

Market Outlook:

Stuck in neutral

An already skeptical market took a huge turn for the worse early on, then recovered at week's end, because of jitters about Greece's ongoing debt drama and China's sagging equity shares. The selloff only highlights the "globalization" of financial data and adds one more thing to worry about for US investors. Whereas I had previously written that sufficient firewalls had been built into global financial exchanges following the credit collapse in 2008, there was, nevertheless, an overwhelming uncertainty about financial markets' stability after the Greek nation's "No" vote on austerity measures proposed by its EU partners. **Accordingly, the selloff in global financial markets last week was more attributable to very high relative strength quotients as a result of consistent new highs in the averages than to pandemic fundamental flaws in global economic structure.**

It would be entirely reasonable to expect continued pressure on stocks in the short term, without breaching any of the powerful trend lines created during the past five years. There will always be peaks and valleys in portfolio management. It is foolish to believe that investing is a straight-line-up proposition.

Last week represented the first real sign of panic about portfolio sustainability since the bull rally began in 2009. Fundamentals, which have been improving, all of a sudden took on an air of vulnerability, giving many a chance to adjust their expectations about near-term performance. **We see no reason to make such a mid-course correction given that analyst's earnings projections for equities had already somewhat been tempered by the inordinate rise in stock valuations.** By and large, one must still pay attention to *which* sectors are showing improvement, and then drill down to specific equities within those sectors to compare prospects for long term earnings sustainability.

Right now, I see examples of "news-proof" duration in technology (semiconductors), non-cyclicals, and high yield utilities.

If we can maintain modest, definitional improvements in domestic GDP and earnings acceleration, the net effect of the EU distress upon Dow shares would begin to dissipate. As mentioned above, there has already been a slight diminution of analyst's projections and expectations which I think should help to tamp down investor's reactions to events not yet happening.

Without meaning to sound condescending, it looks to this observer as if Russia, Germany and Greece are re-litigating the Second World War, only this time with drachmas, Euros and rubles instead of bullets and tanks. There is no shortage of ego and power in this storyline as the Ukraine situation earlier this year revealed. While the end chapter to the EU/Greece saga is clearly being written as we speak, the tailwinds for financial markets are much stronger than the headwinds as we enter the second half of this year.

Gear shift

We acknowledge that it is difficult to adjust one's mindset "on the fly" in the face of such amorphous news. **The euphoria of the past few years which drove the Dow and S&P to new highs has generated such a psychological and remunerative rush that we really should have anticipated a slowdown in acceleration patterns even without Greece and its issues.** Historical patterns of appreciation in financial instruments resemble more a tortoise than a hare. That 30 percent climb in 2013 put everyone in a terribly unrealistic frame of mind and set up a gambler's mentality.

In fact, investing requires time-consuming research and enormous patience. Building net-worth does not happen overnight. But because, in this instance, investors had gotten used to big percentage gains, their expectations as well as their behaviors became highly speculative and unrealistic, substituting seduction for methodology and science. Plodding along slowly is neither attractive nor stimulating, but it *is* a formula for risk reduction and portfolio aggrandizement in the long run.

Acknowledging some bumps in the road owing to current events (such as China, technology "glitches", and interest rates), our tracking algorithms nevertheless see a pattern in stocks similar to the 1980's when dividends and capital gains were more definitional and in line with nominal rates of return. Our discipline also predicates the market as "*parabolic*", with ups and downs punctuating a current pattern of *bottom-left to top-right*.

The worst thing that could happen....with all the news about Greece, S&P gyrations, monetary pressures, etc.....would be for investors to jump from style to style, opportunity to opportunity, in search of an elusive panacea.

Perfect rainbow endings are only for fairy tales.

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