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Market Outlook:

Fair exchange?

Many of you are wrestling with the conundrum the market is presenting.....how much is enough, how high is high?

This raises a very relevant question for you to understand what kind of investor are you: *would you willingly today cash in all your current extraordinary portfolio gains from the stock market during the past 2 years in exchange for a base floor rate of return of 3 percent annually from fixed income investments for the next 15 years?*

Knowing that it is impossible to "time" the market and still be a successful investor, you nevertheless have to look at your current "gamble" as if it were a poker game in which your chips keep growing and you have to assess the table and ponder when the luck might run out. Could it keep going? Of course, as might the incredible "linear" run in equities prices. But when does it end and, more importantly, what is your level for risk-taking (how much can you afford to give back) and what is your time horizon for waiting out these probabilities? Think of it this way: these annualized numbers are simply unsustainable, and you have to recognize that.

I believe there are no empirical answers to these questions. Each investor is different, everyone's time line is different, and each has his own built-in clock to assess when the odds are dissipating. The only thing we *can* know is the science and study of economics and what makes for a fair, zero-sum trade in the financial marketplace.

The typical market "player" is bullish when he should have been bearish, and bearish when he should have been bullish!

While I have said repeatedly that there are no warning signs on the immediate horizon which might cause us to abandon stocks altogether, it is always helpful to have a contingency plan and to have learned from the lessons of calamities past.

I would caution that it is a matter of monitoring cycle events and cycle shifts in order to optimize asset distribution by risk rather than betting all those poker chips on one hand of the cards. If it's a bear market you fear, rest assured it *will* come. History, common sense, and quantitative analysis tells us so. So it would be far better at least to prepare for one than to ignore its likelihood altogether.

Believe your eyes

It could be that positive reaction to the US tax cut legislation might provide additional stimulus to the stock market rally. The economy is accelerating and likely will show improvement in wages, manufacturing, and profitability. **We feel that a secular rise in interest rates and/or inflation could also be positive for the stock market in that they represent the underpinnings of rising savings rates and competitive pricing which leads to innovation and research.**

I am also extremely excited about my Arlington Econometrics' proprietary database focus for the longer term in areas such as healthcare, global agriculture, water, alternative energy, infrastructure, biotech, and technology. These "socially responsible" themes resonate as global topics of discussion, as well as sectors from which a plethora of capital gains are most possible.

However, as we have noted previously, nothing goes straight up...neither the economy nor the financial markets. As long as investors are realistic in their expectations about capital appreciation, their judgment about the question I posed at the beginning of this missive will be logical, as well. The biggest mistake I have seen in my 40 years on Wall Street is that most investors, professional and retail alike, believe that this is a get-rich-quick playing field, an all-or-none proposition in which one has a limited amount of time and opportunities.... one shot perhaps (?)..... to make it big.

To the contrary, investing.....true investing.....is a matter of time, patience, methodology, execution, and fluidity. Prepare for cyclicality and shifts in money flow where they exist and be deliberately strategic in modeling those shifts in your portfolio as you go.

The party is always going on. You just need to know where to look.