**Scotty C. George**
**Chief Investment Strategist**

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**Market Outlook:**

**Doing more with less**

The conclusions of the Federal Reserve Board's meeting last week remained virtually unchanged from their previous bias, setting off a knee-jerk chain reaction in the stock market, pushing yet again to new highs in the Dow. As expected, the governors chose to acknowledge improvement in the economy but do nothing in the short-term about the direction of interest rates or the cost of money. Their rationale made sense, at least to them and certain market traders, not to impose too big a change or burden upon borrowing costs within the capital markets. The "sameness" is boring even if the resulting market effects are anything but.

So, money is still inexpensive to borrow, but seemingly hard to come by from stingy and twice-bitten banks.

**However, the operative details of the Fed's lack of initiative were to confirm to the outside observer that their biggest fear is snuffing out a recovery by taking early or preemptive action.** As evidenced by all the "QE's" of the previous few years, they still maintain a healthy appetite for growth and stimulating the flow of money. We know that this becomes a double-edged sword, and no Board member wishes to impale himself upon it.

Intuitively, though, we know that low interest rates are not likely to persist indefinitely. Prosperity is abundant for those who have or have access to capital. Conversely, census data now tells us that the gap between those with and without capital is widening, so most of "the rest of us" are tightening our belts, spending less and trying to save more. For those people their reward is pittance.

This reality is reflected now in next year's corporate earnings projections. The market offers a better valuation to those companies that reflect higher customer demand and cost pressure. Those unfortunately at the other end of the consumer spectrum...poor demand....are seeing their share prices stagnate or tumble.

Remember, the stock market and the economy are not lock-step cousins. While some data either enhances or debilitates share valuation, in the end all companies need clients, innovation, and sales revenue.

To that extent, the markets could be susceptible to more of a pause than the broader economy. My job is to play off of those imperfect correlations to maximize earnings progression and portfolio capital gains potential. The wrong question to ask is *"which stock(s) will do well?"* The proper question, in my view, is *"in what proportion and what balance will sector allocation complement the potential for overall portfolio appreciation?"*

**Regress or progress?**

The fundamental story of 2014 has been a "repudiation" of traditional fundamental (long-term) analysis in exchange for the continuation of a robust speculator's-driven bull market. It looks more and more as if the *traders* are winning while the *investors* lag behind. Nonetheless, I prefer a house of stone to a house of straw, anytime. Continuing to follow a (true) earnings trail and creating the proper balance of risk is my mandate from clients.

One of the great fallacies of "chasing" the Dow Jones is that no one knows when the end will occur. It is impossible to "time" the peaks and valleys of portfolio performance. It is far better to plan for the unexpected but hope for the best. Phases ebb and flow, and history has shown us that **managing draw-down is a far more efficient predictor of portfolio success than trying to recover from cataclysmic disaster.** Rather than waiting for events to unfold, it is better, I believe, to balance sector weightings and long-term demographics to optimize portfolio alpha.

Despite my short-term misgivings, the landscape is awash with intuitive opportunity in alternative energy, biotech, agriculture, infrastructure, telecommunications, and technology. That's a handful enough for any prudent investor.