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Market Outlook:

Is *this* the New Paradigm?

How can investors distinguish between "traditional" elements of consumerism versus a shift towards a new macroenvironment consisting of rising costs, diminishing natural resources, and a widening gap between the rich and poor? The role of specialized thematic investing...such as alternative energy, agriculture, environmental studies....is increasingly becoming more vital...and profitable. As these transitions magnify in intensity there develops more emphasis upon how to quantify these silos in a changing landscape.

But is the evolution momentary or permanent? After the last decade of low interest rates and consumerism at any (all) costs we must look at the drivers of a new secular tailwind. Cars are more expensive, but leading to an electric alternative to fossil fuel consumption. Energy and other natural resources are becoming more scarce, but now the progenitors of new science and innovation in their respective spheres. Global hunger and poverty are ubiquitous, providing the motivation for a new generation of socially responsible bankers, scientists, thinkers, and moralists. Efficiencies are being uncovered in technology, healthcare, and industry. Investing in these nascent capital markets can potentially lead to a better planet as well as portfolio sustainability and growth.

Depending upon one's point of view and station in life they might think these shifts are tectonic...or negligible. But the primary engine of portfolio profitability has always been the entrepreneurship of innovators and moral thinkers. Inflation will ebb and flow, markets will surge upwards then capitulate. Margins must expand in order to help businesses survive. Thus, our optimism about the new paradigm outweighs any fixation upon yesterday's business headlines.

Method or madness?

Before we even begin discussing how to benefit from these secular economic transitions, however, we must address the elephant in the room: people's panic about seeing their portfolio valuations decline by 5 to 10 percent, or more.

They must remind themselves that they are in the "game" for the long haul; that there is no such thing as a *zenith* or *nadir* when talking about portfolio net worth...only trajectory, which oftentimes is uneven and overflowing with highs and lows. Unrealized capital gains and losses are not worth talking about except in the context of sector allocations and prudent portfolio weightings. In other words, even the most successful portfolios traverse a bottom-left to top-right configuration, along with a plentitude of cyclical deviations from the mean that are uncomfortable and frequently volatile.

Additionally, coping with one's anxieties can be mitigated by employing asset allocation, diversification, and risk management strategies. Worrying about a "total wipeout" of one's worth is not even a possibility in a scenario in which only 30% (for example) of assets are in the equity market. For example, if all those dollars were to become worthless overnight (unlikely), there still remains 70 percent of your capital invested elsewhere. While this example might be discomfiting to some, consider again that its likelihood of happening is quite remote. Besides, if that "crisis outcome" leaves you uncomfortable, then by all means limit the amount of capital invested in risk strategies to only that which you can afford to lose. A discussion between you and your advisor is recommended at the outset to discuss these extreme consequences.

Realistically, even a well balanced portfolio will experience fluctuation. Managing these parameters is the role of your advisor. Suffice it to say that we are in a volatile moment right now....inflation, Covid, world events, economics, social injustices. The nimble investor uses these periods to transition his wealth to take advantage of the ever-changing environment. We see the current market leadership/rotation telling us that safety, yield, and growth are paramount to an effective process. The contraction in discretionary consumer spending is likely to continue for the foreseeable future. Equally as likely, though, is the ever-growing disparity of lifestyle between the well-off and those just struggling to get by.

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