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Market Outlook:

I'll tell you a secret...

It's hard for many to accept that when it comes to investing, consistency of methodology is the keenest way to build wealth. Nobody knows for certain if the market will go up or down on any particular day. The capricious news-driven decline in stocks last Wednesday certainly bears that out. There was enough panic and concern to go around for everybody during, and in the aftermath of, cable news' 24 hour analysis of Washington DC political chaos. While my team attempts as best as we can, we also don't know which stocks *each day* will outperform or underperform, which sectors will advance and which will decline.

Market timing is simply guesswork, and I try to avoid guessing if at all possible. The headlines on cable news and the internet don't help much either. They serve, instead, as distractions to the very nature of fundamental long-term investing.

To avoid disasters like those one day calamities and other longer-term capitulations one needs to shelve the "macho" and focus upon the macro view, irrespective of exogenous noise or other siren songs. Buying stocks and building diversification is not about distractions; it's about fundamentals and good business practices. Companies that increase sales, develop innovative solutions to the predicament of the human condition, build market share and show accelerating bottom-line productivity year-over-year are typically the kind of data generators that qualify as high relative strength candidates in our portfolio-building process.

No matter what happens to the conventional "stock averages" each day, our focus is upon consistent leadership and overweighting those factors in our allocation models.

Reality or fantasy

Within my quantitative portfolio disciplines real, enduring portfolio gains are predominantly a factor of 4 important components: (1) time (2) asset allocation (3) a "sell" discipline (4) pricing power.

Is it really that simple?

Mostly.

As with everything else these days, conversation about the financial markets has become highly politicized. Make no mistake, fiscal policy and political persuasion do play important roles in the near-term vector of market trajectory. One might even extrapolate further by suggesting that their impact upon corporate governance, earnings creation, and capital expenditures plays a unique part in our analysis. But, as pointed out earlier, one must be careful about inferring a *direct correlation* between these micro daily events and the broader swath of the economy's path and, by implication, its impact upon your overall strategic risk/reward calculations regarding your personal net-worth.

The key is obviously to be fiscally responsible, allocate the proper weightings to these data, and to be nimble enough to deflect whatever obstacles might interfere with your financial objectives.

Principles of portfolio-building emanate out of rudiments and scientific method. There are no shortcuts or high-risk gambits that pay off all the time. It is nearly impossible on this single page to illuminate all the permutations that science imposes upon practical portfolio discipline. But suffice it to say that wasting time looking for the "big score" is probably the most useless of your tasks if you wish seriously to succeed as a portfolio manager. I have great empathy for the desire to do so, but very little sympathy.

More importantly, though, is to break the cycle of "betting it all on red".

Managing risk is just like everything else in life: weighing the cost versus the benefit. Unless you already have large sums to lose, it is not worth it to put all your eggs in one (biotech) basket. And besides, even the wealthy *allocate* a portion of their risk capital. Very rarely do you hear of an ultra-rich entrepreneur betting his entire fortune on one golden opportunity.

Market fundamentals are not a secret. They are known by amateur and professional alike and typically sourced from the same data resources. What constitutes the difference is how those with a steadier discipline apply that data towards becoming better informed and more maneuverable at their craft.