

Market Outlook:

Sustainable trends

One of the most common themes we hear from political pundits and market observers these days is about either the demise or rise of the middle class, *an amorphous, non-homogeneous group of people not quite rich but also not too poor*. This class is often cited as the reason either to be for or against legislation, fiscal policy, social norms, or the price of a gallon of gasoline at the pump!

But few attempt to define just who these people are, or how/ where they live. In the context of the financial markets, for example, what does it mean to be "*middle class*"? What are the implications to a nascent economy to have a decreasing/ rising middle class?

For one, being in the middle class is not as important as either aspiring to, escaping from, or falling back into that classification. For some reason, the middle is never where we want to be.

More compelling, though, is that the global "middle" is growing smaller relative to the number of people who are either above it or below it. The gap is inexorably widening.

We must conclude, therefore, that based strictly upon wealth, the financial markets are attainable by a smaller percentage of persons, the most affluent, who can truly benefit from taking discretionary risks with their money. As defined by aspirations and expectations, my job is either easier (because the rich have more money to play with) or harder (because the less affluent have less). **If managing money is really about the management of client expectations, then aspirations today fall clearly on two sides of the bell-curve and are not necessarily compatible with the principles of economics.** Two distinct classes of investors define the equities' markets today, while the "middle" is, indeed, shrinking.

So?

So why even write about this? Because the investment implications are enormous. We know, for example, that stocks trade up or down predicated in part upon earnings projections. In regions where the middle class flourishes, discretionary income and spending patterns sustain a host of industrial and consumer companies that might not do as well in less diverse jurisdictions. Sounds like common sense, right? In countries with a growing consumer base, factors such as supply, cost, and manufacturing are vitally important to political governance and moral equity. Measured correctly, these data can sustain economic vitality indefinitely. Longer term, the sustainability of regional growth trends mitigates against political and economic risk.

Innovation and entrepreneurship also need capital and an educated citizenry. **The ratio of schools, symphonies, libraries, sporting fields, and theatres within a region is also as significant as its access to potable water, inexpensive and plentiful energy sources, transportation infrastructure, natural resources, and agricultural products.**

In other words, the markets work best where long term economic and political durability offers a chance at "making it" to the greatest number of its peoples. Demographics, including capital reserves, vibrant and healthy citizens, competitive schools, low production costs, and social respect drive markets higher. **Speculation works best not when it's hoarded by a few, but available to many.**

My analytics are also designed to evaluate macro trends such as the magnitude and sustainability of resource allocation within sectors, and whether or not the valuation expansion of equities within those sectors might outpace the ability to sustain such price levels. **How symbiotic we find the relationship between cost, capital, manufacturing, and demand is the very nature of quantitative market analysis.**

From a societal perspective, equality is a matter of trust. Trust that business, government, and our social institutions play a congruent role in expressing the values which make capital markets efficient and fair.

Arlington Econometrics is a quantitative market tool. Utilizing proprietary algorithmic equations, AE offers solutions for market-timing, asset allocation, and macro economic analysis. Using historical time-series measurements, Arlington Econometrics optimizes the analytical process and forecasting coefficients to make economic forecasting more objective.

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