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November 10, 2014

Market Outlook:

Rising tide

With the US elections now completed, it is time for the "talking heads" to provide analysis and commentary...all the stuff of subjective conjecture and personal opinion, of course. So, while this missive will *not* attempt any in-depth political analysis (certainly not our forte) it would be logical to review current market activity to try and gauge investors' moods and to confirm or rebut the staying power of recently initiated sector trends.

As reviewed last week, the most notable of these trends is a consistent decline in energy prices worldwide, attributed to a slowdown in global economic activity in China and the United States. It is strange that we are still talking about deflationary pricing pressure more than six years removed from this generation's worst economic recession. Despite investor's expectations for a robust recovery, we are still victims of low interest rates, price allowances, and meager discretionary spending. **The timeline and magnitude of this rebound is lagging that of other recoveries at similar junctures.**

Political discourse going forward should be about the effectiveness of prior austerity and stimulus packages being transacted concurrently, and which fiscal and policy initiatives generate positive results for the citizenry. *Ebola* and *terrorism* have become the catchphrases of our day, while infrastructure, national defense, technology, healthcare and education have temporarily receded into the background. Even the once-mighty real estate boom, a barometer of economic viability, has fallen upon hard times.

Our research is diligently reviewing sector allocation shifts and trend duration. Despite a plethora of conflicting economic news (employment, GDP, savings, corporate earnings), none of these economic data has dissuaded investors from betting on the current uptrend, upon the Darwinian selection process of finding "survivors", and prospering from the advance in equity valuations. **The three days following last Tuesday's election, in fact, have been a confirmation of a major shift in psychology, from cautious to optimistic. I believe we are likely to continue an upsurge in equities through the balance of the year**. Hopefully, a rebalancing of sector leadership from defense to offense will additionally confirm that political problem solving and cooperation can intensify the recovery. Following a not-unexpected cycle of profit taking from the current valuation expansion, I anticipate aggressive accumulation in Technology, Industrial, and Financial shares as money flows into as-yet unmet potential.

Below the surface

There is a strong appetite for anything with a capital gains bias (equities, private placements, tangible assets). Low interest rates have nearly eviscerated the bond market, so short-term trading looks more attractive today than long-term yield plays. The question, though, is whether higher share valuations really satisfy our thirst, or heighten our anxiety. Indeed, there is nothing like seeing one's portfolio expand in value. But what seems to be missing from the equation is a sense of equanimity and opportunity for everyone in the game...the equivalence of a moral compass. The market's remarkable rise hasn't really netted those fantastic gains for everybody, nor has it blanketed all financial strata or geographic regions.

Fiscal and monetary policy is being carried out as if no one wants to repeat the mistakes of the most recent, and other, booms of the past. It is obviously uncomfortable for the Fed to announce an "unwinding" of their powers over the purse. They face the prospect of reengineering the same conditions that brought us aggressive expansion earlier. Obviously, bubbles and cycles often repeat themselves historically. So the gamble now is whether worldwide output, and confidence levels, can sustain trade, savings, and commerce without intervention by "Big Brother" central banks. For politicians, monetarists, and consumers the question is, *"who do you believe?".* Additionally, these data are not always "empirical" in the strictest sense, but more a matter of how we "feel" about the data in our daily lives. Given that that the market's focus has narrowed into a short-term aperture, I am anxious to see how our political leaders address the issues of fairness and inclusion. While the next month might not be enough time to digest the messages and results of the election, our portfolio positioning will be oriented around a longer-term demographic, a set of sectors and policies which could net significant reward for the patient investor.

It would take a major secular event to reverse the course of the current bull phase. We shouldn't exaggerate the negatives at the risk of obscuring what is working. The most likely scenario is for the market to "test" a post-electoral euphoria, then settle into a more extended upside pattern. Collectively, we are desperate for political solutions and fiscal reward, and tired of blame laying and name calling..