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Market Outlook:

East, West....

In last week's commentary I referenced the question I am most often asked this year in the wake of a tumultuous and turbulent 2018, *"what do we do from here?"* The answer to that question is equally as whimsical to pin down, but not altogether undiscoverable. Quite simply, look elsewhere.

Global growth is accelerating in certain regions despite anecdotal evidence that there are tensions and slowdowns in specific areas. In fact, the reversion to the mean in most economic data that took place towards the end of last year helped recalibrate a number of stock exchanges (and market sectors) which had become extended. Thus, any predictions downward in GDP are already baked into the equation such that huge discounts in some equity prices now represent potential upside opportunity. Indeed, the burden of unrealistically high expectations has been tempered somewhat.

Most significant to answering the mercurial question above is to remember where we are in the economic cycle post recession (2008) and to understand that any decade is always prologue to the next one. While the US economy is unquestionably the engine of the global marketplace, there are opportunities which abound if one widens the aperture of perception to look for them.

Divergence, region, and capitalization are not *impediments* to expansion. They are *reasons for it*. In fact, middle tier and emerging market nations will take their place in the hierarchy of capital gains potential and expand faster than the West if exogenous political and territorial encumbrances can be eliminated. Bear in mind, there are no absolutes, nor is there any reprieve from short term volatility or setbacks when investing. But if you are asking *"what's next?"* this coming decade and beyond might be an era of international potential, concomitant with the steady leadership of the mature bourses. It is always necessary to have a long term horizon when playing in the global realm.

Based on my analysis, my belief is that the significant discount at which the international markets are trading (versus the S&P, for example) means that they might have a greater potential in the long term to outperform expectations. We know that central banks have created a decade (previous) of quantitative easing...low interest rates....which means that all stocks experienced a steady upswing irrespective of prudent corporate governance or not. There simply was no other alternative at that time to stocks in the absence of high bond yields, so investors benefited irrespective of regional differences. Additionally, the US dollar, by design or default, rose so much that it muted prospective gains in foreign currencies and stock markets. The advent of accommodative monetary policy worldwide both *leveled and lowered* the potential for divergences, and opportunities, to manifest. That no longer is the case in my judgment.

up, down....

The curious "benefit" of a quantitative approach to investing is that the more a phenomenon becomes devalued the greater its statistical potential for upside reversal....given the right conditions. Remember, you can only fill a vessel to 100% of probability or lower it to zero percent risk, no lower and no higher for either. Thus, well run international companies which have been devalued in the last decade by exogenous circumstances might in the near future have earnings expansion potential that belies their currently depressed share price. Once again, these global turnarounds do not happen overnight, but rather over years...and definitely not in a linear pattern. It is possible that up to 30 percent of our allocations in the next half-decade could center around global and emerging market shares.

Most often, one's fear of the unknown works against him in finding the next solar cell company, or biopharmaceutical leader, or technology innovator. However, I believe that evolution in global central banks' monetary policies will create more and unique regional potential and an appreciation of which companies could emerge from the emotional and financial carnage of the last decade's recession transition economic policies.

As I have written previously, our investment focus in this realm is and has been *water filtration, processing, and delivery: renewable energy sources; harvesting and cultivating arable land for greater food capacity; biotech and healthcare advances; technology and software development; and infrastructure expansion, including rail, air, and trucking services.*