Scotty C. George
Chief Investment Strategist

August 26, 2019

Market Outlook:

Self-fulfilling prophecy

Look! Up in the sky!! It's a recession. It's a slowdown. It's a blip.

Yes, there has been a lot of consternation in the last few weeks amongst politicians, retirees, investors, and business owners over trade wars, tariffs, corporate earnings, currency devaluations, and interest rates to determine whether or not we are headed into a dreadful and catastrophic reversal of fortunes. No doubt that trade and macro uncertainty is causing a "pause" in the market's thinking, making for a more conservative climate. Are these issues, however, sufficient to cause a massive bear market and recession going forward?

Ok, let me be the first (?) one to say it: believing, as I do, that all things in life are parabolic (quantitative), there is no question in my mind…or my science…that the global economy and the financial markets are fated to be headed in the opposite direction *at some point* in the near future. The issue is whether it takes on a magnitude of despair or merely pause, and whether it constitutes not only a change of fundamentals but a reversal of positive psychology. I have written extensively about my views anticipating a negative turnaround in several "linear" or excessive trends that have persisted for nearly a decade. I am not ready, however, to declare that the economic bull is defeated.

That also doesn't mean that private capital isn't now or will not be in the future essential for investment in solving immediate and long-term issues such as global water shortages, hunger, infrastructure decline, territorial security, medical pandemics, technology, and renewable energy. That list, right there, is sufficient to dispel any notion that *everything* is going to hell in a hand basket, and that we need to abandon all money activities for the future.

But I realize that each and every time you, the investor, get your monthly portfolio statement, and it shows a reversal of your gains (you call it a "loss"), that it is shocking, disturbing, and terrifying.

So, which comes first…a decline in the "averages" followed by a recession, or does the recession creep up on us (as perhaps it already has) causing a decline in investment valuations, confidence, and activity?

The answer is: "yes". It's really a little of both.

Which came first?

My readers, specifically, understand that in a world of statistical probabilities, as things go up, their relative strength potential for increase begins to wane until such time as the trend expires and reverses direction. Strangely, in the parlance of statistics, the more something goes "up" the less potential value it retains, while the opposite is true: as a security loses value it *might be* of greater upside potential when the downtrend terminates, as long as the axis of acceleration remains on a bottom-left to top-right continuum. The timeline might be weeks, months or years, but all trends traverse this parabolic course….birth, life, death.

Of course, not all trends or sectors are correlated in such a way that they move contiguously with one another and in perfect rhythm to everything else around them. Thus, portfolio allocation by sector and asset class is designed to minimize the effect of following *one trend only*, and helps to deflect the magnitude of this chicken-or-egg conundrum that the markets are presently wrestling with.

Nevertheless, it is futile to stand in front of an avalanche or to try to roll a boulder up a hill. For that reason one must have a sense of timing, patience and realism. No portfolio will go straight up. One should do one's methodological best to mitigate the effects of a trend in (downward) transition.

Absolute skeptics of the whole process should probably not even be in the investment game. It is, after all your money and if you cannot tolerate fluctuation then I would proffer that there are less volatile…but perhaps less rewarding…. alternatives for you. Reversals are a part of the investment dynamic. Anticipation, methodology, and prudent man execution are the best antidotes for what happened last week.