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Market Outlook:

Fire extinguisher
Having run for nearly three months, the US financial markets at some point will have to demonstrate vulnerability. It is the essence of cyclical phasing that *nothing lasts indefinitely*...at least without pause....and *nothing lasts permanently when it exhibits linear upside momentum*. I would like to point out that these immutable laws of physics and economic gravity are not being invoked to be "negative", but simply to point out methodological certainties that engender, at the very least, cause for concern.

As with real life, the extent of earth's "gravitational pull" upon the Dow, Nasdaq, and S&P depends mainly upon how well the trend can sustain in the face of convoluted political discourse, economic ambiguity, and investor fear amid concerns about cashing out while the getting is good.

A useful analogy exists between aerodynamics in space travel and financial momentum. Spaceship momentum is a function of propulsion, science, and essentials that govern ignition and physics. Assuming an exactitude within aerodynamic sciences, we can predict the *when*, *why*, and *how* of liftoff and orbit.

The financial markets similarly are governed by "laws" of economics with one significant difference. Precisely *when*, *where*, *why*, and *how* is more often correlated to investor interpretation and emotion about the data than the data itself. That is the "x-factor" that makes markets so unpredictable.

One of the more frightening aspects of that last observation is how quickly selling panics and buying manias can develop in financial markets. It might take months or years for trends to unfold, but only one "spark" away from igniting a fire sale. That point is even more injurious when markets inexplicably climb a straight line upwards.

Panics occur unexpectedly. When the capital source for buying stocks dries up, as has occurred on occasion in the past, frenzied undercurrents erupt. Ironically, they may take the form of subtle "distributions at the top" initially, or they might modify into uninterrupted frightful selling. Etched in our memories, I'm sure, are examples of the latter.

Simple projections
It is hardly a sure bet that the market can continue upwards, unabated, in linear fashion. Although we will concede that markets...and politics...have entered into uncharted territory, it is highly unlikely that the "laws" about which we spoke earlier have been rescinded.

Most economic indicators continue to be positive and progressing at a steady pace since the Great Recession of 2008, as the Fed Chair Yellen testified last week. Other than an increasingly convulsive rhetoric that punctuates Washington politics, there is an abundance of reason to be optimistic about the economy. Almost across the board, business has reconstituted under a new dynamic that renders economic risks relatively low. Despite any one-off insecurities that might punctuate financial analysis, there is a growing catalog of opportunity in existing and yet-untapped sectors. In particular, my work in socially responsible investment categories (water, agriculture, infrastructure, alternative energy, biopharmaceuticals, etc.) compliments our overarching macro sector analysis. Our confidence about economic development is high.

The only variable which might impede our scenario going forward, however, is an increasing polarity between the "rate" of growth predicted by economic forecasters versus the "rate" of stock market valuation increases. They're not quite matching up equivalently, creating what I call a *parallel disconnect*. That bubble is becoming problematic.