

<b>Market Outlook:</b>
------------------------

**Uncomfortable**

A bit of nerves struck the market like a lightning bolt last week in response to a reprise of a potential credit and banking crisis in Europe and obviously extended domestic (US) equity valuations. Yet, while the fundamentals are in place for continued modest expansion in cyclical economic growth, one still has to ask why we *feel* so ambiguous about our personal prospects for participating in what the "experts" tell us is a renaissance in financial opportunity? **It seems to me that the most important piece of data we need to consider when evaluating sustainable activity in the market/economy is whether or not citizens feel connected (or not) to the consequences of this cyclical resurgence.** There is no classic definition of what it means to be rich or poor, it's more a matter of our perspective about our place in the world. Unfortunately, owing to human nature, whether you're rich or poor, there is always someone who appears better off financially against whom we might compare ourselves. For that reason, and others, more than a few of you feel perfectly comfortable leaving the Wall Street casino to the speculators and well-heeled traders.

Believe me, there are no personal windfalls emanating out of this market upswing.

Instead, prices for goods and services are rising...yet no serious inflation is indicated by "the data". Household savings are down; wages are stagnant, relative to the increase in jobs' numbers; and despite an uptick in business capital expenditures, their (business) sole hope is for demand dramatically to increase to support their spending in new equipment, inventories and personnel.

Thus far, the equity markets are doing it with smoke and mirrors, engaging every nuance to make *earnings* look like *top line revenue growth*. However, most earnings expansion is actually coming from a *refusal* to spend money, and an accounting system that impacts positively upon expenses, taxes, and amortization.

**The sole engine to equity price expansion, according to my metrics, is an insistently low level of interest rates and a lack of alternative investment options.** If interest rates ever do go up, as the Fed indicated last week they will, the headwind against which the markets will travel could be significant. This time around, I would caution against being seduced by a seemingly self-sustaining, linear bull recovery that, ultimately, will abate.

**Still gambling**

The markets are only one barometer of economic prosperity. It certainly is nice to see portfolio valuations rising. The lure of chasing after even higher growth possibilities, more aggressive "indexing", is a difficult siren call to try and ignore. The fact that one's 401-k and retirement plans have gone up in value is good for you, your children, your portfolio manager, and Wall Street. But it doesn't remediate the problems which still plague the economy, worldwide, in general.

The bottom line: consumers need help in catching up financially, emotionally, and spiritually to a runaway train that looks like it has left them behind. There exists a powerful disconnect between the hallowed halls of finance and the kitchen table dialogue of most average consumers.

Fewer people of their generation are working at jobs that befit their credentials (education, experience, objectives, etc.) than at any time in the past 40 years. Wages, as a result, are lower comparatively. Everyday costs are rising, pushing more young people to the brink of "subsistence" rather than "affluence". Food is expensive, discretionary spending is non-existent.

Friends I know refute my analysis as "*doom-and-gloom*", citing more millionaires, more corporate capital expansion, more mergers and acquisitions, higher portfolio valuations, more home sales. They are indeed correct with their observations. The data of the past 5 years shows a remarkable expansion in economic activity.

But the span and scope of their analysis is shortsighted. **The past five years only represents a rebound from this generation's worst financial recession, and one of the worst global regressions (in peace, prosperity, business ethics, and economic development) in memory.** Gross returns may be up, but net profitability is being beaten to a pulp.

Dow 17,000 is not just a number or another benchmark. It is a representation of a major sea-change in economic theory whereby the integers get larger at the same time as the public's confidence and opportunity diverges wider from the events on the ground.

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.