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Market Outlook:

Home stretch

As we approach knocking on the door of the new year, we reflect that what sometimes *precedes* the year end is often an indicator of what *follows* after the page turns. While the broad averages flirt repetitively with new highs, the make-up of those landmark breakthroughs really are not necessarily a mirror image of what's occurring in the economy, but simply pretence, taking you and your money for a glorious ride devoid of any real meaning...other than to increase or decrease with extreme volatility your brokerage and 401-k valuations. The last three days of last week were 200 point Dow Jones "E ticket rides"!! Along those lines, I would caution that 2015 cannot reasonably be a carbon copy of this year's upside achievements.....or 2013 for that matter.

Why? Well, the simple answer is that the obvious divergences and disconnects between the stock market and the global economy are too wide to sustain one, the other, or both for any duration. **While I continue to support the view that the long term prospects for equity performance and economic growth are good, the stresses being placed on both by their performance in this post-recovery phase are vast.**

The market continues to curry favor with investors simply by refusing to succumb to the weight of its own advance. And yet, relative strength quotients....a measure of duration and acceleration of current trends.... have been sustaining at unreasonably high levels, setting up an inverse probability of direction. While it is far more sexy to respond to *"trend"* rather than "*objective data",* we have to be able to distinguish between a mirage and a building, and to know the difference between the two.

Anyone who still believes that 20%-plus equity returns are the norm, not an aberration, is fooling himself.

"Yes, but everyone is winning and benefitting from the rally. It's indelible" , the proponents say.

Indeed, that is exactly how we should have felt during the recovery rally. My client's portfolios have prospered in the last year, the last two years, and the past several decades thanks to a discipline of prudent asset allocation and sector rotation. The difference in philosophy, however, is that we attempt *not* to be swept down by the unforeseen capitulations of exogenous mania. And for the most part, we have not.

The art of portfolio management, versus oblique stock-picking, is to manage trends unemotionally and objectively, and to perform in all economic climates to achieve positive alpha throughout. Draw downs are not a viable option when seeking portfolio equilibrium for the long-term, and in many cases too disastrous from which to recover.

Despite the fact that global equity valuations and cycle stochastics remain extended, we favor equities as an appropriate vehicle to achieve portfolio capital gains for the next year. We are not caught up in the definition of *"bullish"* or *"bearish"* because every sector has an appropriate role to play in our overall asset allocation process. I consider the distribution and weighting of those sector allocations to be more significant to portfolio performance than any particular winners or losers we might own. That having been said, note how many (or few) equities actually are leading the rally during the recovery. A shallow breadth to be sure.

Critical

After we dig below the surface of what we know and what is obvious, the popular, easiest notion is not always a direct route to portfolio success. Most indicators are suggesting implicitly that 2015 might not measure up to the past two years' recovery pace. If we do see improvements in the economy, I suspect that they will come slower than we hope, and actually look more like historical norms in terms of rate and magnitude.

The financial markets should complement those improvements in the economy with performance of their own...if we, as investors, can only come to understand the importance of realistic timelines and expectations, and stop trying to hit "the home run" every time.

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