

False juxtapositions

In the conduct of global affairs the world is dividing between an "us versus them" mindset which is changing the dynamic of trade, profitability, culture, and moral suasion. Being generous, this "inadvertent" fraying of the world's economic tapestry is distressing.

The most significant rules and alliances of the past century have been disrupted because ego and tribal/territorial values are becoming more important than commercial equilibrium.

Not only is the rhetoric disrupting jobs and commerce, but competitiveness and industrial research are becoming casualties. The world is shifting from cooperation to friction. In general, economic patterns set in motion over 70 years ago in a post-World War climate are falling like dominos, creating uncertainty, market volatility, and psychological distress. Memories of cooperation and conciliation are fading fast.

Any logical observer might assume that the great Bull Run of the past decade is on shakier ground now than at any time during its ascent. A world with closed borders (morally, economically, politically) is an impoverished tapestry and one which is seemingly throwing away every advantage it might have enjoyed.

It should be noted that as new laws and more restrictive codes are adopted the sacrifices must be picked up elsewhere in society. Entirely bypassing the environment, immigration, trade, and health benefits implies that other legislative initiatives might have to fill in the gaps for those in need. What is less certain is how a new reckoning must be constructed in order to avoid hostility and pain within the citizenry. Once policies are put in place...or in this case neutered...the wheels are in motion toward a host of potentially negative outcomes.

Unfortunately, economic and market consequences are the *least* understood at this juncture. Tons of information abounds, but outcomes are truly vague, at best. The experts themselves are misleading because very few of them can accurately measure the impact of tariffs and punitive taxes upon a vast percentage of the world's economy. We do know, however, that the influence of these new imbalances is akin to shutting off the spigot when trying to water your garden.

To be fair, we do not really know if or how the entirety of trade and revenues will be affected by these policy wars. Certainly it is possible that their influence will be small, that protectionism is "good" for those countries trying to maintain some semblance of unanimity and shared purpose. We will know soon enough.

Perhaps a more realistic characterization of current economic events is that an inflection has been reached...for stocks, bonds, monetary policy, fiscal policy, investor expectations, portfolio performance, moral leadership, and international cooperation. That, in itself, is a mouthful.

Markets

The markets are rampant with speculation about Fed and central bank policy, global inflation, market forecasts, and the next direction of financial bourses. Those who transact with a 24 hour timeline are becoming concerned about sudden shifts in portfolio valuations brought about by the ever-changing tone coming out of Washington DC and other global capitals. However, those same denizens are obviously overlooking a basic tenet of the investment process: *that volatility and uncertainty are ceaselessly inextricably linked to the exercise.* Not to mention that such a tiny aperture of perception fails to comprehend the true difference between investing for the long-term versus betting on the uncertainty of a roulette wheel. The calculus is quite different for each whereby the former should calm the mind while the latter actually produces greater anxiety.

Grass roots protectionism is bringing a decidedly discouraging tone to politics and economics. Slowly but surely there is a subtle shift occurring that will stifle budget and spending considerations.

Witness how sluggish demand for housing and other tangible assets is holding those sectors hostage; rising interest rates are acting as additional tax burdens to consumers; tariffs and punitive taxes are inhibiting the free flow of goods; oil cartels sense an economic opportunity to withhold product and raise prices; manufacturers are suddenly handcuffed by a lack of raw materials.

The combination of the changing political dynamic worldwide along with last quarter's inordinate market volatility will have a spillover effect upon financial markets this coming quarter. Restrictive trade policy will change the global currency equilibrium that has existed for the past half-decade. Profitability will probably be impacted, as will future plans for reinvestment, inventory expansion, and debt service payments. As goods become more scarce and more expensive the reciprocity of callous knee-jerk protectionism might accelerate into a dangerous self-fulfilling spiral.

As I noted in earlier commentaries, the most appropriate investment policy during this period of profound changes....both social and fiscal....is to concentrate upon defensive allocation strategies focusing mainly upon earnings-type equities like utilities, non-cyclicals, and basic materials; short term time deposits; and cash with the expectation over time that that these verbal and economic conflicts will eventually be solved by calmer heads and that a resumption of civility and good will might occur.

Conclusion

The proliferation of destructive power.....verbal and weaponized....permits a small number of malcontents to expose fundamental divisions between people and nations. It is difficult to extinguish the flames of hatred and fear. But the biggest absurdity would be to limit any attempt to remediate the situation. Even within the most strident of nations, people still aspire to a world in which faith in each other is stronger than political pressures applied upon them.

Participation is stronger than withdrawal. Entrepreneurship is stronger than walking away and sulking. The greatest pathway to future reward...economically and spiritually.... is engagement and a keener sense of tolerance for one another.

Before we are expected to accede to the needs of our political leaders, perhaps they should reciprocate to the needs of those they serve.

Suggested balanced account asset allocation, Q3, 2018

Equity: 37%
Fixed Income: 38%
Cash: 25%

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