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Market Outlook:

What? When? How?

Just like the mythical Aladdin, it is too late for investors to put the genie back in the bottle. Try as we might, we just cannot stop a runaway stock market capitulation before it finds a reasonable equilibrium.

Sometimes it seems as if the hands on our clocks are spinning crazily ahead, then behind, moving as if all laws of nature are breaking. But we have to take a step back and realize that it's not the pullback in stocks that we need to be concerned about. Rather, it was the elaborate linear acceleration of stock prices that should have been investor's main focus. If the retreat of last week's prices stunned you, you weren't paying attention to the many admonitions that I, and other, strategists were offering.

The stock markets are a woven tapestry of many factors, some emotional, some fundamental, some mathematical (quantitative), others technical. But no one single factor has the power to unravel the entire tapestry altogether or simultaneously. It takes time to disentangle great bounties like the kind we have had in recent years. We still believe it is prudent to concede the formidable forward progress of the economy since the Great Recession (2008), but also to be cognizant of the pitfalls of non-parabolic investment patterns.

In their haste to buy into a market false narrative...that economics and the stock market are one and the same thing....many rebuffed the negative potential embodied in never-ending optimism and a failure to adopt a methodology for investing which keeps portfolios intact when things start to "go South". Thus, a panic ensued which fed upon itself.

Now, these disgruntled and confused souls look around and wonder how those same mathematics and statistics that they offered as "justification to buy stocks" just rudely slapped them in the face. And the reason for their consternation? Their own greed which caused them to ignore the very risks they most dislike.

Man versus beast

This time, we humbly offer that no "expert" can accurately predict the market's direction every time, nor is there any one right way to invest. **But it is a given that without a stated discipline it is highly unlikely to achieve the outcome you seek, and it certainly is better than always trying to buy the *"next great thing".*** Only a few savants know how to put a Rubik's cube together on the first try. Far better to ignore the search for perfection and hype, and put money to work in a balanced fashion....if peace of mind is more important to you than withstanding the kind of flux that the markets generated last week. Perfection is an ineffective standard in portfolio management.

The financial markets are at once a reflection of *what has happened* and *what we expect to happen*. They are a manufactured architecture of expansion that has already occurred and earnings (growth) yet to come, fortunes already made and anticipated fortune in the future.

Consider, for example, that one specific focus of measurement is the average's price-to-earnings ratio. When investors buy financial assets using an earnings-driven criteria, they weigh the rate of projected earnings acceleration against profitability already achieved. As the market and share prices, in this instance, made new-high after new-high the multiple of stock prices versus earnings also expanded to historically high levels. So let me ask, *"for how long did you anticipate that these ratios could continue to expand...and at what rate?"* Exactly.

There is no question that the empirical integer was too optimistic, and most likely unsustainable.

So, has the market sold-off sufficiently to turn panic and disappointment into a new level of enthusiasm? Some speculate that computers and algorithms have run amok, taking control of the markets and thereby eliminating the human function, creating the kind of volatility we saw last week indefinitely.

The worst thing that can happen is for investors to be lulled into taking on reckless positions by trying to quickly earn back perceived (or actual) losses. Cycles are transient, but the global expansion is for real. Your current distress is a product of inevitable volatility that overtakes heated demand for alpha. Highly leveraged investment strategies such as ETF's and big-margin accounts have the potential to wreak disorderly havoc upon commodities, currencies, fixed income, and stock market averages for periods to come.

The dour economic talk, however, is overblown, and our (long-term) fundamental outlook remains hopeful. So strap in and bear with it. This is what it means to be an "investor".