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Market Outlook:

At the top

With the equity markets trading near the top of their 12 month range, some experts are now reversing course and warning of a downward turnaround in financial fortunes. While trading near any apex might become a statistical inflection warning sign, I am downplaying the certitude with which the naysayers are speaking. Besides, I almost always proceed with caution when building portfolios, even in up-trends! That's the only way I know to mitigate unusual news events that might negatively impact performance.

But in today's instance there is simply too much history and momentum abounding to call outright for a true "reversal". Short term corrections and cycle capitulations are another thing altogether. But, again, not likely to derail entirely a decade of forward economic progress.

That having been said, the business cycle is also moving into a late-cycle continuum. Characterized by slower profits and moderately higher interest rates this next phase will be defined by a more hierarchical structure in which leaders outperform and laggards might possibly disappear altogether. A recent spate of retail store closings and bankruptcies is indicative of that fact.

More restrictive bank lending policies exacerbate the distinction between accredited borrowers and those falling behind.

A decade from now

Under current market conditions I would find it beneficial to diversify into short term yield instruments. Besides the obvious benefit of using interest rates and dividend income to buttress portfolio returns, there is also an opportunity to "lock in" downside valuation protection as well as sequestering equity profits won during the past quarter.

Investors always seem to worry about whether they *have enough* or *have earned enough* from their portfolios. It's human nature. Diversification answers a multiplicity of those questions by broadening the portfolio building process beyond hyperbole, hunch, or conjecture. Process orientation is always preferable to outcome orientation.

Those portfolios that distribute across a spectrum of asset classes are more empirically successful at weathering the inevitable ups and downs of cyclical phases. My clients have a clearer anecdotal understanding than most of how they have benefitted from that fact.

The long term

A decade removed from the global recession, economies are slowly building a foundation upon which sector rotation and asset allocation can succeed. It is becoming easier to isolate a handful of industries and business segments that are separating themselves from the pack. *Biotech/healthcare; infrastructure; technology; food, water and agriculture; and energy* are the obvious secular winners of this and the next decade. The key to managing these segments successfully is to underweight those silos in which underperformance is noticeable and not to try and "fight the tape".

When imbalances in earnings growth and profitability are pervasive it is probably a good thing to avoid conjecturing on the *where and when* of possible speculative recovery and to go where performance is currently more obvious.

The most compelling issue surrounding portfolio allocations, however, is not profit growth, nor is it a concern about the lofty apex of price performance. The real worry for me is the **total disconnect between the *market's performance over the past decade* and *the perception that the decade was a total loss for some others*.....**what many refer to as" the wealth gap". The risk that overhangs the economy going forward centers around how expectations about one's future have become so muted...and the fissure between those who "won" in the last 10 years versus those who failed to keep pace.....that even the most compelling evidence towards financial market participation is being disregarded.

The balance of the remainder of this year might possibly induce a range-bound hesitancy to acknowledge investment's true potential, which, I believe, would be akin to throwing the baby out with the bath water.