

**Market Outlook:**

**Yo-yo**

Do we have your attention yet?

The irascible, and sometimes irrational, actions of the major indices this year should confirm for all observers that there's something at work in the financial markets that goes way beyond "traditional" fundamental analysis and good stock picking.

In back-to-back fashion, the market last week traversed consecutive near-200 point days (on the Dow Jones), first down, then up. Is there anything in that type of behavior other than a manic response to current events (Ukraine, unemployment, GDP) or an indication of fear which underlies the actors' mindset itself? The inmates truly are running the asylum.

Look, I'm not going to cast aspersions on my peers or lay heavy psychoanalysis upon others. I'm neither qualified to do so nor inclined. **But suffice it to say that the catalysts for equity momentum and trading are changing, and trending more towards behavioral science than economic science.** The mere *appearance* of conflict abroad, or disappointing data, provides enough impetus to recalibrate market calculus. And in the process, our mental state, our *confidence* in the financial markets to reflect our hopes and aspirations, becomes shredded at the periphery.

The subtext of all this volatility is that despite what appears to be improvements in economic statistics, fewer people feel comfortable putting their assets to work in a game that appears not to be played in their best interest. "Luck" is not the kind of engine anyone would like to see propelling their retirement funds. Conversely, I think the fear factor is significantly higher today, and rightfully so. Retail and sophisticated institutional investors are left scratching their heads over the frequency and magnitude of inter-day volatility.

As I have previously written, my analytics indicate that this year should be a continuation of a bull market cycle now in its fifth year. But I remain cautious about the sustainability of peaks *at these levels* where new highs in the averages have become commonplace, but potentially risky. If there is any bias in my work at present, it might be for a downside response in the averages, and not necessarily a clean or tidy process.

**Spare the Pollyanna**

In fact, it is more likely that we have downward revisions in earnings forecasts because year-over-year comparisons to the early years of the recovery are impossible to sustain. Coming from the depths at which we were in 2008, *any* improvement in productivity or economic activity was bound to create a groundswell of buying that would have moved valuations strongly and consistently. Faced with the truisms of our current plight, however, one has to ask "*for how much longer, and how much farther?*"

**If my projections are correct, the loss of earnings momentum from inflation and pricing power in natural resources, low employment, depleted consumer savings, and corporate inventory reductions should be reflected by mid single-digit returns in stocks this year.** Right now, there are only "anecdotal" inferences about inflation, with no Federal data to corroborate. In fact, however, in our daily lives we experience price increases throughout a host of activities, from necessities to extravagances. While some are quick to blame the Winter weather for negative data spillover, I lay the blame upon unrealistic expectations, irrational trading behavior, and unsustainable cyclic stochastic integers.

"Optimism" is always relative, but to expect a repeat of last year's equity performance would be beyond the ken.

In the short term, "doing nothing" is not an option, but neither is trying to "time" the irrational gyrations of a market following the herd. The best strategy is to have a discipline for equity selection and to stick with it. In my case, I look for consistent, but not artificially manufactured, earnings acceleration...growth engendered by what we call the "better mousetrap" business model. Create a product the public wants, and they'll not only beat a path to your door, but pay a premium to own it. This would be true whether you were a neighborhood pizzeria, a global biotech firm, a local manufacturing company, or a motion picture conglomerate.

The trouble with last week was that macro themes and demographics got caught up in the foolishness of the game-players, themselves, who ruined it for everyone else.

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