

**Market Outlook:**

**We are not armadillos**

This morning, under the bright sunlit skies of Texas (United States), an armadillo awoke. She stretched her limbs, she poked her head out of her lair, emerged, and began another day of foraging for water and food, exercise, relaxation, perhaps a nap, and, of course, surviving the elements. She didn't inquire, nor particularly care about, the Federal Reserve, the stock market's previous day's close, inflation, the cost of butter, fiscal policy, the danger of troops aligned along the border of Ukraine, tuition for her pups, or political investigations into document shredding and other conspiracies. No, she existed only for the tasks at hand...and if I may be so bold as to anthropomorphize her feelings....have a good day while surviving until tomorrow's sunrise, after which it all begins anew.

But you and I are not armadillos. We are human beings. We obsess over the Fed's interest rate policy. We shudder at last week's inflation report that year-over-year core costs to business and households rose more than double digits. We (legitimately) worry about the price of gasoline, education, housing, eggs and butter. Perhaps we're depressed over the outcome of the Super Bowl. Is Tom Brady really calling it a career, we wonder? And of course, who is on the "right side" of today's political scandal? Are the markets up or down. Can we afford to retire to Vero Beach on what we have in our 401-k? Inexpensive stocks look even more attractive. But why are some of the "greats" in our portfolio receding? The economy is overheating. Inflation is already wreaking havoc upon, and baked into, the economy. And, most importantly, I will...or I won't.... wear a mask because of Covid. Free choice, you know?

**Cost versus benefit**

Yes, it is much more complicated being human than being an armadillo.

However, despite the markets gyrating in union with the day's headlines, the economy goes on and looks, to this observer, to be bountiful. Despite record highs, and often punishing sell-offs, opportunity in Technology and Basic Materials abounds. It is important to remember that trends rise and fall, and that each nadir represents a new opportunity. Hotter than expected economic reports about inflation, jobs growth, GDP, and sector rotation actually make the markets look *inexpensive* compared to historical price-to-earnings valuations in sectors like agriculture, biotech, housing (and materials), computer hardware, and (alternative) energy. The difference between us and the armadillo is that we can sense things about the future, use intuition to prioritize actions that need to be taken, and cultivate instincts that last longer than the next 24 hours....at least, some of us can. Worrying is reasonable, I concede, but not incapacitating.

Part of the human instinct is learning to manage fear of the unknown, that our future might collapse right before our eyes. Many of us have lived through such disasters, double digit percentage declines in valuations that made our head spin!! Dot.com, anyone? These capitulations are painful and traumatic. But, as noted above, we have the capacity to plan for them. That is why I always urge clients to go slowly, commit to a strategy, and strive for point A to point B type advances in their investments.

The best way to mitigate risk is through process and methodology. In my case the science is called *quantitative analysis*, the ability to measure trend duration and magnitude, determine entry and exit points along the sine wave, and to create realistic expectations based upon risk mitigation and growth forecasting. For sure, it is foolish to jump feet first into shallow, or deep, waters without an evaluation of an exit strategy first, or without knowing the consequences.

Our best efforts can only *forecast* trends, not *fight* them. When the Great Recession hit in 2008 wasn't it clear enough that the economy was hyperventilating and that banks were indiscriminately handing out money? Did you believe that dot.com valuations were consistent with any earnings metric you previously had used? Ah yes, it was "different that time" ...really? No doubt those stocks were profitable and made people a lot of money but, later on, at what cost? Inflation today is measurable, yet problematic for many households and corporations. But it is also emblematic of a pent-up demand/supply cycle that had lain dormant because of Covid and a global transition in production and employment.

The sheer disconnect today is that we know what requirements must be met by the economy and our government and the fair value needed to be paid to innovate businesses that can solve them.

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