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The Home Stretch

Leave it to reckless politicians to bring markets and consumer confidence to a grinding halt. The intractability of their public rhetoric leaves very little wiggle room in crafting together both a *moral imperative* and a *capital investment scenario* to address the needs of real citizens in a responsible and forthright way. Efforts to bridge international boundaries between friends, neighbors, and enemies have come up empty because parties and individuals feel more compelled to try and go it alone rather than seek cooperation. As Rome burns, the fiddlers play.

Why such obstinacy? Because any effort to conciliate with someone else makes our leaders feel "weak"...at least, according to their words and deeds.

Energy shortages, weather disasters, healthcare pandemics, decaying infrastructure, pharmaceutical drug price increases, wage inequality, hunger and poverty, will not wait for political theatre to abate. Their impact upon life today is incalculable.

Capitalism without ethics and leadership is a vessel sailing without a rudder.

As we tiptoe into the fourth quarter one can almost feel an appreciable nervousness about leaving behind the tumult of the previous 3 months for what is perceived must lie ahead. Those who thought the market's expansion was long overdue for a correction were ironically "rewarded" for their pessimism during a volatile tug of war in the last quarter. Indeed, the lowering tide took down all ships....and 401-k's....in the process.

The notion that the time was right for a recalibration in financial assets emanates from a philosophical and scientific belief that *a market that is built with no constraints upon upwards enthusiasm eventually falls of its own weight anyway.* So why not now? But to usher this premise from simply being a hypothesis into a scientific rule requires steady and effective economic policy and consistent rhythm, neither of which applies to the present situation.

Measurable economic cycles require a kind of capitalism and mindset that can be depended upon to deliver consistent and noble ideas, which encourages a free exchange of goods and services. As noted above, artificial interference by speech-making or political fiat impedes economies more quickly than the other things about which we worry.

Markets

The markets have experienced these kinds of crossroads before, and will again. Ultimately, however, the ingredient most needed to remediate the current climate, this quarter and beyond, is *trust in the fairness of our processes and institutions*. Unfortunately, I see that as the most odious of our shortcomings at this moment.

Take, for example, the assumption that *stocks trade upon the expectations and accuracy of earnings projections*. Anything which stifles an impartial evaluation of such becomes, in itself, the emotional and systemic monkey wrench that grinds forward progress to a halt. Even when a corporation produces a "better mousetrap", it is likely to fall victim to a stealth trap door when the guidance used to proffer such information is toxic or inaccurate. You might hear that *"interest rates are too low (or too high)".* But it is *moral persuasion* and *coherent leadership* that opens wallets much faster than anecdotal conversation about the yield curve.

This is the kind of moral meaninglessness which keeps people awake at night. Despite empirical evidence that real economic growth is still flourishing, stagnation and uncertainty are even more statistically likely to thrive in a climate fueled by rage, dishonesty, and lack of insight. Sad but true, a yearning for inspiration exists everywhere around the globe.

I believe that market volatility is very likely to persist as a result. Earnings patterns are uncertain, ambiguity is sprouting, and capital outlays are being held in abeyance. While imprecise economic factors do not, by themselves, auger for negative market or economic performance, these collective data are producing pressures that counteract upside momentum, thus inhibiting consumer's expenditures of discretionary dollars. Too many circumstantial events are conspiring to create doubt. The mental hurdles themselves are almost greater than the quantitative statistics we use to measure markets.

Risk aversion is not the same as risk management. When investors and speculators start to sit on the sidelines there is no recourse other than to wait patiently for their return.

Noticeably, financial averages are no longer performing with the same level of intensity or upside expectation as before. A sense of plentiful inevitability is gone. Debtors are reining in their spending and lenders are holding on dearly to their capital. As speculation diminishes, the timeline of recovery elongates...perhaps even eventually pointing downwards.

Strategy

Nevertheless, the questions for our future are not receding into the mist. Despite declining consumer confidence, we still must deal with the issues of our time: **healthcare, water and food scarcity, education, technology, and energy.** For example, given our addiction to fossil fuels, where and when are we seriously going to find and implement renewable alternatives? Is the threat of global warfare committed in the name of a commodity worth the hazard and sacrifice? Or can we effectively use technology to find the solutions to shortages and limited access of all the globe's functional natural resources?

Support for "green" policies as a concept exists almost everywhere. But putting it into practice by retrofitting industrial infrastructure, reshaping the job market, managing the initial capital expenditures, etc. are topics which require debate, goal-setting and, most importantly, leadership and consensus. Decisions that we make today involve the union of legal, moral, ethical, and strategic considerations. It won't just happen on its own.

It would be simple for investors to "roll over" and give up from despair. Or they can focus on the long game and matters which speak about the pain and suffering of countless numbers of other less fortunate persons. Across all continents, struggles that touch rich and poor alike have attributes that private and public capital can positively expand.

Free markets are supposed to be the incubator for such projects, no? This is neither a red or blue, liberal or conservative puzzle. More to the point, it should be a market-based challenge.

The price and availability of agricultural goods is rising faster than our ability to budget for them. Patterns of distribution in precious assets are narrowing on a global scale. No one should ever go to bed hungry or malnourished. We all live on one planet...our "big blue marble".

My proprietary database, ArlingtonEconometrics, has uncovered countless economic and investment opportunities for the future. For example, we put forward portfolios in Water, Energy, and Global Agricultural designed to profit from the continuing efforts of science and industry to address these issues. My algorithms reveal where the future intersection of capital and moral leadership can be magnified into profit potential in technology, healthcare, and infrastructure, too.

But we also urge prudence in portfolio allocation as we head into this quarter. An absence of conviction and momentum coupled with an unhealthy dose of acerbic political campaign rhetoric suggest a reasonable dissuasion from jumping into the quagmire with both feet at present. Trade, interest rate, and macro uncertainty are directly impacting corporate profitability, investment decision-making, and overall market confidence. Therefore, we must be cautiously selective in our allocation choices.

If one perceives investing only as a means of *aggrandizing net and self worth* then everyone loses the potential also for doing good for others. Finding that balance should really be our mission as we near year-end. We cannot expunge the priorities we believed in and transacted at those moments in our past, but we can and do have an obligation to choose that for which we are willing to sacrifice in the future.

Suggested balanced account asset allocation, Q4, 2019
Equity: 40%
Fixed Income: 35%
Cash: 25%

Arlington Econometrics is a quantitative market tool. Utilizing proprietary algorithmic equations, AE offers solutions for market-timing, asset allocation, and macro economic analysis. Using historical time-series measurements, Arlington Econometrics optimizes the analytical process and forecasting coefficients to make economic forecasting more objective.

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