markedly improving, but also support the surveys showing massive improvement in consumer confidence since the election.

Bottom line: people are putting their money where their mouth is, and it's bullish for the U.S. economy but bearish point #1 for gold.

Bearish Point #2: Relationship Status
I track a number of quantitative factors to help me time my trades. One of the most critical aspects of a market's Quantitative Gravity is its correlation, or relationship, with other markets.

This is the one quantitative factor I highly encourage you to include in your own investment process, if you're not doing so already. Specifically, for any market or stock you're considering as an investment, I suggest monitoring its relationship to the U.S. dollar and U.S. yields.

Historically, gold has had a negative relationship 89% of the time with the greenback and 75% of the time with U.S. yields. This means gold spends the majority of its time moving in the opposite direction of these two markets.

This is bearish point #2, because right now that relationship is in particularly negative territory, like the relationship status of people on "The Maury Povich Show."

The "buy gold at every opportunity" crowd has completely missed this context. Gold is heading in a different direction to the USD and yields at the exact same time that U.S. growth and Fed policy are putting a solid tailwind at the back of both markets.

As long as that tailwind is in place, gold can't sustain any upward momentum beyond what we've seen this year, which was probably a weak bear market bounce.

Bearish Point #3: Behavior says what?

Our Behavioral Gravity Index (BGI) is made up of multiple components designed to help me quantify investors' perspective on a market at a given point in time. Gold's BGI is indicating that investors agree with me and are leaning bearish, but that they aren't bearish enough.

One component of gold's BGI is the speculative positioning in gold futures markets. As of last week, investors are SHORT $12B worth of gold futures contracts. They could add an additional $5B, or 40%, in SHORT exposure before gold's BGI would register an extreme reading and thereby indicate a need for caution.

As long as U.S. growth continues to accelerate, the U.S. dollar remains above $97, and 10-year Treasury yields remain above 2.238%, then gold will touch $1,124 (a decline of 9.4% from the present) before it closes decisively above $1,310 (5.6% higher than now).

The reward-to-risk ratio is almost 2-to-1 in favor of the downside. Gold's 7.3% rally to start the year has done nothing but improve the trade characteristics for a SHORT trade. That my friends, is context.

That said, $1,310 is the line in the sand. If gold can close above that price for three consecutive days, it's an indication that the Quantitative Gravity has disconnected from gold's Fundamental Gravity. When these two gravities disconnect, all bets are temporarily off; we go to the sidelines and await further developments.

To trade gold successfully through all environments, watch the trajectory of growth and the levels of the USD and U.S. yields. If growth, yields, and the greenback are falling, that's the time to be LONG sparkly bling. However, if these three factors are accelerating, then you stay away or you get SHORT, no matter what the price action is, for six weeks.

There are a lot of people out there who want to ignore context because they are only interested in selling crisis newsletters and gold bars at a ridiculous mark-up. Always strive to understand the current context of a market's price action and you will consistently find yourself on the right side of the trade.

Stay data-dependent, process driven, and risk conscious, my friends.