Scotty C. George
Chief Investment Strategist

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It's a lovely view up here...

"Oh, the view is tremendous", said one of America's astronauts as his space capsule rocketed out of Earth's gravitational pull for the first time. And as physics tells us it is so, at some point his spaceship returned from its apogee and fell unfailingly back to land.

So, do the laws of physics apply to all moving objects....such as the parabolic, sometimes linear, trajectory of stock prices?

Financial markets are not specifically governed by physics, but by the laws of economics. And yet, the discipline of quantitative statistics and algorithmic equations are themselves interlinked with physics and all other sciences, if truth be told. Thus, *"what goes up must come down"* is at the core of the lexicon of physics, financial markets, sports, life, and a whole panoply of other common sense endeavors.

What many find almost surreal about the current bull market is the number of times it keeps making new highs without significant capitulation. Who knows, maybe the laws of all sciences no longer apply? How many times in your investment lifetime have you heard the phrases *"it's different this time"* or *"it's a New Paradigm"*? While this author doesn't disparage those who subscribe to the notion that it *is* different this time, I am stressed, nevertheless, by the pervasiveness of such belief.

Strategy

The thesis which governs my interpretations is predicated upon the **ability to quantify factors that define the movement of financial phenomena,** like stocks, bonds, interest rates, earnings acceleration patterns, consumer confidence, sector rotation, global trade, etc. Those data if understood properly can leverage the probabilities of capital gains in our favor, and allows the user to intercede in, or avoid altogether, any catastrophic "right side of the parabola" disasters. Sometimes price compressions take generations to occur. Other times, they may occur in a 24 hour span. I'm sure you've seen examples of both. They are a fact of life. History has shown us so, and so too do the laws of mathematics. It is the ability to stave off the unforeseen consequences of a failure to plan that makes my profession so interesting and so valuable to clients.

The bright lights and fancy bells of 24 hour business news coverage feed a vicious narrative of unrelenting success that too many unsuspicious investors buy into, thus creating a parallel landscape of impractical expectations.

I ask you to reflect back to the humbling and disastrous portfolio experiences of the dot.com crash and this past Great Recession/credit crisis as examples of something to which your euphoria blinded you, and the panic they created in boardrooms and kitchens worldwide.

Investing requires strategy, methodology, diligence, and patience. One cannot ignore the existence of obstacles, just be nimble enough to navigate them when they arise. Whether passive or active with your portfolio you must be aware of history and certain flash points that inevitably occur and which might have significant corrosive effects upon asset valuations.

Markets

Despite any misgivings I have about the linear nature of the market's recent phase, we have nevertheless been a full participant in the investment landscape *within the limits of our client's stated risk tolerances and their longer term expectations for performance*. When moving from zero probabilities....as in the post recession doldrums....to nearly full stochastic integers of present valuations, one must always be prepared for negative catalysts.

One of those catalysts is the growing global divide between the wealthy and the impoverished. If economic growth is to be engendered worldwide and domestically we have to find a way to breathe new life into the less affluent and their access to healthcare, education, transit and infrastructure, homeland security, banking and commerce, and institutions of faith**. The big X-factor is that a preponderance of the concentration of money in today's world accrue to a very small percentage of the populace even as more around them degrade financially.** The clock is ticking for those at both ends of the economic paradigm.

Yes, the Great Recession is in the rearview mirror. But even as the economy has raced back from its depths, it has taken on disparate meaning for different parts of the market. Will recent US tax legislation, for example, really unleash greater prosperity, or might it exacerbate an economic chasm that has already alienated a significant segment of the population? Can the short term good-will created by a legislative accomplishment be sustained into legitimate long term investment and bounty?

Soaring stock markets only fuel so much of the recovery...and only for those fortunate few, as mentioned above, who have the resources to be playing in that arena. Who's paying attention to and voicing solutions about areas of social need such as eradicating hunger and poverty; clean water access; cures for medical pandemics; computer and bioscience research and development; geriatric care; crime prevention; affordable education?

In the end, a misplaced social trend which exclusively covets capital gains and corporate profits could wind up squeezing dry the goose that lays the golden eggs. Excessive social inequality erodes public cohesion, consumer confidence, and ultimately growth itself.

The more we are surrounded by exogenous noise, the less attention we are willing to pay to anyone else. Failure to focus upon others is not, by itself, a cause of financial crisis, but it is reasonable to assert that apathy has the ability slowly to unwind progress that has already been made. Accounts have shown us that periods of financial instability or inequality always follow epochs in times past where excessive asset growth, corporate greed, wage imbalances, and euphoric passion have been disproportionate to underlying principles of fairness and distribution of opportunity.

Low interest rates, for example, are creating a climate in which prices of stocks have been driven up simply because of a scarcity of alternative choices, thereby fostering a riskier playing field while accommodating investor's hunt for absolute return on assets. Global central banks, including the US Federal Reserve, have left themselves painted into a corner with no choice but to adjust interest rates higher while they ballyhoo the data indicating higher consumption, price pressure, and lower unemployment. Curiously, our analytics observes very little evidence of rampant inflation or price pressures that might typically define an excessively out-of-control economy. We do see, however, that anecdotal cost-push pressures are slowly eating away at household take home pay and exacerbating the anxieties that the "average citizen" feels in trying to succeed in the global economy.

Our asset allocation for the coming quarter will be much more selective based upon our interpretation of the facts. Because of pervasive bullishness about financial market's performance, our goal now is to identify those financial instruments that are quick to respond to a volatile US dollar; rising interest rates; slower earnings acceleration patterns; secular changes in energy, healthcare, housing, productivity; and a world in flux because of regional disputes and terrorism. Indeed, the range of probable performers is a smaller list. The task, obviously, is to winnow out plausible winners from those securities that we deem untouchable. Therefore, we begin the year as we ended it: taking profits when available, selectively adding short-term time deposits to lessen portfolio volatility risk, and rebalancing into emerging markets and opportunities whose downside risk is diminished by early stage, left -side-of-the-parabola cyclical nexus.

Conclusion

The seeds of change require a long gestation. There is still abundant opportunity to participate in the flow forward of stocks and other financial instruments. Irrespective of the Fed, global central banks, the US Congress or other social domains, there is always a bias to improve one's lot in life....financially, educationally, spiritually. It is how we *perceive* financial trends, however, that makes those struggles more identifiable. "*Fairer trade*", "*increasing GDP*", "*declining unemployment*" are abstract concepts to anyone working paycheck to paycheck, burdened by illness, poor education, hunger, thirst, or lack of hope.

Our portfolio strategies for the next quarter will reflect a broader secular redirection and rebalancing away from consumer-driven (consumption) sectors towards tangible assets, pricing power, production and manufacturing sectors, and inflation oriented developments. This month, we also introduce our **Agriculture and Food** investment strategies to couple with our earlier initiatives in **Global Water**, **Alternative Energy**, and **Health and Life Sciences**. We believe these concept investments resonate well with our operational mandate of risk protection and strategic asset allocation. A solid base of earnings acceleration and dividend investments will do more potentially to offset risk posed by excessively high valuations across the current continuum than speculative one-off investments or misplaced hyperbole.

Suggested balanced account asset allocation, Q1, 2018
Equity: 60%
Fixed Income: 24%
Cash: 16%

Arlington Econometrics is a quantitative market tool. Utilizing proprietary algorithmic equations, AE offers solutions for market-timing, asset allocation, and macro economic analysis. Using historical time-series measurements, Arlington Econometrics optimizes the analytical process and forecasting coefficients to make economic forecasting more objective.

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