

Market Outlook:

Relative *d/s*-equilibrium

Despite a historically robust economic cycle, the numbers behind the recovery can be interestingly deceiving. Forget that Wall Street is grinding out new high after new high; that earnings from the world's largest multinational corporations are expanding; that "consensus" consumer confidence numbers are widening. Think instead about emerging markets' failure to gain political or economic traction; how nearly 20 percent of the globe's population lives in poverty or upon arid underdeveloped land; how centuries of religious and regional conflicts remain unresolved; how despite your portfolio's good fortune over the past half-decade you still feel uneasy or financially constrained....

Is this a memo of "glass half empty" rhetoric? Of course not. We ,too, have felt the enormous benefits of an economic renaissance.

No, this is, instead, a continuation of a conversation about *investment process*, *methodology*, and *decision-making* that needs to be revisited daily in pursuit of portfolio (and societal) alpha so that imbalances and exogenous noise have only a minimal effect upon our investments (and lives) rather than a catastrophic one. Asset management is a fluid endeavor, not a static one. Nor is it a "passive" exercise...buy it today and put it away. The best way to compete in today's marketplace is to customize a solution for each client's individual risk/reward tolerances, and constantly rebalance the nuances around the edges. Recall my oft-repeated investment mantra: *asset allocation plays a greater role in the probability of a portfolio's capital gains potential than does any individual security within that portfolio.*

Indeed, the question now is whether there are recurring events that have become structural "new realities" and/or impediments to the success of this economic resurgence going forward? In the wake of monetary incentives, fiscal reform, and a changing consumer dynamic, the outline of what we thought to be true about economics is morphing into new science right before us.

For example, whereas low interest rates might have been thought to be the propulsion behind economic revitalization, it appears that their omnipresence has become a *necessary precursor* of evidence of their own failure to magnify any value to that recovery.

In other words, how might central bankers be able to unwind the stimulus factor without giving rise to a sense of panic about what's next, fear of its effect, or mistrust of any political motives?

Additionally, such fundamentally imprecise economic forces such as *automation*, *globalization*, and *demographic shifts* are concepts that private enterprise and government policymakers will have to address when creating fiscal and executive policies for the next generation of financial capital. Redesigning the jobs market in the face of a new technological millennium, for example, is something we might not even have envisioned a decade ago.

How far is up?

I also observe that in spite of portfolio aggrandizement there are fewer of us who really feel allied to their place in the world, or associated with the prospects for eradicating poverty, hunger, war, terrorism, or disease, as well as providing for clean air, drinking water, and renewable sources of energy. In fact, might not a "socially responsible" portfolio directed towards finding solutions to these issues be a real success in these times of uncertainty?

Before Wall Street entrepreneurs begin back-slapping each other in congratulations for a job-well-done, perhaps we should consider that the recovery is globally non-synchronized and that those doing well are doing *exceedingly well*, while others are struggling to keep up or are falling behind altogether.

Are profits and portfolio gains sustainable? Yes, under the right circumstances. But how prepared are you (and your portfolio) for an eventuality of things going in the wrong direction, or failing to meet your currently lofty expectations?

That's where this missive intends to direct your focus.....

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