

Market Outlook:

A matter of perspective

Unless your investing career started back in the 1970's, your level of concern and confusion about economic data must be alarming right now. However, as has been the case in other instances, we've been here before when rising prices and weaker economic growth produced "stagflation" and recession fears. During such periods, sectors rebalanced and reprioritized to reflect market changes. Defensive assets, such as commodities, perform well in those times.

When both stocks *and* bonds are in decline rational theories of market performance become useless, heightening the specter of hopelessness. Against this backdrop of uncertain macro direction investors must look at the long-term as the answer to their uneasiness. Thematic and secular (generational) themes always win in the long run. Unfortunately, we have witnessed a recent spate of immediacy and impatience by too many investors in their quest to recover from their pandemic "melancholy".

They tend to see things as either/or. Technologies that rearrange generational schools of thought are hard to find, but worth the wait and prize. Industries that engage in replenishing our social consciousness are not usually thought of as the typical "big score" that traders look for. But every generation must come to accept that change is inevitable and part of understanding a "new normal". To that extent, asset management is sometimes described to me as "boring" or "unstimulating" when, in fact, it is precisely the way intergenerational wealth is transferred responsibly. And if done properly it can be a force for good governance and social care.

In fact, the synergy potential between *socially responsible* and *profitability* is unmistakable if one has patience. Dollar cost averaging, doubling down, and failing to diversify are the antithesis of fiduciary care.

My job is to respect risk. My appetite for losses is small, my convictions are large. Our job is to execute our discipline in the face of changing realities to create portfolios that reflect your expectations for return and volatility mitigation. There are times to be on offense, and times to play defense. Right now we are definitely in a defensive posture, without guarantees that any strategy is right for these times. However, our 40-plus year track record of outperformance demonstrates that we have played in this game long enough to know the differences.

Keeping losses manageable is essential to wealth creation and preservation. It takes a 100% return to overcome a 50% decline. So when one's monthly statement shows a "loss" it should be noted that our defensiveness means our thresholds are tighter and our relative position is stronger. Make no mistake, everyone experiences agita during down markets. The knack is to manage the magnitude and duration of the pain to one's tolerances. Ours is a business of risk mitigation as much as it is generating extraordinary rewards.

Wealth can "hurt", too

At present we see only a handful of fundamentally strong sectors that are fighting market downtrends. However, even for those few, their quantitative relative strength integers (RSI) do not put them in an optimal buying range. Trying to pick "bottoms" is an exercise in futility. Instead, we require an appropriate time/price relationship to create an optimal inflection. *Hoping* is not a quality investment discipline.

As the seasons change, election series unfold, and global monetary policies take effect we find ourselves in a vortex of health (Covid), politics, and economics which impose vicious cost to our psyches. To survive these exogenous noises we focus instead on the opportunities and unsolved problems that the capital markets historically have always helped us to discover.....clean air, clean water, food, shelter, security.

This remarkably intricate mosaic which comprises the financial markets always works best when there is a shared sense of purpose and expected outcomes rather than a singularly ignorant "what's in it for me" bias. The experiment we call "Capitalism" is about unifying opportunity for reward for the betterment of all participants.

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