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Market Outlook:

Almost half-way

I've heard a variety of reasons given for market behavior this year, ranging from Middle East turmoil, global inflation/deflation, to horrific winter weather, Congressional inertia, higher interest rates, and failures of the global banking system. While each reference, individually, might have merit...and all collectively are powerful...I attribute market performance to the generational cycles which naturally ebb and flow to explain the "how and why" of economic prognostication. Last week's volatile results notwithstanding, the economic trends are still improving.

While Wall Street shudders and recoils on an almost daily (hourly) basis over current events, the curve is unstoppable, and usually a better arbiter of potential portfolio probabilities.

24 hour news cycles are to investing as gnats are to a migrating herd of elephants.

Indeed, secular shifts are generational prototypes for prudent risk management and asset allocation sciences. They are reflective of socio-economic mores that impact politics, economics, and civic customs for decades hence.

It is always easier to "look back" and observe generational evolutions *after* they have occurred; much easier, in fact, than trying to predict what might happen in the future. But we know, intuitively and methodologically, when certain conditions align to create strong inferences and possible conclusions that later become a part of our social landscape.

Remember the mania that surrounded the dot.com era? Yet, despite the calamitous shakeouts, failures and bankruptcies, and market crashes, technology endured, forging ahead with new innovation and staying power. Recall, there was no internet or email 25 years ago. Today it's ubiquitous.

Not like before

So, where are the discoveries and innovation that will govern the next half-century? What are the sources of potable water, replenishable energy, quality healthcare, civil and military protections? Theorists, politicians, investment bankers, ethicists and religious leaders, market strategists, and business tycoons are all wrestling with those questions. The answers lie in how we dissect the social and moral infrastructure of the human condition. It depends upon unbiased, non-political, scientific analysis.

As a portfolio manager, my job is to analyze any and all information at my disposal, to reconcile fairly disparate data into an actionable portfolio methodology. Ultimately, my goal is to build a basket of capital gains outperformers for the next decade(s) which emanate from earnings and price expectations. While it is hard to avoid personal biases towards (or against) certain sectors, one's mood is insignificant when digitalizing organic, objective events into a coherent market strategy.

That is not to suggest that markets are always predictable or quantifiable. But what we *do* know about certain groupings, about sector leadership, about *basic human needs* can be a good place to start. Remember, the goal is profit potential and capital appreciation.

Another element to creating capital gains opportunities is to adhere to a sustainable discipline that reveals earnings standards and characteristics of successfully enduring cycles. For example, it is always helpful to begin with a hypothesis about consumer demand, corporate pricing power, and capacity production. Without those three, cycles come crashing down.

All of these theories become less significant to portfolio performance, however, if investor's are psychologically reticent to purchase shares or make financial commitments. The markets, after all, are a representation of our attitudes *at the time of purchase*, about our place in the world *right now*, and our feelings about fiscal and financial certainty in our home life.

Without question, the first baby steps towards reviving global economic integration are being taken. How long those cycles last are fodder for my quantitative statistics.

How quickly the public "buys-in" to those statistics, however, is the great question yet to be determined.