

<b>Market Outlook:</b>
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**Economic Jitterbug**

The new thinking amongst market analysts is that one must respond to every news flash, every short-term nuance, any variable that creates a daily ripple in prices or attitude, or risk having your portfolio drift in obscurity and underperformance. The new *"keeping up with the Jones'"* demands that we stay tuned to business news programming 24/7 to see if we're conforming to expectations.

Emotion notwithstanding, normalizing one's expectations about portfolio performance requires a much wider aperture of analysis. While we tend to look at the calendar as a barometer of measurement, market (economic) cycles respond to no such artifice. Volatility can arise from many sources, and may take months or years to manifest. A wise observer learns how to quantify these cycles, their origins and termination, and prepare asset allocation accordingly. Not all risks are created equally, start on January 1st, or impact upon portfolio performance with the same level of influence. **It seems as if today's investment paradigm has become much more staccato, and capable of spectacular upside and downside surprises.**

Time is an essential ingredient to this analysis because individuals and corporations must digest information before acting upon it. Markets are bombarded by a myriad number of factors, all of which in sum, and each taken individually, combine to create opportunity and potential. It is impossible to act upon every detail in a knee-jerk fashion at the risk of becoming too disjointed and purposeless. Look at your portfolio. If it is a "hasty" combination of non-correlated ideas, chances are it was built without a specific discipline or methodology. Indeed, you might be making a lot of money, but perhaps doing so with a series of "home runs" in a scattershot manner. To some degree, we need to employ risk analysis to mitigate the influence of factors which otherwise might lend themselves to emotion or hyperbole.

**Keep it real**

Last week's equity markets were a perfect example of how a 24 hour news cycle can refocus and rebalance market performance and investor's expectations. Above, I was commenting upon the elongated duration of secular phenomena and how imprudent it might be to focus upon the "micro" to make asset allocation decisions. For example, the severe winter weather in many regions of the US has obviously had an impact upon various business sectors including agriculture, retail sales, healthcare, energy (pricing and supply), even recreational/discretionary travel and entertainment. It might not be until later this spring, however, that a measured expression of these data (profits, sales, employment, etc.) could be made. And yet, on Tuesday last, when Fed Chair Yellen said, and I paraphrase, *"steady as she goes on monetary easing"*, we saw a manic bounceback in equity prices of nearly 2%. Some then concluded that despite the data...the same as the day before that caused a downdraft... the consolidation was over and it was now safe to go back in the water!!

Risk will always be a part of investing, it cannot be eliminated from consideration. Stock participation is not a "mechanical" endeavor. **Although we might be the ones programming the machine to turn on, check-in, and execute the trade, it is the human part of investing that makes the connection to ownership of financial securities.** And it is we who try to quantify risk, for duration and magnitude, in order to build a portfolio that performs to our expectations for portfolio growth.

The magnitude levels of risk *are* dissipating. Underlying economic fundamentals are improving, so much so that I do not fear a global recession or a calamity such as the most recent credit/bond crisis. But it is also critical to remember that equities are not the synonymous equivalent of the economy. They move, instead, from a visceral, sometimes emotional, response to a number of factors. The *perception* of a company's condition is sometimes as great a predictor of its share price performance as the actual fundamental data.

As I wrote last week, many are inclined today to ignore fundamentals and react more with emotion. The result is a market that *wants* to go up, but is skittish about getting caught with its pants down. With less bad news to hold on to, investors must instead be careful to employ strict scientific methodology to evaluate opportunity. My hope is that there are sufficient catalysts to begin to erase the residue of negative emotion that litters the collective psyche.

In the enduring game of *"which came first, the chicken or the egg?"* the question leading our analysis is whether an improving economy can lead the consumer to become more bold, or whether the consumer might slowly emerge from his hibernation to lead statistics towards improvement. In either case, however, we're not talking about 24 hour solutions.

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