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The Road Not Taken

The forest or the trees? Macro or micro? In life, we are faced with interesting decisions constantly. The big picture versus the many intricate details. It is not only our ability to solve complex problems that determines our successes, but also the objective processes and subjective responses to their outcomes that often leads to a sense of self gratification.

Making money in the financial markets doesn't require elaborate schemes or technical ambidexterity. One simply has to be patient and ready to deploy appropriate disciplines to take advantage of any inevitable opportunity.

Unfortunately, one must also be mentally fortified to deal with unforeseen bumps in the road.

Soaring markets are the ultimate reward we all strive for. Bottoms are the bane of an investor's existence. *"How much better than last year's results can I expect to achieve?" "If I could only find the secret to investing at the right time, my riches would be boundless."*

The problem with hoping and praying for endless wealth is that prosperity is never a guarantee; imbalances in life and one's fortune are a part of what occurs. The ebb and flow of sector rotation is at the essence of knowing how to compete in the financial markets.

At their core, my proprietary models are predicated upon earnings, price, credit, and relative strength modeling. As long as we lead with those primary diagnostic overlays we have done most of the blocking and tackling needed to get the job (capital appreciation/capital preservation) done. What matters when evaluating the process is that the leaders outperform, the laggards are under-weighted, and the aggregate portfolio return meets or exceeds a *subjective quantification* of where the client wishes to be, how he feels about the portfolio, and the longer-term trajectory of the account's alpha.

Markets

I believe the most successful of those aggregates are alternative energy, health and life sciences, agriculture and water, and ecology....a quartet of what is commonly called "socially responsible investing" (SRI) silos.

These sectors are significant because they combine the primary selection criteria of a quantitative orientation, as well as the "moral and social necessities" to compete for capital gains for the next decade and beyond. These sectors provide us with planet-changing potential both for our net worth as well as the good that these nascent industries can perform.

The power of an earnings-driven topography is that it enhances the growth potential of the portfolio while addressing the need to mitigate risk when investing in early-stage development. Remember the dot.com era? Where were the earnings, and why such hyperbole?

Much of the investing public's recent focus has been upon interest rates and the global central banks that control their trajectory. At the end of last quarter it was pretty much assumed that the consumption boom of the previous decade was reversing course or, at least, slowing down. While there likely will not be a continuation of rate hikes to stem an inflationary tide, attention must also be paid to fostering a belief that stimulus and development are vital to geopolitical inclusion. Developing nations must be prioritized in the expanding global economy, or else the inequality gaps that are at the source of so much social upheaval and discord will widen even further.

Sure enough, the landscape of potential purchase targets today is diminishing because the markets have run so far and for so long. Another "flight to quality" epoch is erupting right in front of us, spurring the sell-off in equities that occurred in the past quarter. All of our balanced portfolios include bonds of short duration, growth (earnings) equities, and cash, and that is where our focus will be in the next three months. Using a multi-tiered approach also helps to allay the confusion, fear, and potential for disaster that panic-based investing fosters.

The planet is experiencing rapid changes. Some of these changes are bountiful and some are catastrophic. Some conditions are politically (man-made) induced, some are organic. Personality-driven trade disputes...particularly between the world's superpowers....and other regional territorial conflicts sour the taste for consumer sentiment and future corporate capital expenditures.

Our analysis points to a fabulous potential for growth and capital gains in the "emerging markets" ... a context that can be a breeding ground for innovation in land capacity, biotech advances, water usage, ecology, and technological aptitude.

However, to thrive in a world of change we must enlist the help of all of our resources....corporate, institutional, personal. All along the way, we must be careful to adhere to "rules" for prudent governance...rules of the road, if you will. We must also account for differences by region, culture, territory, politics, morality. What works in one place might not be appropriate in another. What is commonplace here might be abhorrent elsewhere. The footprint for success will differ significantly in different parts of the world, but future generations will depend upon our ability today to get these answers right.

Our institutions and norms must also be evolving. What once was an accepted business practice might inexorably be changed tomorrow. Instead of trying to protect what they once had, businesses must try to galvanize their resources and their brain power to offset current inefficiencies and learn how to profit for good tomorrow. Admittedly, some of today's businesses will not survive, while other kinds of trademarks will emerge to take their place. Some of those innovators are not even born yet! The future lies before us, embrace it.

Politics, morality, culture, all play a role in weaving that tapestry. We know, though, that science and technology are at the core of society's next great discoveries. Living better; living longer; eradicating hunger; building security....the component parts might be up for debate, but in the end the goal is to bridge the gaps that divide people from each other and which place barriers to a more prolific life.

Conclusion

The markets, today and always, are an extraordinary study in contrasts and opportunity. The recession of a decade ago is well in the rearview mirror. Yet, there exists a horrific disparity in the way wealthy people perceive their world and how the poor feel about their plight. The markets do their fair share of harm by ping-ponging investor's senses when gyrating as wildly as they did late last year and earlier this first quarter. As I wrote recently, I don't view the integers of the stock market as a *performance* barometer, per se, but rather as *directional* indicator of what is likely to come subsequently. Stocks do not always directly correlate to our attitudes, expectations, or behaviors, although each in their own way influences our financial security.

It is noteworthy that the transfer and centralization of wealth is becoming more problematic, and that our ability to solve communal problems will depend upon a more equitable distribution of opportunity. The ratios are becoming so one-sided that lives are being lost for lack of resources, vision, and hope. We must be more tolerant of each other and recognize that the "other guy" is trying as hard as we are to march forward.

Last year, at about this time, we were approaching the apex of a ten year run-up in stocks and economic productivity. One year later, we are still near some of those parabolic highs, albeit with significantly less momentum and perhaps a wider skepticism about its continuation. There are significant geopolitical and personality-driven factors that enter into our present day portfolio analytics....war, regional diversities in affluence, class polarization, monetary and fiscal policy.....enough so that pools of capital become attainable only to a handful. Sometimes, the divergence between reality and perception requires us to make compromises for the good of the community. In the course of conducting their affairs business and politics need to step back from misleading the public to understand that solutions extend beyond self promotion.

Suggested balanced account asset allocation, Q2, 2019

Equity: 47%
Fixed Income: 42%
Cash: 11%

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