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Market Outlook:

Just a matter of time

With all the components that make up the "financial markets" it is easy to get distracted from the core objective of investing: preserving assets and increasing net worth. One's sense of optimism or pessimism is deep-rooted, but how you execute that belief is the expression of courage, hard work, and educated guesses. Above all, one must not lose awareness that *the market is not the same thing as the economy*. Any perceived correlation is mostly accidental, sometimes arbitrary, and definitely in the eyes (and expectations) of the beholder.

That having been said, there are indicators that can often be used as guideposts. For example, one would assume that a rising economy should be a pre-indication of a rising stock market, correct? Well, it is certainly getting harder to discern between what is good news and what is bad news, what is up and what is down.

Consider that in my last missive I discussed both the moral and specific cost of agriculture (food) around the world. When you go to the grocery today I am sure that you notice the shortages on the shelves and the higher price tag for such staples as bread (grains), eggs, and dairy. These prices are rising because demand is high but supply is low; shortages in fertilizer and cost increases for shipping and harvesting are eating into the profits of farmers; gasoline needed to transport the goods, labor costs, and production expenses are going up; drought and other climate issues are becoming more severe; and, lastly, the disproportionate "cost" to the poor and indigent is widening so much so that hunger, migration, and starvation are pervasive and persistent.

All this while the global economy is rising and recovering from a massive body blow, Covid19! It is unimaginable what the price of foodstuffs might be in a global recession…

As energy prices rise there is an effect upon when/if you purchase a new vehicle, how much you pay for petroleum based plastics, and how expensive distribution will be. In today's marketplace it is becoming too costly to produce oil and gas, so many of the major suppliers have put extraction and exploration on hold. Recall, too, that the Covid pandemic metaphorically…if not actually…shut down the world for two years. No vacations, no theatre, no extraneous household purchases. Throw in the Ukraine war, and global sanctions on Russian oil, and you have the fundamental elements for a moral consensus that leads to an economic crisis.

As supplies and supply chains bottleneck…from China, Taiwan, and Russia…there are fewer products being chased by more people, the classic definition of inflation. Thus, when central banks around the globe begin to "tighten" money (raise interest rates) to quell pricing pressures the stock markets react with a knee jerk response to sell. *"The sky is falling, get out of the way."* Further, when media spin tries to rationalize the panic, cognitive dissonance sets in. Those whose predilection is for pessimism sell, those who are optimistic take a wait and see approach. This is where discipline, methodology, and patience reward the educated investor. Stepping back from the headlines and emotion matters if you want a consistently good outcome for your portfolio. Disavowing fear and panic is the role of a good money manager. In no way do we wish to ignore the dramatically devastating effects of inflation and portfolio devaluations as a result of market tumult upon household and corporate bottom lines. Rather, as analysts and scientists we feel duty-bound to acknowledge that cycles do exist, and that the munificence of the last decade was inevitably going to recede…as all cycles do. Thus, the task of sector and asset rebalancing becomes all the more important and a part of the job of navigating through a fluid process.

The markets and the economy might appear to be congruent at this juncture, but real life tells us just the opposite. One cannot "time" the market, nor should one go from being aggressive to conservative, then back again. That is foolish, in markets, investing, life…and golf, I might add!! Patience is a virtue. In fact, our accounts have sequestered sufficient liquidity on the sidelines prior to and during the capitulation that I would be looking to buy at the right juncture, not sell. Liquidity (cash) is not a default investment decision…it is an *active* one. Asset allocation is not just a euphemism for diversification. It is a quantitative representation of the amount of risk in the market relative to a client's stated objectives and tolerances. Pragmatically speaking, it is a meticulous interpretation of *upside potential*, and our optimism that headlines do not rule the landscape, facts do. Right now, all signs point to capital gains potential during the next phase of the markets in areas such as healthcare, biotech, infrastructure, alternative energy, ecology, and agriculture.