

Market Outlook:

What just happened?

Amid deepening concerns about foreign trade, world despots, and US tax reform financial markets last week peeked into an abyss, if only for a moment, and didn't like what they saw. It's pretty simple. Markets are deeply advanced and the slightest hint of conflict could send the overbought euphoria lurching in the other direction quickly. So pervasive was the jolt, it exposed weaknesses in Europe and Asia, as well.

The point is that it doesn't take very much to induce skepticism in an age of secular momentum if the self-assurance behind that advance is inconsequential.

But lack of resolution isn't a new phenomenon for the financial markets. As far back as last Spring consolidation amongst sectors began to shift leadership from traditional consumer brands towards tangible assets and special interests. The good news was that as stocks rose, all sectors participated nearly uniformly. The bad news was that the caboose began to pull the engine rather than the other way around. The economy, and the wealth gap, started to fracture traditional consumer demand in lieu of pricing pressure and nascent inflation. The resiliency of the recovery, post credit-crisis, was about to be tested.

Confidence is a lovely thing when it is buoyed by facts and shared by everyone. Unfortunately, too many risk factors weigh heavily upon investor's daily lives, which in turn affect their comfort level with their portfolio investments.

Unequivocally, the economy is moving steadily forward. By all discernible measures the data are improving...earnings, capital expenditures, portfolio growth, to name a few. Ultimately, there is only one true measure of financial success...capital gains. But it also needs to be stated that financial success is not always the metric by which one gauges the quality of a population. Good health (mental and physical); infrastructure; personal "peace"; morality and compassion for others are all other measurements by which we take the temperature of how well we are doing.

We know, too, that during periods of stock market instability there are always counterweights which serve as safe havens. By focusing on the longer-term and eschewing the sensationalism of daily financial media, I find some of those alternatives today in biotech research, environmental sciences, education, finance, agriculture and water, renewable energy sources, and technology. The mere fact that correlations appear to be "decoupling" is proof enough that active portfolio management is needed now as an effective tool to counterbalance the risks.

Don't brace for impact just yet

Last week's mini-eruptions in the stock market are not a harbinger of a new bear phase. Rather, they demonstrate just how risky investing can be in a market punctuated by new highs coupled with reckless emotional abandon. It is always the case that when probabilities exceed a maximum sustainable level, a higher premium is placed upon product selectivity, methodology, and patience. How often does the market seduce you to buy "at the high" or to panic sell when everything is going down? Placing enormous singular bets "on black" is the architecture for portfolio collapse. Our clients know that that is not our style.

Within this brewing cauldron of politics and economics the markets look to any knight in shining armor to provide outside guidance. It seems unlikely at this juncture, however, that either the Federal Reserve or the Congress has the gumption or the perspective to provide that leadership. Embroiled in their own dysfunction, our Congress is polarized and playing to their respective base, while the Fed embodies an experimental paradigm that pays greater homage to keeping borrowing rates low than to producing results that reflect our expectations.

Despite the unsettling hiccup of turbulence last week, these are issues which take months and years to resolve...not days. Applying a consistent process to portfolio asset allocation helps to reduce the timbre of the rough spots. This is a business of "artistic design", not perfection. The subset of investors who rely upon unbiased, and unemotional, decision-making is small but usually the most successful in the end.

Happy Thanksgiving!!

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