

Market Outlook:

Betting it all on black

The market's near-term sell-off and subsequent volatility are obviously indicative of the precariousness of buying/selling stocks in a world economy that is burdened with so many fundamental variables. We came out of last week confirming an underlying suspicion about the strength of various global geographic regions and an overall skepticism about the exuberance of stock performance of the last 12 months.. We did, however, hold certain support levels which confirm the existence of a bottom-left/top-right configuration in equity markets..

It should come as no surprise, though, that a struggle is still being waged between *near-term* versus *longer-term* expectations, and just what might happen to capital spending and consumer wealth as a result of each time frame.

In fact, corporate profit growth has been accelerating, even as employee wages have remained stagnant. So, depending upon your point of view, either stocks should have deservedly been advancing.....or stocks were building equity for their shareholders upon the backs of those with less bargaining power. This argument embellishes upon the debate between the "haves" and the "have-nots" by exacerbating the psychological rift between old fashioned economics and modern civics. In any other time, the debate itself would be marginalized by the hyper-success of stock valuations rising for the past five years. But because it was the corporate and institutional financial difficulties of the last decade that led to the economic depression of many, even "good" isn't "good enough".

Thus, our portfolio asset allocation had assumed a more defensive posture towards stocks for quite some time. It isn't that the numbers weren't to be believed. It's simply that the numbers reflected a reality that wasn't shared top-to-bottom by all of its constituents. Financial leadership should, in reality, raise all the ships in the harbor.

But the fact is that we don't deal in an altruistic world. My modeling is built upon objective data, cognizant of its effects upon a subjective universe. Right now, published economic data is as positive as it's been in quite some time, having slowly built momentum from the depths of the recession. That gradual improvement has led to a climb in equity prices and trendline acceleration. While the rally has been punctuated by several remarkable upsurges, it is the ability of stock markets to hold support in the face of ambiguous global fundamentals that impresses us the most at this juncture. As you are aware from my writings, quantitative science presents us with an "inverse relationship" to probabilities. The higher the market goes, as it did in July of this year, the greater the probability that it might succumb to negative influences. On the other hand, as the markets fall, the cyclical probability of an upside response increases. Difficult to understand? Not really. You can't fill a glass fuller than "full", and you can't empty it more than "empty". Somewhere in between exists the laws of physics and momentum. As we "empty" valuation in the market today, we heighten the odds of an influx of buying power later on.

The market built up to a crescendo, held ground, fell hard last week, tenuously held once again, emphasizing that there is sufficient cash on the sidelines looking to sweep in and buy long term expectations at discounted prices.

My data indicates support in the averages within a tolerable 6-8% range from here. In the long run, the downside probabilities are starting to look less menacing.

Firing on all cylinders

Oftentimes, the markets move in variance to the news. This observer believes the markets exuberantly moved up during the past few years in contrast to what was commonly believed about the economy. Curiously, as a positive consensus is forming about an economic recovery, we had the market reacting in contradiction to that premise. Even with a possible fourth quarter swoon, the data now suggests nominal risk which we believe might become more palatable by the beginning of 2015. Bear in mind that any corrosive exogenous events (war/terror/politics) might change the nature of our forecasts, or the patience of investors to bear the heavy load. But, as has already occurred, any significant downside capitulation most likely will be met by aggressive buying.

The United States is fast approaching an election season. Winners and losers are more than just political candidates. The markets are highly synchronized with political persuasion, which can affect sector leadership and trend velocity in the coming months.

If you are worried about protecting your near-term valuation gains, sell into the rallies, or give up investing altogether. If, on the other hand, your horizon extends well beyond the next three months, I believe the risks will lessen as the reward potential increases.

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.

The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. This report is not to be construed as an offer to sell or solicitation to buy any security. It is intended for private information purposes only. Any opinions expressed are subject to change without notice. Alexander Capital and its affiliated companies and/or individuals may from time to time own or have positions in the securities or contrary to the recommendations discussed herein. Neither Alexander Capital, LP nor any of its affiliates (collectively, "Alexander Capital, LP") is responsible for any recommendation, solicitation, offer or agreement or any information about any transaction, security, customer account, or account activity in this communication.