

Scotty C. George Chief Investment Strategist **September 20, 2021** 

## **Market Outlook:**

## Advancing...by retreating

Over the past many months I have written extensively about the need for investors to focus their horizons *away from* the immediacy of micro managing daily news events and *looking towards* macro themes, particularly in socially responsible investments, which benefit both the economy and portfolio long-term performance. Having a strategic perspective is helpful because it changes the emphasis from *reacting to* emotion and anxiety of everyday news to *pro-action* and methodology applied to science and measureable data.

But not in today's missive.....

Instead, I want to reflect upon last week's virulent activity in the markets whose gyrations reflect a downshift in economic activity for the near term caused by the great uncertainty wrought by the Covid pandemic. I will begin, however, by reaffirming two primary tenets of the marketplace: (1) it always makes sense to plan for the worst because the panic caused by failure to anticipate can be catastrophic to portfolios and (2) asset allocation plays a greater role in the probability of generating portfolio capital gains than does any individual security within that portfolio.

Having said that, it is important to review where we are today and from where recently came.

Recall that over a decade ago the markets were roiled by a global collapse of the credit markets. Some of the problem was "man-made" while some was inevitably predictable given the half-decade prior of unbridled optimism and abuse of the system. More noteworthy, though, was a total obliteration of consumer confidence as homes were taken away, jobs lost, industries closed, and competition thwarted. Recall the era of chaos, confusion, and despair which permeated the financial tapestry. As nearly always happens in the bizarre world of parabolic quantitative analytics, the "bottom" of that crisis represented the most opportune moment to plot and strategize for the probability of a rebound turnaround. And, in this instance, the last twelve years have been, without interruption, a near-linear upside spike in valuation and wealth building.

The premise of quant science, however, is that straight lines are anothema to creating probability and cycle distributions. I believe that there are always zeniths and nadirs; phenomena are always traversing a certain direction at measureable wavelengths (magnitude and amplitude); life is not a series of straight lines, but rather a grouping of phases heading towards a final objective, up or down. Unfortunately, a graphic depiction of financial bourses over the last 5 years looks like a linear (straight line) progression, manic in its ascent.

Be careful to note that the stock market is not the same thing as the economy-at-large, nor is everyone's investment experience/result identical. Some have netted a remarkable rate of return during the past decade, others less so. Others, even still, have fallen behind immeasurably. There is no denying that the income gap is widening and opportunity favors the wealthy. The determining factor in most all those outcomes was the amount of capital a person had to invest and the amount of speculation (gambling) they wished to take on. Stock picking alone is not a methodology nor a strategy. And for those who can afford to play the investment roulette wheel...be grateful for your bounty.

Without question, the past two years of suffering under a global pandemic has created question marks out of every absolute we knew to be true. Today, there is a heightened probability of chance, change, and reevaluation for almost all financial metrics in our toolbox. Forecasting the future velocity of trends will be more difficult unless we can defeat the ravages of illness and virus. Annual and recent quarterly sales figures are waning, inflation is accelerating, supply chains are dwindling, and emotions are fraying. Indeed, day-to-day challenges are manifest in almost every activity we undertake and likely to challenge even the strongest of theories, causing collateral damage in the short term to portfolios and gains hard won in the past.

We are a generation of instant gratification. The more our expectations for immediate success are thwarted the greater the likelihood of panic or contraction in portfolio valuation. It's not anybody's fault. It is a necessary cycle phase that we need to be aware of before resuming "normal" patterns of expanding opportunity. At this moment, lethargy and laziness are traits no one can afford to accept.

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.

The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. This report is not to be construed as an offer to sell or solicitation to buy any security. It is intended for private information purposes only. Any opinions expressed are subject to change without notice. Alexander Capital and its affiliated companies and/or individuals may from time to time own or have positions in the securities or contrary to the recommendations discussed herein. Neither Alexander Capital, LP nor any of its affiliates (collectively, "Alexander Capital, LP") is responsible for any recommendation, solicitation, offer or agreement or any information about any transaction, security, customer account, or account activity in this communication.