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A Body at Rest

While arguably looking ahead to next November's US Presidential election, the balance of investor's focus is upon how they can persist in generating the kind of gains they had during 2019 and maximizing whatever steam still might exist in the rally during the coming quarter(s).

Whether through quantitative sciences or merely good old fashioned intuition, they know that the risk of economic headwinds is intensifying. Their instincts are to bet on the rally failing at some point, even modestly, rather than gaining additional traction forward.

One of the keenest attributes a money manager can posses is the ability to live in the present moment while, at the same, heeding the examples and lessons of past history. That past presently includes an environment fostered by fiscal and monetary policy of extraordinarily low interest rates, tax incentives for the wealthy, and economic spending limits without restrictions. To that end one has to wonder whether it is appropriate, and sustainable, to synthesize the kind of financial landscape in which one asset class is favored over another in juxtaposition to a free market determining such outcome?

When monetary policy acts as a de facto portfolio management process it results in highly skewed and unrealistic results.

Nevertheless, there is no denying the success of the financial markets last year. Ten years after the Great Recession the economy and the financial markets are recovering quite agreeably.

There is, however, a broad range of opinion about whether the recovery is too old, or just about right. As observed above, I believe part of the expansion is directly attributable to quantitative easing (low interest rates) and, thus manufactured policies that unleash capital into the marketplace without moral forethought or prudent regulation. Because of a lack of coherence in social discourse the markets last year were subject to enormous swings based upon breakdowns in consumer and corporate confidence. Tariffs/no tariffs. Rate hikes/no rate hikes. Stock market booms/stock market busts. Without clarity and strong moral direction, the staying power of the recovery is at risk.

Markets

When asking if the economy is "just right" I would direct your attention to the astonishing polarity in levels of achievement for all social classes. Rates of global poverty, hunger, and displacement are growing inversely disproportionate to the percentage integers by which you and your money manager are measuring your portfolio performance. Even as you aggregate your net gains and losses for the year, millions of people are going to bed hungry, impoverished, or homeless.

The situation is not all doom and gloom, however. despite my misgivings. The economy *is* improving and we laud those in the public and private realm whose focus is upon maximizing consumer spending and corporate capital expenditures in order to navigate that improvement across a spectrum of social strata. For example , no matter who wins the presidential sweepstakes in November, there are many who are searching for a more organic reason to cultivate earnings growth across multiple sectors and for significant duration.

One might actually make the case that current valuations in specific sectors (healthcare, biotech, infrastructure) are actually a little on the low side of their ultimate potential. Knowing that there is always a reason/season to be fully invested, and despite the short term risks of political and global disproportion, the catalysts for business growth and innovation are all around us.

In fact, owing to the biases of central bankers to keep interest rates low for the foreseeable future, our portfolio construction might be a little more aggressive in the early part of the year to take advantage of the earnings potential those initiatives characterize. The overall trajectory of the financial markets continues to be upwards, and we have no argument if that continues to be the case.

One of the most compelling industrial shifts we are witnessing is the transition from fossil fuels to alternative and sustainable sources of energy. The enormous costs of this transfer are still quite prohibitive, but is in these efforts that we see a harmonious blending of socially responsible thought with capital and profit formation. Despite the lengthy timeline for complete transformation of employment and hardware in this realm, we commend any effort to put heart and money into the enterprise.

Not to be overlooked, the same kind of profit projection exists in medical sciences and biopharmaceutical research. Those diligent scientists who accept this burden are the vanguard of moral, capital, and public policies that bring results for decades.

Consider, if you will, a portfolio for the next decade consisting of environmental, agricultural, technological, energy related, healthcare, education, and infrastructure companies. The next century is ripe with potential in these and other sectors where everyone can benefit and all portfolios can be "winners".

Conclusion

We are classical "Point A to Point B" type investors. We are at a stage in the world's political and economic development where choices need to be made.....proper choices. My proprietary quantitative tools tell me that there is reason for optimism, even in the face of a long odds. An *index-tracking approach* or an indiscriminate *"all -in"* portfolio philosophy is simply too dangerous and inconsistent to generate the kind of targeted gains one would expect when marrying aggressive growth with a need to protect capital from erosion. You have to have a better plan.

Too often, exogenous current events can foil even the best of plans. Thus, one needs to be aware of the possibility of headwinds and hurricanes. Panic is not an option....planning and methodology are. We note that the last decade had its failures and naysayers, too. **The only constant in the global marketplace is change.** Shifts in demographics, climate, politics, and moral predispositions marks the history of mankind. Each time there is scientific or geopolitical innovation there is new evolution and meaning to our old clichés and norms.

One of the primary reasons for market volatility today is that too many believe that the market isn't really working for them. I wrote above that the disparity between rich and poor is at its widest in decades, even as analysts talk about how fulfilling the marketplace is and has become. Still today, at the recovery's apex, only a small percentage of fortunate investors owns a majority of the globe's wealth. An economic reckoning is in the offing unless these gaps are diminished. As smaller investors struggle to keep pace, larger fortunes are growing exponentially.

There continues to be a bigger psychological, as well as remunerative, cavern to fill. While the stock market averages are pushing up prosperity for all investors, the actual "median" wealth figure is highly skewed by the affluent earning more. Mistaking the stock indices annual average gains as equivalencies to those extra protections required by good governance for the rest of the population is a disingenuous notion.

The turn of the decade is yet another opportunity to reassess our imperative to help everyone get ahead while the markets are still offering, The drumbeat of glamorous investment opportunities makes it seem as if everyone is making a fortune, these days. And if you're not invested, then *"why not?"* and *"let's get started"* right now. But still, drill down a little further and you will find that many can neither embrace nor afford those conclusions. The disconnect is actually where opportunity lies to comb through bones and make sound moral and economic judgments.

For those who care about what's inside the shiny wrapping paper...rather than the paper itself....the year ahead is one of great anticipation.

Suggested balanced account asset allocation, Q1, 2020
Equity: 54%
Fixed Income: 41%
Cash: 5%

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