

Market Outlook:

**What are the odds?**

Despite the inverted gyrations of the stock market during the past three weeks, my market overview continues to be moderately bullish, of course with specific reservations about investors' unbridled carryover of unrealistic expectations borne out of last year's performance. **The market's configuration supports my view that if we're not at an interim top in valuations, we're close; if we're not initiating a consolidation of massive proportions, we're certainly consolidating modestly; and if we're not fully invested in the sectors that drove the market in 2013, there is plenty of opportunity to sector allocate into those which represent laggard's upside potential.**

The Federal Reserve, under its new Chairperson Janet Yellen, has indicated that it will be loathe to change horses in mid-stream, opting to "go-slow" on easing its accommodative monetary policies. Nevertheless, the "unwinding" of restrictive monetary policy will begin, *has* begun, and the market last week found itself in a schizophrenic morass of "*are we alright or are we not?*" One doesn't want to be in the path of that boulder once it starts rolling downhill. The equity markets have become a default investment option, and, as discussed in last week's piece, have replaced the bond market as a viable yield alternative. **From a strategic point of view that latter fact is particularly vexing because equities, despite their "default" status, are still extremely volatile, risky, and overvalued at present.** At what level does valuation have to be before it ignites suppressed investor anxiety?

We've come close to answering that question during the past month. Already, lackluster earnings reports have impeded certain stock's advance. Most observers still defer to a "*wait and see what the consumer does*" motif, even as wages dissipate, unemployment floats at (still) too high a level, and retail stock speculation plays second fiddle to institution's insatiable appetite for risk. While slow growth is preferable to "no-growth", conservative estimates for this year's industrial gross output are far from exuberant. **I see no particular signs of an eroding economy, but nothing which indicates that 2014 will enable a breakout of historic proportions.** And certainly, I cannot create a quantitative multiplier that justifies a magnitudinal upside potential for stock performance equal to last year.

Therefore, my investment highlight for this coming year will be to deploy cash reserves to maximize dividend yield and capital gains, and to find opportunity in defensive or back-of-the-cycle sectors that mirror the demographic themes of our time, such as global telecommunications, biotech, infrastructure, agriculture, and alternative energy.

**Bringing it home**

All in all, waiting for the consumer to return to economic solvency is a wise approach. Typically, consumer spending stimulates growth in Cyclical. While the markets consolidate, we are seeing a stall in consumer brands and a possible reversal in their market leadership. **The current bull expansion is a rough tapestry of traditional blue chips, speculation in high tech, and one-off opportunistic speculation.** The deeper the rally goes, the more I expect to see the aforementioned "demographic sector shift".

We also cannot ignore how dependent the United States is upon other nations, and their fiscal and monetary choices, for its economic stability. As a result of a half-decade of global austerity to prevent a deepening of a borrowing and credit crisis, policy makers are now faced with the unenviable choice of closing the capital spigot or risking a destabilizing fiscal event of unknown consequences. We just experienced one of the most volatile weeks in currency markets in the last 5 years. My analysis will focus carefully upon the US dollar's global exchange rate during this monetary transition. **A delicate balance exists in this new world order, in which "leadership" is a transitory thing, allocated usually by the concentration of natural resources, consumer equity, and industrial productivity.** Disequilibrium is more the norm, as money flows from continent to continent, developed nations to emerging markets, and hopefully back again. A geopolitical question of our day might be "*from what source is power and influence emanating, and for what duration?*"

Thus, the pullback I had been forecasting and positioning portfolios for has occurred in January. Year to date, the US averages are down about five percent. Cyclical does not know the date, or calendar position of its occurrence; it happens because of vectors that share common inflection points. Bear in mind, whether a consolidation is rotational, massive, or insignificant, the data indicated that it was to be expected. **Our focus is to prepare our clients for the after-effects of a capitulation, particularly a shift in investor confidence and a breakdown of the hubris that the previous year created.**

To assume a cyclical swing in momentum is a lot better than not adjusting beforehand for its possibility. We have always based our portfolio modeling on the theory that markets are parabolic, moving in defined waves. Today, at this top, a momentum shift is due. For the time being, I'm comfortable dipping only a couple of toes in the water.

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.