

Market Outlook:

Where's the money?

Historically, the most potent bull markets for stocks are underpinned by significant consumer expectations and by overwhelming participation in share purchases by retail households. How strange it is, then, that the basic premise of this post-recession bull market contains neither of those elements by and large.

Because of the severity of two bear market calamities during the last decade-and-a-half, retail behaviors have changed. Enough so, that "the Street" has seemingly lost both its allure and attractiveness.

Were it not for monetary policies that decimated interest rates, the shift out of stocks might have been greater.

The "typical" supports for equity bull markets.... rising profits, productivity, and sales.... are not empirically in place to the extent they have been during other economic booms. This does not mean that sales and profit numbers are disappointing entirely, although one can infer that producing these data consistently has imposed a strict toll upon businesses, and resembled, at times, a bit of accounting alchemy. The love affair between Main Street and Wall Street is in remission. The proliferation of the internet and manufactured products has indelibly changed the business of stock markets forever.

As investors seek out alternatives to buying stocks in the "traditional" manner, net participation in the financial markets overall has diminished significantly in the past 15 years.

Obviously, these data have been affected by economic recessions, market crashes, and personal shortcomings on the part of some of Wall Street's elite. **What's different this time is the depth of mistrust that has developed between the "average" citizen and those who populate the hallowed halls of major financial institutions.** The aristocrats keep getting wealthier while a vast "other majority" have struggled with the mire that the financial crises have left in their wake. I know that I'll get disagreement on these points of view from many of my colleagues. In fact, when I discuss this psychological disconnect with members of the Wall Street community and the media, I get an entirely different "stare" than when I have this conversation with clients. Such is the magnitude of the issue....two sides to every story.

Extremes of any kind are disruptive to our norms, and tend to skew behaviors away from either end of the bell curve that persons might find objectionable. Faced with the possibilities of these extremes, many investors feel more comfortable holding cash reserves than they do applying it to the stock market.

Expanding the horizon

Interestingly, though, investor's withdrawal from participating in risk activities has actually worked *against* their best interests, while the net effect of the bull market has been to increase portfolio valuations of those bold enough to have "stuck it out". In hindsight, risk averse investors created a self-fulfilling prophecy of negative consequences for their portfolios.

My view is that risk, like markets and life itself, moves in cycles. There not only is a *benefit* to taking risk, it is an expectation that one *must*.

And herein lies the markets' current problem: Expectations and trust are at their lowest levels in decades.

It is not clear when/if investors will break through these negative stereotypes and reconnect with the financial markets, but until there is a strong mindset to do so, the markets will be building a castle on a sand foundation.

As I look at my data, there are enough long-term options in which to invest, such as biomedical research, infrastructure rebuilding, alternative energy, education, computer sciences, ecology, agriculture, water purification, and social healthcare to hold our attention and to generate capital gains for decades.

Are you still perplexed about which stocks to buy...?

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Alexander Capital L.P., 17 State Street, 5th Floor, New York, New York 10004 646-564-2299