

Market Outlook:

Reaching the top?

Economists are engaged in a heated debate about whether we are in "full recovery" mode or simply in yet another speculative bubble in stocks. While there is clearly no empirical answer to that question, the answer is... "yes, and yes."

Particular demographics, such as technology and healthcare, are in a cyclical advance, likely to continue for decades. On the other hand, where confusion and dissipation of customer demand are at their greatest, the influence of cyclical/secular trend advances is weakening. **Unfortunately, the drag on the economy by consumer inactivity far outweighs any biases attached to stock performance in the past two years by traders and speculators.** That is why it appears as if we are sitting on the edge of a disbelieving precipice which commands our attention immediately.

There is reason to be dubious about the fantastic equity numbers, but not necessarily to pick a fight with them. Ride the wave, for sure, but be careful to apply strict scientific analysis to what appears to be a once in a generation outcome.

There are trillions of dollars still on the sidelines, mostly in corporate coffers. No one wants a war between government and the private sector, but will it take taxation, or an act of Congress, to part with those resources? While it's unlikely that one can beat the private sector into submission, the "public" waits eagerly for capital investment in projects that benefit *them*, not the benefactors themselves. Immobilizing the wealthy only antagonizes them, but coddling the "haves" for the sake of politics or profit only alienates the 99% who "have less".

In a sense, the markets are a didactic struggle between moral persuasion and uber-wealth. When economies break down into rioting, terrorism, or civil war, such as in the Middle East, you have run out of fiscal and monetary solutions to abate the crises.

Not in one day

To be sure, these are complex issues, morality and money. It didn't take one policy, one political leader, or one nation to initiate global economic inequality, nor might it take one person, or one election to remediate it. On the other hand, each of us plays a role, through our vote, our pocketbook, our choices, to build the emotional firepower to bring a cause and effect response to what ails us.

Past actions, while relevant, are less instructive than what it is we choose to do in the future. Globalism...interdependence...is real and important, whether the topic is politics, economics, or morality. Bottom-line profits derive as much from the function of nations thousands of miles away as they do from local neighborhoods and customers around the corner.

To be clear, I am quite optimistic about the direction both of the markets and the global economy. Statistically, for example, my data are closer to "bullishness" than at any time in the previous decade. But I am concerned that many of us are grudgingly being pulled along for the ride, devoid of enthusiasm, hope, and expectations about the future. Obviously we need to address the depths of concern of our fellow citizens and turn them into the engine of fertile opportunities. To do so requires time, however.

So just what is the economy able to tell us today about tomorrow? For one, we are closer to the *beginning* of a new secular up-cycle than being at the *end* of the last recession. Government stimulus is exhausted; the heavy lifting must begin now.

While growth is currently inhibited by diminished consumer demand, its effects might be also to limit the upside range of stock valuations. As an earnings-driven analyst, I see a preponderance of evidence indicating growth opportunity in equities, but perhaps with slower acceleration patterns. Long term systemic pressures from "resistance" patterns (such as overhead supply and diminished buying enthusiasm) are within range right now.

Be grateful for the past two years' performance, hopeful for the next two, and cautious about "betting it all" on one more run of the dice.

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