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Market Outlook:

Dow…your slip is showing

Is there a cost to be paid for the market dropping so precipitously since its highs earlier this year, or might one objectively look at the real cyclical opportunity that has emerged from amongst a churn of negative news? The answer, in many cases, depends upon one's individual circumstance, time horizon, and risk profile. But this we know: as certain equity prices decline the chance to purchase a "higher probability of return" becomes enhanced. In many instances, price-to-earnings ratios (P/E) for many competitive and profitable companies have diminished to levels not seen since the last "bear" market over a decade ago.

To be sure, current objective statistics such as price, earnings forecasts, and relative strength integers (RSI) are not a commentary directly about the overall economy nor people's attitudes about it. Rather they are specific numerals attached to various formulae which are a snapshot of the current condition and phase of any particular data point. Methodologically, we know that buying a security at the initiation of an uptrend is always more profitable than buying well after the trend has begun or, worse still, at its apex. Too many investors make the mistake of chasing stories or jumping on the bandwagon long after the real securities' value has appreciated.

Our clients and readers should take note that our average percentage portfolio allocation to equities has *decreased* during the last few years as valuations expanded linearly and capital gains probabilities narrowed.

That doesn't mean that we are immune from declining prices in certain asset classes when/if they occur. It means that your likelihood of experiencing those declines in a catastrophic manner is significantly mitigated by prudent diversification and active management strategies.

All of last week's volatility makes for compelling conversation. When to re-engage with the stock market, or whether to sell wholly, is a function of timing, disposable assets and risk tolerance, and experience honed over time. **Our view is that the current market capitulation is ongoing and we are loathe to deploy cash reserves into risk securities at this juncture until we see evidence of quantitative probabilities improving**. In the meantime we are comfortable with our restrictive asset allocations that we highlighted in our last Quarterly Commentary (April, 2022).

Old is new

By means of comparison, our allocations were significantly more aggressive 5 years ago. At that time it was fair to say that the economic recovery was gaining momentum, interest rates were low, capital investment and hiring was expanding, and private equity was the engine "behind the scenes" rejuvenating technology, infrastructure, medicine, alternative energy, and ecology. Today's landscape is fraught with inflation, higher interest rates, stagnating GDP, a jobs recession, and a dramatically different outlook altogether. The Federal Reserve and, hopefully, our policy makers are indicating that a more aggressive stance on combating inflation will be near-term "job one".

Finally, we would be remiss not to note the effect that Covid has had upon the global supply chain and commodity price increases. While not "critical", in the pejorative sense, they do represent an aberration from anything we have seen in our lifetime

However, we believe that the fundamental underpinnings of the financial markets and the global economy are sufficiently strong enough to withstand a temporary redirection…despite the discomfort imposed on the population…from historic norms many of which will have to be recalibrated when all this volatility recedes. Interest rates are "nominally low" even as policy makers indicate higher rates in the future; demand for goods and services is waning because of fear and uncertainty despite being exceedingly strong earlier; and a post-pandemic world has become somewhat enlightened by a new persuasion that economics and prosperity transcend more than just a balance sheet or a 24 hour news cycle.

Frustration over trying to find the bottom is understandable. But we've all been here before, and our enthusiasm about waiting out the process is a good place from which to start.