

Market Outlook:

Revolution

To many outside observers the fabric of the European Union is fraying at the edges, if not culturally then certainly economically. The concept of "one Europe" is coming under intense pressure from within. It is more clear than ever before that wealth, resources and abundance in one country or region is not necessarily wealth, resources and abundance for all. This disparity of riches is putting enormous stresses upon the currency and the patience of those who have the responsibility to do something about it. Last week's announcement in which the Union plans to try "spending" its way out of stagnant growth elicited both skepticism and hope about whether or not a corner might have been turned in monetary policy for the region.

While Europe digests the diverse strengths and weaknesses of its member states, the US is becoming (if it wasn't already) a "go to" alternative for serious investment capital from abroad. **The one cloud hanging over both continental models, however, is the potential impact upon the markets of a fossil fuel price decline.** This variable has economic, philosophical, regional, social and psychological significance of historic proportions. While we're waiting for the effects of a "consumer tax cut" to flow into the economy, it hasn't played out that way just yet.

Throw into this mix the fact that the S&P and Dow Jones Industrial Average are still trading at rarified multiples, and one might begin to have concerns about whether consumer sentiment (measured at better levels from a year ago) can actually sustain purchasing and economic recovery. The markets are at phases that inspire more fear and trepidation than commitment to go "all in". It looks to this observer that terrorism and geopolitics occupy a greater importance in the mindset of most investors than does profit-making and portfolio allocation, thus putting the brakes on "new cycle highs" and double digit performance expectations.

As with all investment endeavors, the probability of capital gains rests as much with *fundamentals* as with *a stability and consistency* of market factors. The more unpredictable and inconsistent the playing field, the greater the cost for the end result. Fear and terror might be emotions dealt with on battle fields, but they create overwhelming inertia for the financial markets.

Go big

Geopolitical uncertainty combined with the advanced "age" of the markets' rally are aggregating to create enormous confusion and intraday volatility, resulting in percentage daily swings that expose long-standing psychological wounds. No one wants to be caught in another dot.com-style capitulation. It's disturbing that many were swept down yet again by the next crisis after that, in housing and credit. Now, many are petrified that we are on the brink of an energy crisis, or, at the very least, a regional hotspot event which might permeate into Western economies.

As a result, portfolio creation is becoming an inexact science and starting to look more like an exercise in stock picking rather than asset allocation modeling and fundamental analysis. Client's selectivity is becoming more acute, as is their focus upon monthly and weekly "net returns". **Investing is, and should always be, about the allocation of financial resources to those assets which provide the highest probability of long-term growth and moral/social contribution to the society at large.** Is that what you see happening currently at the close of each market session? I think not.

But the reality to be drawn from all this confusion is that there is tremendous reward to be derived from finding that needle in the haystack. Important demographic shifts are taking place right now in medicine, energy, farming, waste management and technology. Individual stocks, as well as sectors, traverse a broad secular (generational) pattern of cycles, sometimes as leaders, sometimes lagging. The quantification of those cycle movements is the nuance that allows us to build positions from inflection point gatherings irrespective of capitalization, geography, or asset class.

With relative strength integers (RSI) now trading at exceedingly high valuations, the balance of this year should be a process of redistributing sector weightings according to leadership. If the first few weeks of the year are any indication, expect accelerating momentum in biosciences and non-cyclicals, while (traditional) energy and basic materials might recede slightly.

Placing all of our focus upon short term posturing is just fruitless conjecture and hypothesis. By working from the "bottom up" and minimizing the width of one's analysis, it becomes too simplistic, and potentially too dangerous, to create a well balanced portfolio. Instead, try focusing upon those major demographic shifts to which I alluded in an earlier paragraph. They are the signposts and benchmarks that should guide the probability of the market's next capital gains expansion.

Arlington Econometrics is a quantitative market tool. Utilizing proprietary algorithmic equations, AE offers solutions for market-timing, asset allocation, and macro economic analysis. Using historical time-series measurements, Arlington Econometrics optimizes the analytical process and forecasting coefficients to make economic forecasting more objective.

The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. This report is not to be construed as an offer to sell or solicitation to buy any security. It is intended for private information purposes only. Any opinions expressed are subject to change without notice. Alexander Capital and its affiliated companies and/or individuals may from time to time own or have positions in the securities or contrary to the recommendations discussed herein. Neither Alexander Capital, LP nor any of its affiliates (collectively, "Alexander Capital, LP") is responsible for any recommendation, solicitation, offer or agreement or any information about any transaction, security, customer account, or account activity in this communication.