Scotty C. George
Chief Investment Strategist

April 15, 2019

Market Outlook:

Science, or perception?

How is sustaining a financial rally different from starting a rally? There are factors which must be present at the inception of a market phase that are dissimilar from those things that keep a rally going. Ignored amongst all the attention being paid to where we are today...and where we are going...is that nearly a decade has passed and the circumstances and the questions at that time were entirely unusual.

Our changing times today underscore that as market phases mature, the uncertainty actually *accelerates*.

Think of it this way: at either end of a parabolic spectrum there is no way to go but in the opposite direction. At that point of conjunctive similitude, "your guess as to what will pop out first is as good as anyone else's".

Thus, quantitative analysis tells us that things tend to bunch up and correlate more directly at inflection points (such as market bottoms or tops) than they do during the phase progressions. As things advance the correlative disparity between those things that "matched up" begins to widen, exacerbating speculation and uncertainty about what jumps out to lead the pack, what is *leading* and what is *lagging behind*.

As we scan the current landscape, it is fruitful to fall back upon our objective statistics based training. Removing emotional biases allows this observer to capture a market's inherent numerical value, whereas a more subjective approach tends to produce the kind of paralysis and panic trading style we have been witnessing across the board of late.

As such, I feel comfortable declaring that opportunity persists all across the financial spectrum, even at this late stage in the advance. The contradictory fear that bull markets are collapsing is offset by improving fundamentals, particularly employment, wages, low interest rates, and business productivity. In spite of historically low returns on fixed income products, there has been sufficient movement upwards in interest rates during the past year that it no longer is unreasonable to supplement portfolio modeling of *stocks only* with short and intermediate term yield investments. Asset class diversification is at its most optimal point in a decade.

Despite this fact, most portfolios are still equity top-heavy. I think this is a good time to review one's winners and losers in that realm and to "park" cash in alternative spaces.

Perception, I suppose...

Over the long term, earnings drive price performance. Although earnings have been improving during the recovery since the end of the Recession, there is a noticeable slow down in *rates of earnings acceleration* which might give one pause about how long the pace of growth could persist. Exogenous factors such as politics and current events are the great unknowns. Forward earnings estimates indicate that profits will be maintained, but perhaps at a moderating pace. Vigilance...and sector rotation....is absolutely necessary right now.

Mathematics and quantifiable science aside, my view is that the political overhang is souring investors about their view of the future. If not bored by it all, they are at least grudgingly playing in the financial markets with one hand while holding their noses with the other. The peak of their enthusiasm has indeed become muted. As alluded to above, their fear of history repeating itself (recession, collapse, stagnation) is stronger in some cases than their desire to play in Wall Street's casino.

I have pointed out before that collapses are curiously outstanding opportunities for rebalancing and reassessing portfolios. Nevertheless, I think that markets are better able today to withstand short-cycle corrective events than in the past. Certainly, no one wants to see any of those negative influences manifest. But rather than fixating upon the day-to-day vagaries of current events and circumstances beyond our control, perhaps it would be wiser to widen our aperture of perception and focus upon trends that are more enduring and which pay off more handsomely than "betting it all on black" speculation. If you believe in the concept of *true investing*, then you, too, have no doubts about the success potential of your portfolio.