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Market Outlook:

A good start

Last week's bizarre market volatility was a foreboding prototype for the battle between long term, thematic investing versus micro, "in the trenches" trading. The story of how a populist mob taunted powerful financial institutions by manipulating markets using on-line chat rooms proliferated the news. It is a tale as old as investing itself: buy low, sell high, with an expectation of fantastical riches; only this time punctuated by excessive greed, malice, and malevolent misuse of internet technology. Fundamentals versus fervor. While last year might be remembered for the unfortunate ravages of Covid, the challenges going forward are to try and find ways to balance these diametric forces while delineating those trends which endure. There is hope, however. Early statistics indicate that companies are pivoting from staving off virus-related disaster towards building back personnel, supply, and demand, where possible.

The pandemic exposed gross shortcomings in numerous categories, including delivery of healthcare, the food supply chain, and social justice.

The rules for making money in the financial markets are disparate. Some people look at data as a tacit endorsement to see the world in a way that fits into their own bubble. Yet, personalization of facts doesn't always produce the best portfolio result, nor the broadest of answers to hardships that befall others. Political affiliation, culture, morality all play a role in weaving together an efficient portfolio tapestry. Science is also a critical component for building wealth. But in the end, bridging the gap between fact and hyperbole is what leads to unarguably strong investment outcomes. In a world increasingly parsed by anecdotes versus data, one cannot afford to jump from here to there…then back again….searching for the golden goose. Biotech today…IPO tomorrow. Gold…then consumer durables. Chasing fads is exhausting.

There will always be ambiguity associated with portfolio construction. Idiosyncrasies are what make the exercise fun. While diversification might help to lessen some volatility associated with uncertainty, it is not the only answer. Being "human" means to add nuance when making investment decisions. Certain hunches pay off, others not so much. Successful portfolios are as much about avoiding the big gambles and losses as they are about discovering the largest home runs. Thus, scientific method and macro modeling create better performance by quelling unbridled emotion and quixotic strategies.

"Discipline 007…discipline"

It is much easier to assess the financial landscape from a proverbial "30 thousand feet up". In that regard, sustainable trends become much more obvious than when thrashing about in the weeds below. It is clear, as mentioned earlier, that expanding multiples and higher valuations in certain sectors are creating higher risks. At those levels, *underperformance* becomes the bigger deterrent to putting money to work.

The single most essential factor mitigating stock risk today is that interest rates are at historically low levels. The traditional risk/reward *alternative investment scenario* (between stocks and fixed income) does not exist, rendering the only conclusion one might draw: ***there are few options for building portfolio wealth other than equities at the present time.*** Therefore, we are moving cautiously towards building representative sector weightings in stocks for those clients who can absorb the risk.

In a yield-scarce marketplace, what choices exist for meeting the challenge of income oriented portfolios? This quarter our recommendations focus especially upon dividend paying Non-Cyclicals, Utilities, and Financials.

Last year, at about this time, we were approaching the apex of a magnificent run-up in financial assets. One year later, we are still near some of those parabolic highs, albeit with a wider skepticism about the underpinnings of our social fabric. Solving those communal problems will depend upon a more equitable distribution of opportunity and capital. War, poverty, hunger, homelessness, disease, rebuilding infrastructure, and replenishing our energy sources are undeniable factors which overlay the search for market performance. We don't view those integers as absolute representations of status quo, but rather as directional indicators of what might be.