

Market Outlook:

Parallel Disconnect, redux

The middle of a battle is no place for philosophy or moralizing....and believe me, we are in the midst of a financial "battle" ...but suffice it to say that one must define one's self either as an *investor* or a *trader*, and in times like this that distinction is more than just conversation.

Stocks had gotten so expensive, and run for so long, that the quandary of if/when a correction was going to occur became quantifiably absolute. The only problem was that in practical terms no one was addressing the issue, satisfied instead that portfolio gains during the past 5 years were at least double, and that 2015 was shaping up at least as a "nominal" type year.

Most investor's field of vision was so far downfield that they only focused on the promise of future returns rather than the science of statistical probabilities which posited that *you can't fill a vessel "fuller than full"*. And who's to blame them really? The media and the "experts" didn't see the need to warn anyone about quotients, leverage, or risk while things were good....they just kept producing "fast money" television programs, instead.

However, there are indelible truths which must be acknowledged. *Chasing valuation* is not exactly the same thing as *strategic asset allocation*. Particularly for investors whose mandate combines preservation of principal with growth, they must rely upon duration, fundamental research, and sector rotation. That discipline is totally unlike the speculator's ploy of throwing money into big gamble piles which may or may not pay off. One simply has to decide where they are on the risk paradigm and favor, on a sliding scale, return or stability...not both....to understand what is happening (and will happen) in the financial markets.

Yes, I hear you (even as I am writing this), *"Why not both?"*

To be sure, we all seek both, but with the latter comes the former, not necessarily the other way around. Therefore one either accepts the vagaries and intense volatility of the past few trading sessions or one becomes unnerved by the magnitude of the "integers".

Change of heart

With dramatic effect, those who chase alpha (return) faced the biggest obstacle when the market fell. They lost all of this year's gains and more, not to mention the discouragement of starting over. Some investors just threw up their hands and shook their head over the magnitude of it all. Quick trade retail-type speculators are faced with the notion that they either change their goals and tactics, or they will face the prospect of losing yet again. Or not. After all, there is room on the playing field for a variety of disciplines. Concentrated investing can, and often does, pay off. It's simply not for everyone.

Steadier hands recognize that markets are parabolic, there really are no benchmark thresholds, investing is not the same as saving, and that the angle of ascent remains upwards in spite of recent capitulations.

So what caused all the turmoil? Because what should have been the last *parabolic* upleg became instead a *linear* (straight line) advance, without pause. Those kinds of surges are mathematically impossible to sustain.

If you're not a mathematics devotee, know this: global earnings acceleration requires consumer demand and robust economies. China may be number 2 in the global financial hierarchy, and unquestionably significant to integrated trade, but the inference that they alone caused the crash is specious, at best. Nor were the warnings sudden or unexpected. If the marketplace had been paying attention, it would have noticed signposts all along that global consumer demand was tepid, at best....flat-lining, at worst. In addition, the entire pan-Asian region (most notably China) was exploding in credit-driven economic infrastructure development

There is no question that we will recover from this current cycle decline, but I hope that we will pay closer attention to fiscal and long-term monetary policy on the next go around. You cannot grow an economy by flooding the marketplace with cheap money and using stocks as candy to lure investors into thinking that all is right with the world. Several decades ago I coined the phrase *"parallel disconnect"* to edify the difference between the markets and the economy. Simply because two "related" phenomena move on parallel tracks does not, by definition, link them as one and the same. Even now, as global bourses retreat, we find improvements in fundamental macro economic data.

And as for those single-space traders, one hears that they've taken their money to Atlantic City, Las Vegas, and Monte Carlo while the market chills out from indigestion.

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