

Market Outlook:

Today

Strange, isn't it, that although stock markets typically trade based upon "forward looking" earnings projections, and since the current economic news has been much more positive of late, that the bottom nearly fell out of the Dow Jones last week when the much ballyhooed "tax cut" from energy price declines never seemed to filter into the economy at large? Adding to investor's concerns, earnings reports in many companies that came out last week disappointed for the most part, and the Fed even hinted that they might delay their plan to let interest rates float. The irony of our current economic dichotomy is that the rich didn't need the price break, and the "poor" simply hoarded their new found largesse rather than spending it.

As is the case with most things "Darwinian", evolution is not always a straight line, nor is it devoid of mystery. The whole fossil fuel question has investors lining up on either side of a debate about whether this is just a temporary price-cycle capitulation (brought about by peculiarities in geopolitics and traditional sector rotation) or a massive, in-your-face secular shift in how, and from where, we get energy.

We don't know how this narrative ends. But our investment perspective about energy is obviously shaped by the empirical facts, as well as our particular biases and interpretations. What we *do* know is that the volatility in that sector is extremely harsh. How/whether we chose to participate would be each investor's choice. **Irrespective of those prejudices, the price collapse has offered us a chance to engage in a dialogue about alternative sources and renewable, sustainable options.**

My own reading of the data is that there is still investment potential in energy companies. Anytime you are dealing with a depleting natural resource, the price advantage always accrues to the owner of the commodity. Until, that is, the end-user (consumer) grows weary of the product, the supplier, or finds a suitable replacement.

Thus, we find ourselves engulfed by a new paradigm. Technology and science may have made it so efficient to extract the product that the owners (cartels, etc.) are becoming victims of their own success. A weary, post-recession economy has changed the dynamic of spending patterns in businesses and households across the board, drying up demand for oil even as supply goes up.

Tomorrow

From an investment standpoint two questions emerge: (1) *what do we do with our current energy stock holdings?* and (2) *is it time to do a little "bottom fishing" in depressed shares?*

Those answers depend upon one's time horizon, one's tolerance for risk, and one's patience if the decision were wrong.

It also depends, it now seems, upon one's *age*. A growing demographic of younger, more socially responsible investors wouldn't be caught dead holding one of their parent's "big energy conglomerates" in their portfolios. They feel the next generation is ready for a foundation of new and innovative sources, as well as a repudiation of traditional geo-centric politics and military tactics based upon commodity plentitude. Their goals are neither jingoistic nor purely economic. **They see themselves, rather, as the stewards of the planet, distributing utilities amongst and for those that can most benefit, and from those sources that provide the most optimal social and moral solutions.**

They do not begrudge the scions of generations past, who saw a problem and built personal wealth and great industrial innovation for their times. These younger citizens see the world changing, and are becoming innovators, themselves. Like no other time in recent memory, we are on the cusp of weaving political, social, technological, moral, and economic solutions into a fabric of responsible capitalism.

Economists and scientists may not agree about the depth or nature of the energy problem, but portfolio managers have a uniquely different altitude from which to observe the issue. Trends take many years to develop. As those trends unfold, it is always better to opt for innovation and inflection when looking for capital gains. That is where perpetual and enduring opportunity usually resides.

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