Scotty C. George
Chief Investment Strategist

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Market Outlook:

The how and why

When, and how, does the volatility in financial assets come to an end?

Obviously, no one knows the answer to that question. But what we know is that several factors play a role in inducing market discomfort and/or perpetuating it.

Rather than ascribing blame to these items (such as, *"the Federal Reserve Chairman is bad"*) let us acknowledge that a broad tapestry aligns at certain times either to produce enormous euphoria for investors or great pessimism. In either regard, the market's responses have as much to do with how we react to these statistics, how we *feel*, as to the digital data itself.

In a way it's a shame....although human nature, nonetheless.....because trends, cycles, and statistics are the amalgamation of information plotted on a curve. That simple. How we react to these graphics says as much about us and where we are in our life's station as the integers tell us.

Which leads me to the primary reason for volatility in the financial market at this juncture....confusion. Yes, certainly there are currency wars, and stock market bubbles. There are interest rates, housing starts, employment data, and corporate earnings. But not one of these data points alone can create 3 percent declines or spikes in the Dow Jones, or justify a panic more so than investors who are looking for a reason to jump ship...something they may have suspected and harbored in their psyche for much longer than one Tuesday afternoon in August.

Humans value their core beliefs. For a variety of reasons, as many as there are investors, our core values and objectives weigh heavily upon our decision-making processes. Stuck between holding firm to one's beliefs or risk losing a lot of money, it is no wonder that panic ensues, usually ascribed to a "he said this...", or "the economy did that..." assertion reported on television.

For the first time in many years, buying on dips seems like one of those losing propositions. No matter what stock, which sector, the landscape is currently littered with failures and trends run amok. Therefore, a presumption pervades that *all is wrong, there is no bottom in sight.*

Reasons for hope

The remarkable thing is that these negative attitudes feed upon themselves, powerfully enlarging the trend's negative trajectory even though a majority of the facts says otherwise. And when the selling begins it is hard to stop it. Despite "strong" economic numbers the markets (stocks and bonds) seem destined for a protracted period of uncertainty because of our inability to control our emotional responses. I have said many times in these missives about incentivizing economic activity, "you can lead a horse to water, but you can't make him *spend*!"

The good news is that the decline in financial asset valuations is not precipitous nor catastrophic. If anything it was predictable, as this author and others took a look at elongated upside price patterns of the last few years and bemoaned unbridled and unrealistic ceaseless optimism.

Volatility is what markets do....they bounce around a lot. But the current declines, like all cyclical phenomena, have an expiration date, and eventually will reverse course once again Furthermore, the best clients, and the best money managers, navigate these peculiarities of multiple market cycles by utilizing methodology, process, and strategy to exploit any inefficiencies of short-term thinking while creating positive competitive alpha over the long-term.