

<b>Market Outlook:</b>
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**Balancing act**

It's impossible to tell exactly where the line of demarcation exists between *the threat of inflation* and *empiric evidence-based inflation*, but the mere suggestion that things are "heating up" seemed to be enough this month to quash a good deal of enthusiasm for buying stocks and other financial instruments.

While we infer that "anecdotal" inflation is already present in our lives (travel, medicine/medical care, entertainment, housing/mortgages, education, etc.) it took a few television talking heads and several noted economists speaking about excessive development and out of control spending to unleash our ire, and make those sublimated fears become real.

Still, the fact that investors sometimes can't distinguish between what's happening in the stock market and long-term trends within the economy is evidence of a perception chain reaction train wreck that leads to overload volatility across the entire investment spectrum. The good news is that the situation is never quite as bad as one describes, and it's never really quite as good as the optimists might lead you to believe.

Exactly where all this "bottoms out" is yet to be determined, but if you think all this unpredictability is the beginning of a serious rout, I believe you are mistaken.

Despite the market's volatility, there is plenty of good news....perhaps too good(!)....throughout the financial markets *and* the economy at large. And therein lies the origin of the next chapter...

**Looked expensive....and it was**

Those who steadfastly continue to create a parallel linkage between financial trading exchanges and data which supports the economy's growth also point to analogous periods in recent history such as 1987, 1998, 2000, and 2007 as proof that prosperity leads to recession! And while each of those disastrous periods did represent a rupture from the trend which preceded it, today's analysts point to a falling dollar, rising interest rates, and enthusiasm gone wild as transactional catalysts for the next great recession. Indeed, specific events, like housing bubbles, market exuberance, or hedge fund collapses, point out that which we already know....that you can't put all your eggs into one basket and not expect ultimately to pay the price for it.

Such was also the lesson of dot.com failures a generation ago. But, as we pointed out in our last missive, the unraveling of *one thread* is just a starting point, and not sufficient by itself to unravel the entire economic tapestry. No, for that to occur there has to be a residue of particulars and mistrust which permeates throughout, a sense that the bounty was "too good to be true", and that we need punishment and atonement to settle the score. Hopefully, that is not the case in today's instance.

So what is it that takes a docile set of data and transforms it into a menacing period of panic and chaos? It's a very robust question, and one which involves underlying fear, mechanical market manipulation, exploitation by the "haves", and finally a failure to adhere to an investment discipline for market disorder to occur. In this climate, metaphorical "blessings" become curses. What we appreciated yesterday (profit acceleration, e.g.) now represents the underpinnings for stagnation, unemployment, low growth and market reversal. The New England Patriots couldn't possibly have won the Super Bowl this year because they had already won it enough!!

Or, as the great Yogi Berra famously opined, *"nobody eats at that restaurant anymore. It's too crowded"*.

Such is the way investors and analysts turn data on its head to create today's market volatility and uncertainty. It happens because we subliminally want it to, or expect it to. But we also need to blame a complacency that bespeaks an attitude which trivializes success or believes it to be commonplace. *"Stocks couldn't possibly reverse course now that they're doing so well"*, it was said.

Each time the market initiates a trend...both up or down....there are acolytes who gather to say *"it's different this time"*.

I, however, have a notion that it's not different at all, but exactly the same as we've seen, but everyone is too preoccupied with the "noise" to know it.

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