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Market Outlook:

Utility or discretionary?
It used to be that analysts had a consistent way to evaluate corporate earnings, how they were derived, and how likely it was for those bottom-line dollars to continue to be produced. Increasingly, however, we have to be careful to distinguish between earnings and *earnings.*

Things may look the same as before (after all, profits are profits) but the origin of earnings growth today is far from the pattern we would like to see happening as a norm.

A loss of general accounting and ethics uniformity during the past decade or so underscores the fact that companies have fallen into the bad habit of manipulating balance sheets, playing with their product lines, cutting their workforce, and shading their conversations with the media in order to conform to a set of Wall Street-led expectations about what it means to be a profitable corporation and how their share price should be reflected by those expectations. **While it is true, mathematically speaking, that a profit is good for shareholders, I believe that those which derive from alchemy and manipulation, and not an increase in consumer demand, set up a false calculus about the fundamentals of economics and the framework upon which this bull recovery has been built.** The moniker *"too big to fail"* no longer applies only to financial institutions. Tech stocks, traditional household brands, and energy conglomerates are like big battle ships stuck in the water searching for an escape lane. Simply raising prices, or reducing packaging size, is not doing anyone any good when it comes to public relations or economic sustainability.

Opinion polling tells us that business is held in low esteem (along with politicians and banks) which diminishes its prospects for the future, and heightens a distaste for the fortunes of those who run them. Market activity last week typified this point. There was a wide mix of companies that reported reasonably good earnings whose share price paid the ultimate penalty because shareholders just couldn't see how much longer the largesse might continue. Earnings acceleration is not always rewarded by share price appreciation.

Tell me, when you open a box of your favorite snack food do you notice that net weight and product portions are shrinking?

Isn't it annoying, too, when companies raise prices just because they can? Clearly, we've turned the corner on compassion and restraint. Discounting and customer incentives are so last year!!

Unnecessary and indiscriminate price increases are harmful to the economy, the consumer, and corporate public relations. There is always a danger that consumers might "tune out" the message if they feel as if they are being taken advantage of. In a world where *demand* should drive sales and pricing power, business is putting the cart before the horse, focusing more on profits to the exclusion of customer satisfaction. It is more productive to respond to a broader macro secular evolution slowly than to try to milk performance out of a dry stone for the benefit of financial analysts.

Does money equal loyalty?
Are core costs rising? Yes they are. And yet, this anecdotal information is contrary to what published statistics are telling us about inflation. Certainly, statistics can't always be believed nor are they applied unvaryingly across the board for all cases. But if, in fact, there is *no/low* inflation, how do you account for an increase in airfares, or tuition, or movie tickets, or hamburgers, or bridge tolls, or new clothing, or that "shrinking bag" of potato chips? You get the point.

Instead of holding fast on prices as they did during the recession, many companies are forecasting an increase for the next year. While no one begrudges the right for business to make money, they sometimes pander to the need for Wall Street to make money off of *them.*

At a time when competition for consumer's dollars is increasingly ferocious, sales growth could be reaching an exhaustion point. Manufacturers last week reported slower growth for the quarter, while new orders are stagnating from the weight of world tensions. It just might be that we are reaching a temporary apex in the recovery. The best way to bridge the gap from recession to global boom is to be mindful of political, social, and moral necessities for all market constituents. Even corporate presidents need to avoid the appearance of greed and hoarding, or risk the wrath of disgruntled consumers.

The thought that they are driving customers into the arms of a competitive vendor would be abhorrent to any executive. However, walking on "thin Ice" is not a successful business strategy, either.