Scotty C. George
Chief Investment Strategist

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Market Outlook:

Tortoise and the Hare

We enter the final six months of the year focused upon one essential question: *can the market sustain the incredible pace of capital appreciation it achieved during the first half of the year?* A corollary to that interrogatory might be *"will the economy pick up or recede contemporaneous with market direction?"*

I think it is very likely that the financial markets might modestly appreciate in value between now and next New Year's. We see many more factors that are positive than negative regarding earnings growth, share price performance, and bull trend perpetuation.

One factor, however, which might add psychological reticence to the financial, fiscal, and economic climate is the direction of interest rates and the intent of the US Federal Reserve and the European Central Bank to modulate accommodative monetary policy. Last week's Congressional testimony by Chair Yellen brought greater clarity to her objectives and timeline for the next few months. We are late in the current upcycle in stocks and any impediment, real or imagined, might serve as a catalyst to take profits now and to sit on the sidelines awhile.

Besides, the only data not currently baked-in to the financial equations are those things we *don't yet know* about monetary direction. Can profits keep growing at this rate indefinitely? Have we seen the "best of" the recovery cycle, or are we simply at a secular (long-term) starting line?

I must admit that *prognosticating* about the markets as an analyst and *transacting* in the markets as a client representative sometimes puts me into a complex position. My client mandate is mostly to do no harm while at the same time competing successfully against a benchmark we mutually agree best defines the client's objectives and tolerances for risk. The analyst in me can afford to be more dogmatic, more objective about interpreting the data. Thus, many of my clients perceive me as a risk averse investor....because they require me to be....and not one who cycles information on a minute by minute basis. We try to limit exogenous noise and economic surprises. Our methodological doctrine requires us to sell out of losers before they inflict too much portfolio damage, and to hold winners while they aspire to quantitative apexes.

High Wire

It is impossible, of course, always to be right, but we expect the *entirety of the portfolio* to be headed from bottom-left to top-right predominantly and to do so competitively to the chosen benchmark .

Modestly, our track record indicates that I have done this successfully for nearly 4 decades.

Therefore, those factors that I currently see as problematic for economic/market direction are still uppermost in my mind. Inflation, low interest rates, unpredictable consumer demand, high market valuation, political inertia, inventory logjams, regional fragility, all are factors in our quantitative database that have consequence well away from how well portfolios are performing in the near-term.

Seen through the prism of the next decade and beyond, however, there are innumerable opportunities for capital gains and financial reward that are resistant to short-term exigencies...if one might only steel one's self from responding in kind every time something unexpected hits the media airwaves.

Amidst all this optimism for the future, I must interject that the "feel" of the financial markets just doesn't seem to resonate the same for everyone. Many around the globe still suffer from medical pandemic, malnutrition, financial challenges, and tenuous homeland security. Indeed, these "problems" form the basis for private and public investments in potential solutions (healthcare, energy, education, technology, military/defense, infrastructure, etc.). But the fact that the wealth gap keeps widening, and apathy keeps growing, hastens a "flash point" at which time calm and tranquility might be supplanted by unrest and turbulence.....a happenstance that none of us should wish to see.

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