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Market Outlook:

Not *my* market

In the past 8 months we have seen a succession of new highs in the "averages", portfolio valuation explosion of historical proportions, and a skeptical but grateful buoyancy by retail and institutional investors.

We have also seen a complete breakdown (some are calling it a "melt-up") of cyclical and statistical methodology and numerical quantifications.

Is anyone *really* believing what they are seeing?

Hey, like any portfolio manager (or client, for that matter) I do not begrudge the market's advance, despite how my rhetoric might be perceived. In fact, no one can dispute that the objective economic data which underpins the economic recovery is sustainable for the long-term. Rather, what I find most troubling is the improbable disconnect and high level of conjecture that characterizes *speculation* on the one hand and *hard facts* on the other, making it nearly indistinguishable between what constitutes a good investment and a less desirable one. There are simply no options available for the kind of conservative, alternative purchases that usually define a well-balanced financial marketplace.

There is ample evidence (employment data, inventory expansion, e.g.) to support the notion, irrespective of exogenous global current events, that politicians and monetarists have been trying to learn from the excesses earlier this millennium and have attempted to fashion fiscal and moral judgments that relate more directly to the needs of their citizens.

However, there are irrefutable anecdotal episodes of corporations using low interest rates to manipulate supply and demand of their shares by buying back equity and debt in the public markets thereby helping to explain how a recovery can last well in excess of a "traditional" cycle advance duration. It might be presumptuous to assume that trading "on margin" to increase the appearance of profitability by limiting "float" demonstrates a breakdown of ethics or good accounting practices, but there is no doubt that the wealth gap is getting wider during this bull advance as profit margins are expanding, the rich are toying with private placements and direct investments, valuations are growing...all the while the less affluent are having difficulty affording decent housing, staving off poverty and hunger, paying more for healthcare and transportation, and barely saving enough for retirement.

Who, one might ask, is helping to close the "empathy gap" that is being exacerbated by an ever-rising Dow Jones Industrial Average? There seems to be a direct correlation between Wall Street's buck-chasing and a permeating stench of manipulation and greed.

Don't blink

Our data indicates that money flow is racing into conservative assets and "back-end" sectors, such as Utilities, Basic Materials, and Energy. There still exists a powerful potential to make money in the market, even at these lofty levels, but the challenges of political and financial headwinds for the world's central bankers still pose a mighty stern dilemma going forward. Despite what we earlier described as "improving fundamentals" the laws of supply and demand always drive prices....in equities, commodities, and business services. And right now we see demand in all phases of the economy as tepid.

Forces of greed and empathy *can* coexist simultaneously as long as compassion for others is not lost in the process. When, or if, the bull cycle recedes there will be an asymmetrical response when the well-off race for the exits trying to protect their hard won gains.

It matters not whether you are in the economic majority or the minority. Ignoring basic tenets of physics and mathematics can get you in a lot of trouble if you don't bring a refined and experienced methodology to your investment endeavors. Our models *are not* indicating a massive collapse of all economic tents, but there is sufficient proof that we are in the latter stages of a bull expansion begun nearly 8 years ago.

There simply is no alternative to buying stocks right now if you want to build net-worth and discretionary capital for the future. But, of course, simply bidding prices higher because there is no other choice is the very problem we see supporting a dubious advance of our portfolio's good fortune. With proper diversification and asset allocation we hope to keep at bay the effects of any ruin which might spoil the party.