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Market Outlook:

Vertigo
In the strangely perverse world of quantitative statistics, *"what's up"* is usually bad news for equities, while "*what's down*" has the potential for tremendous rebound. In principle, here *"at the top",* a security that has maximized its turnaround from a dramatic fall in valuation likely should experience difficulty sustaining its momentum because relative strength is a finite integer.

The presumption that the root causes of the 2008 capitulation have been forgotten, and that the prescription for capital gains is *amnesia*, may be the legacy of this bull recovery.

As the US economy continues its resurrection, the commonly shared belief is that any peripheral or exogenous noise is simply a distraction, not a deterrent, to markets climbing even higher. Thus, equity valuations are continuing higher, seemingly oblivious to "minor" corrective data. **The first 8 months of this year have not been the same juggernaut as last year, but the incremental gains are founded upon the same principle: share buybacks, low interest rates, expanding productivity, and boatloads of cash sitting on the sidelines.**

Underwhelming consumer participation is the drop-anchor that keeps this ship from sailing out more aggressively.

Despite federal and corporate austerity attempts and large stimulus programs, the prospect of unleashing the savings stashes of many savers seems highly unlikely. As the Fed said last week, money is being "hoarded" at record levels and nothing seems able to pry the cash loose.

Markets are following the lead of interest rates and politics. Low interest rates are a blessing for investors, but still reflective of the need to maintain huge incentives for corporate and personal borrowing in order to propel the economy forward. Thankfully, with a few exceptions, not many are taking the bait. Here again, in that "inverse world" of statistical probabilities, if the economy really were to heat up, interest rates would have to go up to stave off inflation and prolific borrowing.....and stocks would likely stall their unparalleled surge.

So, we're doing alright today, but stuck in an "accelerating neutral", waiting for something else to happen that might (negatively) influence market performance.

All aboard?
Ultimately, every cycle has its ebb and flow. It should not come as a surprise if there were to be a "*right side*" to this *"left-sided"* parabola. Markets just don't die off without warning, but the warnings are usually after-thoughts, post-mortems, for the overly rambunctious.

I currently don't see any catalyst for a "right side effect" just yet, but geopolitics certainly has the power to influence those data. Rampaging conflicts across the Middle East and Eastern Europe have already impacted upon energy and commercial prices in that region, and obviously might spill over with deeper ramifications elsewhere in the world. However, my readings on *sentiment* and *consumer enthusiasm* reveal an extraordinary paradox: **although the desire for capital gains and portfolio recovery is strong, there is a much greater aversion *away from* the specter of portfolio losses and catastrophic news events**. Thus, market activity has a kind-of "gunslinger" look, with short strokes of capital commitment, and even quicker triggers on the way out. This is a far cry from traditional buy-and-hold fundamental investing.

It's a good idea always to manage one's asset allocation with one eye on the trend, and the other on the anti-trend. This means having the discipline not to follow a benchmark indiscriminately, but to identify the ingredients that might curtail the benchmark's advance. Too cautious? Remember the market's angst following the dot.com craze and collapse, or the most recent housing bubble?

We have had success this year with a more modest allocation into **Utilities**, both as a surrogate for yield and as a capital gains provider, as well as **Technology**, **Consumer Non-Cyclicals**, and **Basic Materials**. We have also been pioneers in quantitative research in longer -term demographic themes such as agriculture, biosciences, and alternative energy.

In my world, if you see the markets advance unabated, you see the return of risk accompanying your largesse.