

Market Outlook:

Is it just about energy...?

Much is being written currently about energy: the glut in supply, and the decline in prices. And while there is no denying the empirical facts about cost at the pump or barrels in storage, I would urge caution in attributing the market's recent performance solely to a global "tax cut" owing to energy prices, or the notion that a price decline is not only inevitable, but sustainable.

Clearly, one cannot argue against the facts. Slowing global growth is affecting oil supplies. As a result, the behemoth integrated oil services companies are doing poorer in the equity markets. But bear in mind, as I have stated frequently, that natural resource equities, particularly energy companies (oil, natural gas, coal) are "*depleting natural resources*" equities, not "*replenishing resource*" equities. At some point, irrespective of consumer demand, and probably not in our lifetimes, prices for these scarce commodities will *have to* rise and the world will have to find ways of cultivating alternative fuel sources, not from the ground, that create geopolitical independence, sustainable growth, and globally (socially) responsible outcomes. In the meantime, and currently, the markets are rejoicing in the misfortune of the energy complex.

Beware of the euphoric hangover, however. The glut is manmade, and the undoing of our "over supply" can similarly be undone by a stroke of the pen or fiat decree.

The current pause in energy price increases, and a concurrent financial boon to taxpayers, provides legislators and governors an opportunity to rethink economic and fiscal policies, hopefully expanding the possibilities for economic expansion to take root. Rather than spending any net cash "reward", as some analysts predict consumers might do for the holidays, might it not be prudent to put away those currencies for a "rainy day" contingency, or perhaps to reinvest any cost savings into global energy R&D?

I believe the markets are overly obsessed with short-term features and fundamentals and less interested in long-term macroeconomic policies that inform the public about future investment and capital gains opportunities. As a result, not only are the markets gyrating to an uneven pulse, but consumers' pocketbooks and their governments are, as well.

There are reasons we get the outcomes we do. To begin with, analytical focus is too much oriented towards the "next quarter". When the attention span is that acute, businesses and governments fail to plan, believing deep down that "moment to moment" is a more palatable solution than any temporary pain with a more positive outcome might procure. *Fluctuation* becomes the enemy. Thus we inadvertently stumble into crises like the dot.com debacle, credit crunch, and global financial recession.

Obviously, there is no consensus about how to solve all of our ills, nor should there be. At the same time, though, there seems to be very little compromise or political calculus applied to theoretical thinking or practical solution-making to get things done.

Or interest rates..?

With the Fed's announcement last week about finally winding down monetary intervention, of course the market's focus also turns to interest rates, inflation (pricing power) and economic growth. Here again, it is incumbent upon politicians to step in and create fiscal policy which assuages any fear about hyper-expansion (not likely to occur), or the inverse, no growth at all. The world financial markets are likely to take a "wait and see" attitude during the next several months, hoping that years of financial stimulus packages here and abroad have accomplished their goals of reengaging public and private consumers. No one wants to be buried by an inadvertent avalanche, yet everyone wants to be ahead of the capital appreciation wave!!

As with the energy price narrative, we need to change our focus from *effective current cash flow* to *efficient longer term global outcomes*.

It's not a secret. The markets are always giving us clues about how to invest, and since quantitative science is a reactive discipline, it, too, is telling us that perhaps it is time we, the public, impose greater influence upon the creation of our own fiscal and monetary policies which thus far seem to have neglected social conscience and morally responsible long term investing.

To reach a goal, one needs to map out the course, and the context, of their actions, and to have sufficient emotional staying power to stick with the program even when it meets obstacles.

I'm hoping to see evidence in my research of that kind of strategic thought in areas like healthcare, aerospace, technology, infrastructure, renewable energy resources, and finance.

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