

Market Outlook:

Who's fault?

The stock markets took us on a frustratingly confounding ride in the last two weeks. Remember this, though, that despite being down for the year, there has been a virtual bounty of gains during the previous decade. It shouldn't be a surprise that stretching the boundaries so far could be perilous. But more on that in a moment. First, picture this:

"Your child's third birthday party. All her young friends are there, gathered in the backyard. Burgers and hot dogs on the grill. A cake with three candles sits on the large picnic table. There's a pony ride for the children. A balloon man has the kid's rapt attention. As he fills the balloons with air the children implore 'more, more!! A light pink orb expands to its limits, nearly (but not quite) ready to explode. Your young toddler is so proud as she parades around the yard with her inflated new toy. Suddenly, a stiff breeze. Her balloon is tossing in the air. Without warning....it bursts!! Loudly. A hush falls over the youngsters, then your precious little baby starts to cry. "Why did it burst, Mommy?" she sobs. Was it the wind? Her carelessness? Was the balloon too full?"

Now imagine this:

"The stock markets are making record highs. Your shiny new car sits in the driveway, a conspicuous symbol to all the neighbors that things are going well. That spacious new outdoor swimming pool in the backyard was recently financed by the bank with a low interest loan. Your suitcases are all packed for an impending family vacation you had been promising them. You just got a promotion and a bump in pay. The country club dues are paid off for the year and the kid's college tuition...although a stretch to the household budget...was finally approved by the bank. And without warning...the market bursts!! Loudly. A hush falls over the household. You bravely hold back your fears and tears. You call your money manager. "Why did it burst, Paul? Was it all an illusion? Was I careless? Was the market too full?"

Paying a price

No doubt, the markets have been very good to many of us, setting new records and outperforming (overperforming) against all benchmarks and expectations. But straight line *anything* is always an aberration in a sine wave kind of universe. In this case, an unyielding unwillingness to acknowledge that the "game" is always fraught with danger made buying financial assets and counting on "forever returns" a fool's mission. As quickly as these things can end, one must always plan for the unexpected...which in this case was mostly anticipated. How far can you stretch a rubber band?

Look, I am an optimist by nature and an investment Bull. My weekly commentaries are full of information telling you how my "left side of the parabola" bias lends itself to being "long" financial assets. The crux of the matter, though, lies within three factors: *discipline, expectations, and reality (data)*. Currently, I believe that investors are lacking a healthy dose of all three.

The gain in financial valuations over the past few years has been a remarkable achievement. Relish in it, appreciate it, enjoy it. But please don't be surprised or upset when the tide turns. Even a modest capitulation in valuation at this juncture should leave you with more than you started with. You must be able to manifest a certain gratitude about your privilege and rewards and recognize that the resource bubble raised your lifestyle and net worth along the way.

I am often accused of being too conservative, not aggressive enough in packing portfolios with "hot ideas" when the markets are percolating. To the contrary, our 40-plus years of representing high net worth clients is replete with asset allocation rebalancing and sector/trend analytics that capture a dexterity in mitigating risk and growing assets that many "gamblers" do not possess. Unfortunately for the uninitiated, playing the asset game is simply not a straight line proposition, despite a compulsion to add risk in the face of adversity.

The promise of "getting rich" must be tempered by a calculated approach that recognizes humility, gratitude, methodology, and patience all at the same time. Beyond the bubble might lie tears, but always...*always* an opportunity for economic resurrection.

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