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Market Outlook:

The need for greed

Popular media always finds a way to glorify the positive cycles in the economy, seemingly portraying that nothing could possibly go "wrong". To them, everyone's got it right, the big stuff outweighs any potential negatives on the horizon...or so they tell us.

You and I must ask, though, that if everyone has it "right", how do you account for unforeseen events, peculiar twists and turns, market crashes, and protracted slumps?

The media has trained us to buy into all their misleading exaggerations, that "ordinary" is unacceptable, particularly for market investors. It isn't glamorous to be the tortoise in the *"tortoise versus the hare"* allegory. Being shy or reserved are not characteristics that one usually associates with Wall Street takeover magnates. Isn't the successful guy always the most gregarious, the most flamboyant, the most cock-sure? Of course, in the media, those titans of money are always very "smart", as if they know a secret we don't, and their human frailties don't really matter all that much.

By no means is *everyone* portrayed that way in the media during extraordinary boom times, but you get my point that, to them, there exists no evil, no watershed event which might derail the scenario. "Happy talk" and quick banter is encouraged; gloom and doom is frowned upon because it doesn't make for good ratings. Everything is just fine, thank you very much.

But some of us know better. Under the market's surface lies a myriad number of possible scenarios, events which, by their very unpredictability, make the market the volatile game it is. That's where I come in, why my clients pay me. I'm the one who worries about things that others take for granted. While I'm not a "bear" by nature, I know that when complacency takes hold...and it can last a long time... good times typically end with great difficulty. **As the popularity of stocks increases in today's climate, history and cyclicality has shown us time and again that extreme consequences are often likely to follow.**

Priorities

The reason this is important is that as investors pump up stock valuations, perceiving *less* risk, they are actually taking on *more* risk, particularly trying to maximize (leverage) returns while the time is ripe. Therefore lower risk/more stable portfolio strategies lose their media luster...until things start to go wrong, of course. When markets go bad, or underperform, that's when methodology and discipline usually get the most attention. Did you know that, despite last year's phenomenal success, the net return in the S&P index during the past decade was virtually "zero", while the "tortoise", bringing up the rear, generated positive alpha for the same period? **One of the strengths of having a market agnostic discipline is the ability to customize any portfolio for risk-versus-reward, and to generate positive returns during down markets.**

Money is always in motion. The lessons of quantitative market theory is that portfolios must constantly be adjusted for risk, allocation, time horizon, and probability of performance. What the "talking heads" most always seem to forget is that markets exist in a very complex world, not a black box, and are constantly bombarded by events and circumstances which might affect the probability of performance. It's not necessary always to glorify "fast money" opportunities, or to sugarcoat current events.

As it becomes more commonplace for portfolios and markets to achieve big gains, some might see volatility as an unnecessary intrusion into the norm. We know, though, that there is no "norm" in the science of quantitative statistics. There is up, there is down, there is magnitude, and there is duration. What we do from there is simply artistic interpretation.

As today's market cycles become more extended, it is important not to diminish the significance of structural global consequences, historical data which tends to repeat over time. It's fine to be calm, complacent, satisfied, and rich. There's also the calm before the storm.