

Market Outlook:

**Painted into a corner**

As the markets hold on tight to their hard-won gains, some on the periphery see this kind of valuation expansion as a "no-win" situation. If the economy ignites, as it is suggesting it might, then economic performance might finally catch up to the spectacular performance of stocks. If, on the other hand, the market goes in the tank, because valuations and prices are too far ahead of themselves and supporting economic fundamentals, then clearly the economy was "not ready" to support price and earnings projections in financial assets. And, finally, if the economy does not reignite, sufficient to support speculation and capital spending, then it goes without saying that this would be a bad thing and that the timing just wasn't right for asset deployment into risk as aggressively as we have been witnessing.

Bulls would be devastated, bears would say "I told you so", and the rest of us would be scratching our heads in bewilderment...or running as fast as we can for the exits.

Feel trapped yet?

Actually "trapped" is not the right word to describe this potential dilemma... "scared" is more like it. The markets have been so accustomed to speculation and forward-bidding of stocks and financial assets that it can't distinguish anymore between what's appropriate and what's fundamentally soiled. Even the banks and financial institutions are back running their warm and fuzzy "trust us" television commercials again.

**This inability to distinguish between asset bubbles and nominal valuation is what got us in trouble once (twice?) before, and evidence of a misguided immoral euphoria.**

Following on the heels of this generation's worst financial recession, it sure seems as if others are quite willing to gamble mightily with *our* money. All the while, corporate capital expenditures lag the expected levels needed to supply new jobs, higher wages, and increased R&D. Rather than showing their commitment to an expanding economy, banks and corporations are still playing it close to the vest when it comes to spending *their* money.

**New records?**

Without question, stocks have been doing extraordinarily well lately. **While I view the uptrend as still intact, my relative strength integers suggest that it will be harder to continue capital gains expansion with the same acceleration as before, absent a sequence of big, eventful catalysts.** Thus far, I see no evidence of such factors, near term.

Instead, it is more likely that volatility will increase as volume continues to contract. The potential for new highs is gradually shrinking as valuations rise. I am expecting a diminution in the number of stocks advancing, and a significant pick-up in investors locking-in gains and choosing to wait, temporarily, on the sidelines. From an historical perspective "fear of loss" will be a greater influence over market perception at this time than "expectation of new gains".

Taking into account the amount of time it takes for corporations to generate new profits ahead of the next earnings season, it would be fair to expect a bit more caution in the global equity market's performance until next September/October, at a minimum.

The metrics used to justify current stock performance are based in part upon hype, hope, fundamentals, and accounting alchemy. It seems that whatever the brokerages and banks might try to do to lure you back into their web is fair game. Try as they may to ascribe the hope they portray to improved economic fundamentals, the money they are spending on *beach landscape advertising* and *look-you-in-the-eye bank presidents* surely must be recouped by increased fees and trading capacity. Unfortunately, you are the source of those new fees.

If their bet on the economy is wrong, as alluded to in my first paragraph, that wouldn't be a good thing for their shareholders...and certainly not good for your pocketbook.

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