Scotty C. George
Chief Investment Strategist

November 5, 2018

Market Outlook:

Parallel Disconnect, redux

Truly, the tariff wars, widening wage and wealth gaps, and fiscal (political) inertia are starting to bear down upon people's minds. Investors don't need to pore through reams of financial data to know that something just doesn't feel right about their own economic circumstances.

Their first warning sign is a term I coined decades ago, ***the parallel disconnect***: *the appearance of two phenomena, seemingly inexorably linked by trajectory and velocity and, yet, not really connected at all except by illusion.* In this case it is the counterfeit conflation that the stock market and the economy are one and the same.

Indeed, in the last few weeks the stock market is down nearly 9%, wiping away nearly all of the year's gains, while the average P/E (price to earnings) ratio on all S&P shares has fallen by more than 10%. By far, the worst month in the global equity realm in at least 6 years. (All this in juxtaposition to the economic "good news" about historically low unemployment and substantial corporate earnings expansion). These market reversals are disappointing data that no one counted upon nor has an easy time processing.

Why, when politicians, economists, statisticians, and others are telling us that "things are improving" do so many feel so insecure about their money?

It is noteworthy that such a conundrum is both *financial* and *psychological* because the hardest thing to internalize during a market capitulation like the one that has happened is not the data itself, but *how we feel about it.* When the monthly account statement valuation begins to recede, the pain cuts too close to the quick.

Thus, we have two very distinct issues with which to deal: analyzing the data and what then to do about it.

Understanding what's there

First, I must say that investing involves always preparing for an eventual cycle collapse. It is part of the gradations of analysis and emotions that one experiences when investing... the euphoria of bull market success and the despair of market collapse. Speculation and trading are for the brave and should not be the primary component of your investment calculus. Building from the ground up...like creating a pyramid...will secure your platform and provide the kind of conservative momentum you need to build peace of mind and a consistent "floor" to the portfolio.

Much is being made of the Fed's lack of compassion, or economic comprehension, as they have embarked upon a series of rate hikes designed to stem the tide of inflation and over production. Are you personally feeling "over production" in your household GDP? However, the unrealistic expectations that everyone felt because stocks became their default investment...because of low interest rates this past decade....expanded the risk quotients for the market to the point that overvaluation has surely brought us near to, if not at, the top of the current expansion cycle in equities. Once again....not the same thing as the economy or its improving underlying fundamentals.

Volatility is the norm in the financial markets. Let's begin with the notion that all economics are cyclical, parabolic by nature. Being seduced by the siren call of your recent equity good fortune has unfortunately made you complacent to the underlying principle I have just described.

The good news is that by applying this cyclical telemetry to your portfolio, it becomes easier to "clean up" all the exogenous noise surrounding current events such as tax cuts, tariffs, trade wars, interest rates, political invective, and climate disasters. Cycle phase methodology is not about "timing" the markets. Rather, it is a mechanism for building prudent asset allocation probabilities based upon sequencing the data correctly to avoid over- weighting laggard trends while positioning into opportunity that is current and enduring. **Time, not timing, is the quintessence of reducing portfolio risk.** Keep in mind, asset allocation plays a greater role in the probability of portfolio capital appreciation than does any individual security within that portfolio.

When the headlines are jumping across your television screen, try to be more discerning as to how those data and those analysts giving you the information do....or don't....play a direct role in the long-term potential of your particular circumstance. And recognize that cycles occur...both up and down....and that they pass.

And if you can't stomach the risk, you probably shouldn't be investing at all.