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Market Outlook:

Trickle down, up, and sideways

While the US stock markets are bounding, seemingly endlessly, towards new highs, many of my clients express acknowledgement that real portfolio investing is not quite as simple as buying an S&P tracking ETF or simply tagging along with the Dow Jones Industrial Average. In real life, portfolio strategies must take into account the often wild and sometimes precipitous downside possibilities of owning stocks in general, and benchmark indices in particular. In other words, not every "new high" is really such a unique opportunity or anticipated goal. As one might sometimes wonder with the old fairy tales, what exactly happens after *"happily ever after"?*

More specifically, it is the potential for cycle reversion, profit taking, or manic panic through which a real portfolio manager must navigate, not some fantasy of chasing every new high sequentially.

Psychologically, it still looks to me as if market trading patterns are suffering from the double collapse of dot.com and real estate in the past decade and a half. Not that *everyone* is afraid, but enough of our contemporaries have been touched by the corrosiveness of those declines that its effects are showing up in the diminution of breadth and depth of equity participation from pension funds, institutions, and "average" retail customers.

The elevation in stock prices during the past fifteen years has not benefitted everyone, just those with the mental fortitude, resources, and nerves of steel to withstand crashes and calamities. Unfortunately, those are the unwelcome companions to the occasional upside boomlets.

One could cynically make the case that a concentration of wealth amongst the already-wealthy *harms* the economy by forcing the markets to wait for a "trickle-down" of investment capital into the broader community. To that point alone, a residential migration of the affluent into conclaves specifically designed for similar affluence and homogeneity siphons money out of other less well-to-do communities, causing taxes to diminish and services to slide into a steady regression. For example, we witnessed Detroit forced into bankruptcy for these same reasons despite the rebound in the auto industry, a robust stock market, and an infusion of Federal cash.

Tales of municipal woe abound, even in the face of new highs in the Dow.

Comeback?

I once coined the phrase "parallel disconnect" to convey the notion that two concurrent events, apparently moving in the same direction, may not necessarily be bound to one another, nor causal in the way that one might associate two directly correlated phenomena. Nor could we draw inferences that the benefits accruing from one event might be the same for the other. Therefore, I would argue that the bull market and new highs of 2013-2014 have had very little trickle-down impact upon the population-at-large....other than to reinforce a stereotype that all must be well with the economy *since the market is doing so well!!*

Given this economic duality, it makes it easier to understand some of the stagnation and reticence of consumer spending, jobs and wage growth, and overall output. **Global wealth is being concentrated in certain geographic areas and within specific demographic strata, and not yet "trickling" into the general public**. In spite of improving statistics, it is often how we *"feel"* about growth and expansion (as well as available discretionary funds) that determines overall spending patterns.

Sustained slumps in the real estate market, municipal tax revenues, and public economic development projects have been impeding the financial health of many cities and the corporations which inhabit them. This next political season should be about revitalizing and replenishing municipal cash and mislaid personal hope.