

Market Outlook:

Perception

A few weeks ago, a colleague stopped into my office, a copy of my current market commentary in his hand, and said to me, eyeing the piece of paper, "oh, so I see you're now getting bullish on the market". Evidently my penchant for conservative asset allocation investing preceded me, because I wasn't aware that I had previously been negative or positive, or that it is possible to turn on a dime and be either bullish or bearish only.

The point of telling you this anecdote is that I truly consider myself to be "market agnostic", preferring mostly to read the tea leaves of my proprietary stochastic integers, invest in leading cycles, and to avoid laggard sectors at all cost.

In other words, my focus is not so much on the Dow, or energy, or the Euro, or the Federal Reserve, or any one factor in particular to determine the optimal opportunity potential of financial instruments, but rather the preponderance of all evidence, all factors, taken in sum which determines whether I am a net buyer or seller.

I believe clients expect prudent asset allocation in their portfolios which accurately reflects their individual risk tolerances relative to the opportunity/probability of capital gains for the long-term.

In general, I find it hard to get enthused daily by short term cycles in the market. When one considers where wealth really comes from, it's not usually in *one* stock's performance in the portfolio, but from the proper balance of risk, and risk aversion, within the overall execution of portfolio strategy.

Nor should one discount the significance of strategy and methodology to the success of an investment program. Success does not derive from bouncing around from style to style, nor does that kind of investing yield consistent results. You only have to ask "sector specific" investors about their rise ...and fall...in tech stocks and dot.com IPO's in the late 1990's. Stories abound about squandered opportunity and wealth, betting it all on one company or grouping of shares, and failure to recognize when greed becomes excessively penal. At best, as an earnings-driven investor, I might have allocated a small portion of "special situation" cash to these ideas, cognizant that they neither fit the profile of my ideal investment parameters nor satisfied the criteria for long-term sustainability. "*Buy them later, after the winners and losers have been determined*", I argued at the time.

Perhaps my colleague ascribes too conservative a bias to me and my work, but my track record of delivering capital gains and risk aversion is quite good. By concentrating on consistency of application of my methodology, as opposed to news-driven current events, I find it easier not to get suckered in by hyperbole or rumor.

Lay-up?

So, given the details laid out above, I would hardly say that I am ecstatically bullish right now...simply aware of the current uptrend in stocks, but cautious about the risks inherent in valuation expansion spiraling onward without pause or consequence. We saw examples of this skittishness in last week's market activity.

One of the most compelling risks to future equity performance (or, more specifically, the *rate of acceleration* of price performance) is the issue of profits and profit margins. While gains in equity share prices and earnings have been fast-tracking during the market's rebound rally from 2008, it appears quite obvious that many of those same companies currently benefitting from deflated costs and consumer recession are contemplating being done laying off employees, holding down competitive wages, manipulating balance sheets, or holding back on research and inventory expansion. **If, in fact, we have turned the corner in the rebound/recovery cycle, cost increases and inventory growth must, at some point, eat into those expanding margins.**

At what point does the recovery become all-inclusive? Regarding profits and the hoarding of corporate cash, "*how much is too much?*" is a question for CEO's, economists, politicians, and social ethicists.

My optimism about equity price performance is based upon objective cycle measurements and statistics. Conversely, though, my pessimism about global commerce in general stems from the fact that no nuance seemingly can dictate to business what is the "right thing to do" concurrently to sustain both their bottom line and the consumers they are supposed to serve. That moral dilemma between *profits at all cost* and *socially responsible allocation of resources* is the elephant in the room the financial markets are waiting to see addressed.

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.