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Market Outlook:

Keeping score

Now that the US stock market has finally "released a little steam" last week, investors suddenly feel a little nervous about perpetual upside linearity of equity performance like the kind we've seen during the past three months. In fact, the "check engine light" just illuminated on the dashboard and it might indeed be time to pull over for a check-up.

While the modest pause in stock price accretion may not be a surefire indication that there is something "wrong", or that justification for the rally has abated, it does, in my opinion, offer a perspective about dashing blindly through any warning signs out of sheer ignorance or habit. As I have consistently written over the past few weeks, nothing moves perpetually on a straight line incline without pause or resistance.

There are any number of reasons to pay heed to the market's modest respite, not the least of which is to reboot what is "normal" about stock price performance versus what is excessive. While on autopilot it is always easy to ignore the potential for meeting obstacles....until you unintentionally hit one!!

Varying degrees of excessiveness are easy to quantify, yet particularly dangerous when they exceed "nominal" range. I will readily admit that it is difficult to call for retreat, or to wimp out during a prolific bull advance, I will always raise caution flags when relative strength integers (RSI) expand beyond nominal capacity. Quite simply, these quantitative tools help us to know the probability range of expectations. Therefore, it would be counter-intuitive to bank upon improbable duration persisting indefinitely. As a portfolio manager, this means "do no harm" as well as "take every opportunity to lock in gains" and prepare to do battle again without undue sacrifices.

Flashing yellow

We often see amateur investors getting caught up by momentum and false expectations. Sometimes these unrealistic objectives cause them to miss out on banking the bounty at hand in favor of playing the game until exhaustion, or catastrophe, occurs. Of course, undeterred by the potential of failure, they seek only the "big score" without regard for any consequences.

My professional advice about risk, culled from nearly 4 decades of experience is:

Quantitative tools are instruments that help evaluate the direction, magnitude and duration of cycle trends.
Risk measurements such as Relative Strength Integers (RSI) might offer predictive indicators correlated to an investor's time horizon.
Excessive linearity, up or down, is a "signal" preceding trend expiration.
Profits are a successful benchmark, against which losses should be minimal.

As with anything in life, there are few absolutes or dogma. But by applying scientific method to traditional "fundamental analysis" one can gain significant perspective to otherwise non-quantifiable data.

It is always useful to have constructive debate, and to disagree "agreeably" about points of view, but in the end the only real measures of portfolio effectiveness are methodology and track record of outcomes.

When I see a speed-bump, I slow down.

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