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Market Outlook:

Managing your gains

The markets, particularly the S&P, continue to motor into "new high" territory, and while there's nothing wrong with that, our science tells us to think twice before unequivocally jumping on the bandwagon. To be sure, we would argue that the economy is passing several milestones, heading in the right direction following a once-in-a-lifetime cyclical recession. The Fed made some good moves at the time, holding interest rates down, allowing borrowers to "dip their toes" slowly back into the economic/investment water.

Although highly touted, the arrival of a "new era", however, is really just a resumption of where we were, or where we were trying to go, over a decade ago, when pre-war/pre-recession optimism was at its peak.

Sometimes the trees are more significant than the forest.

You don't hear businesses today talking too much about innovation and new initiatives...they talk about recovery and stabilization. One would expect a "shout it from the rooftop" euphoria as the markets break new ground, but we see, instead, a kind of stealthy, "middle of the night" bashfulness. **What precipitated the market's climb was not a recovery, but simply a *failure to fail*...and that was good enough for the average guy with money to hang his hat on.**

However, the infallibility of a rising stock market has been disproven many times in our lifetime, and who amongst us wants to be the next victim of contrived exuberance?

Manage your emotions

For the time being investors are content still to have a job, even though their neighbors might be struggling; they're happy that their pension plan is worth more, even though they've merely recovered valuation lost from the credit collapse; they're comfortable with a weekend "stay-cation" with the kids, even though they had to postpone an elaborate summer vacation.

The accelerator is floored, but the wheels are turning at half-speed. I perceive that many of our peers are obsessed with uncertainty and suspicion more than a sense of satisfaction and comfort. Aggressive stock speculation has been fueled, in part, by a desire to catch up with some unattainable "norms" that are just out of reach of those who can least afford to be gambling right now. These are the data I read from my own analyses when evaluating factors that contribute to the S&P new highs.

Despite what the averages, or pundits, might infer, one year of improved data does not yet constitute a secular, more permanent, trend.

Since any investing involves a modicum of risk, it is more important that we evaluate all the risks associated with the new-high phenomenon than simply to be swept up by them mindlessly. Indeed, quantitative statistics are very helpful in analyzing risk at the "inflection margins", more so than during a commonly agreed upon trend. Tomes are written about *"how trends initiate"* or *"how they expire"*, and while I acknowledge that the data are improving, I always try to put the odds of success in my favor by using my proprietary trend measurements. **The relative attractiveness of risk is much less today than when the markets began their recovery 5 years ago.** Any investment portfolio must be sensitive to its surroundings, and allocated accordingly.

The key to successful portfolio management is acknowledging boundaries and prudently allocating amongst asset classes, sectors, and securities.

"Fully invested" is not a fundamental investment *discipline*, it is a statement of one's portfolio *condition* and/or commitment to one's attitude about taking chances. Despite recent market gains, the breadth of participation within sectors is quite shallow. The only thing that has changed is investor's desire not to be left back at the starting line. Because the cost of money is relatively inexpensive, the stock market has become the only game in town, no matter how much we might long for the days of 10% CD's and 5% municipal bonds. While the globe focuses upon austerity, a majority of profits today derive from cost-cutting and "efficiencies", not a ramp-up in international commerce.

In spite of all the danger signs, we are better prepared today to take advantage of what the market offers, while still being cautious about "new-high-mania". Indeed, when the economy *does* improve to the point we all know it can...and expect it to be...the energy that will flow from the financial markets will be palpable and help to galvanize what I hope will be an intense renaissance not only in quantitative integers but in our collective mood, as well.