Scotty C. George
Chief Investment Strategist

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A "Hard" Year

A most unusual two years has changed the dynamic of the world we live in and forced us to redirect our thinking about the marketplace from goods and services towards tangible assets. Driven by major events and secular shifts, capital gains opportunity in commodities and other "hard" assets might be at its greatest in years. In addition, areas such as technology and healthcare are compatible brethren to inflation-like themes for the coming year. A proliferation of venture capital into these areas is emblematic of global entrepreneurship and the breakdown of traditional borders like geography, capitalization, and sector. Today, more millionaires and billionaires are being minted than ever before. Opportunities abound for capability in water research, ecology, agriculture, and alternative energy.

The global pandemic upended norms and business structure. While life has not fully returned to normal, financial assets have done more than just "recover" ...they have flourished. Despite the uncertainty about associated headwinds, there is no reason for the market not to continue apace. The differences are, however, in which sectors might thrive. Investors have been pushing the limits of valuation in traditional front-end leadership suggesting that it is late in the game to be speculating in cycles "at the top". Price to earnings (P/E) levels imply significant premiums are already being quoted for those benchmark companies. Thus, it is vitally important to seek out secular and thematic shifts to take advantage of higher stochastic probabilities in a changing world. We always favor the "left side" of the parabola versus investing at the apex.

Markets

There is a voracious appetite today for sustainable investing...what once was called "Socially Responsible Investments" (SRI)....because their economies of scale have matured in the last twenty years and because we have become more aware of our mortality as a result of experiencing the ravages of the pandemic. Improved business models and heightened demand compare favorably to their predecessors' early development in those industries. In point of fact, SRI makes up the daily fabric of our lives...food, water, air, energy, science, technology.

Because these businesses represent enduring capacity, versus capricious cyclicality, their shares are becoming more attractive to investors looking to enhance return, durability, and social conscience. Of course, as with any equity there is always exposure to risk, volatility, and exogenous noise. But these businesses also allow one to express critical desires to improve the planet while also building diversity amongst asset allocation.

Our research in the global water realm, for example, crafted a model portfolio nearly a decade ago of some 30 stocks whose collaborative effect was to address issues like desalinization, filtration, access, hydroelectricity, distribution, agronomy, beverage-making, and purification. We reduced the risk of venture capital investing by looking for earnings, first and foremost. This provided us an investment filter by which to mitigate the idiosyncrasies of early stage volatility while also building diversification amongst the various business categories. These stocks take time to mature, but their "performance" has been exemplary thus far. SRI has been somewhat sublimated to the dot.com technologies for nearly two decades. Now it is their turn.

Analysts and investors are conceding that policies and priorities which benefit the globe can also be good for market and economic growth. More significantly, investing for the common good drives responsible decision making. In the broadest sense, the globe must address inequity and underdevelopment in areas such as infrastructure, agriculture, housing, transportation, energy, healthcare, and technology. These must be non-denominational, borderless, and apolitical issues.

Breakthroughs in science and business make it possible for other sectors to advance, as well. Innovation is not limited to the above referenced equities. It is fair to say that there are never enough ingenious uses for technological advances. New industries are now creating, and will continue to create, demand in areas that didn't exist in the last half-decade. A compelling reason to think "long-term" is to acknowledge that commitment takes time to mature and that the needs of the planet are constantly evolving.

Seeking the "big score" is an investment fantasy and arguably not consistent with having the patience, vision, and resilience required to build net worth for the long run.

Strategy

We believe that monetary and federal agencies are recognizing that pricing and population demands are forcing their hand when it comes to sustainable solutions, fiscal equity, and production/supply policies. This is a generational shift that is long overdue. Responsibility for the planet portends a host of innovative informational options in the business, educational, and governmental arena. Investors are also making a prudent methodological shift, assessing all risk in the context of timeline, and social mindfulness. There is an inflection point afoot and it remains to be seen whether it has permanence. Although the markets might be at record levels, interest in the next social wave is spreading.

The world's economies are at once cooperating on social reforms and at loggerheads at the same time. Ukraine is a mobilization point for democracy versus authoritarianism. North and South Korea are in a decades old standoff. India and Pakistan have a history of political and military mistrust. Not to mention the African and South American continents as incursion zones for China's economic and political spread. It should come as no surprise that the financial markets are a host for optimism about the future while also a flashpoint for worry and hesitancy.

The US economic boom cannot allay real concerns about an intersection of inflation, overvaluation, and a decline in confidence brought upon by 2 years of health concerns. Talking about sums, like $500 million or $1.2 trillion, will not resolve the more immediate reality that *as long as the virus persists so too does an era of consequential doubt.* We don't see this as persistent or secular, just an immediate nuisance. Our politicians must make a good faith effort to assuage not only our financial difficulties and inequities but our psychological fears as well.

The wealth gap is a good place to start. This crisis says as much about our moral compass as it does about the direction of legislation and compassion. Bills and laws may have expiration dates and target projections, but there should be no limitation upon our leader's efforts to include all citizens in the munificence of this country.

If and when empathy and compassion are included as a "line item" in the legislative process logic would conclude that there is reason to hope.

In the meantime, our focus will be on developing investment initiatives that focus on the social sciences, the fixed income markets, and consumer confidence. Conditions are conducive to an expanding economic marketplace and focusing on what is right with the world rather than on what is going wrong.

From "thirty thousand feet up" it is easy to see that the groundwork for expansion has been in place for the last ten years. Despite the conflict wrought by the Covid virus the case for a continuation of global development and collaboration is exceedingly strong. Productivity, rather than just consumption, is a major shift that can move markets upwards. In such an environment employment will be robust and wages will follow. Rewards will be reaped by those companies on the cutting edge of innovation, streamlining, and sales. Unfortunately, there will be companies and industries which fail to keep pace with history and may die off. As with all generational trends, this is the price of an evolving landscape.

Conclusion

The immediate future does not promise a rose colored recovery. We have been exposed to a deadly, powerful disease that is not likely fully to abate anytime soon. However, we are of the opinion that markets will recover more robustly than many think. As long as companies meet the citizen's need for participation and inclusiveness, as well as increasing market share, there are excellent opportunities for capital appreciation in industries perhaps not yet even imagined. The way to alleviate the psychological and financial doldrums many of us feel is by providing important developments in things that are inextricably woven into the fabric of a moral and robust society.

Suggested balanced account asset allocation, Q1, 2022

Equity:	**45%**
Fixed Income:	**35%**
Cash:	**20%**

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