

Market Outlook:

Rarin' to go....nowhere

The stock market's valuation expansion has left a bittersweet taste in the mouths of some who believe that this historic sequence of "new highs" is simply smoke and mirrors and accelerated expectations. **Indeed, while the wealth effect is improving the lot of many, it is also exacerbating the gap between "reality" and "perceived-reality".**

It doesn't feel like a bull market to everybody.

To be fair, the economy is much improved from its cataclysmic bottom in 2009, but even the gains we have made are narrow and gradual. **Until we see an uptick in people's mood about the economy, no amount of data shifts can remake our perceptions that the pace of growth is arduously slow.** Confirming that fact is the outgoing Federal Reserve Chairman himself, who noted that the economy has *"much farther to traverse before conditions can be judged as normal."*

So, while the policy-makers jiggle on the throttle a little bit, consumers are holding on tightly to their wallets pending any new (negative) occurrences.

Spinning wheels

Traditional capitalists argue that jobs are created from the ground up, neighborhood by neighborhood. **In fact, small jobs' growth is happening at a rate far slower than in the economy at-large.** That's mostly because small businesses are more susceptible to permutations in borrowing costs, wage expectations, and local tax initiatives. The ongoing wave of newly unemployed or underemployed affects local communities and municipalities far heavier than its impact upon larger corporations, many of which have been preparing for an economic downshift by hoarding cash reserves and laying-off those very workers who populate the local unemployment lines.

As a result, any discouragement about economic stagnation is felt mostly by the "average Joe", while big businesses try to bide their time and ride out the down-cycles.

Make no mistake, fiscal belt tightening is felt by everyone, but to a much larger degree by those who can least afford to absorb it.

Gross versus net

This year, as investors perceive that their portfolios are larger and their home values are increasing, they are choosing to "hold on" to their recovery gains rather than to spend that money flagrantly. And, the government has been no help to them. Locked in a political stalemate, our legislators have imposed the biggest "phantom tax" upon its citizenry in decades by shutting down the government for political spite and by allowing sequestration to rob the programs (and pocketbooks) of badly needed funds to our Federal safety net.

To make matters worse, the Fed is "taking its foot off the spending pedal" while the government rejoices over interim compromise spending cuts. **The net effect is to shift the social burden to cities and states which, as mentioned, have a shrinking tax base from which to address these local issues.** You can see why some feel like the recovery never really happened for them, and the recession is still their reality.

The bottom line both for the economy and the financial markets is that confidence and demand move the needle. Protestations to the contrary, you can lead a horse to water but you can't make him *spend*. While I am forecasting higher market valuations for year-end 2014, and a stronger economic landscape globally, it would be improbable to predict percentage gains equal to last year.

All equity, fixed income, and cash allocation decisions going forward must be scrutinized in the context of each client's unique risk/reward tolerances. There is no "one size fits all" response to a market which many experts believe is a crude amalgamation of exuberantly excessive asset valuation expansion, political risk, and fiscal confusion.

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