

Market Outlook:

Loss of energy

It seems to require a lot to take the starch out of the market's sails but, goodness knows, they've sure been trying. Even the brink of global nuclear war wasn't *quite enough* to derail a recent sequence of new highs in the Dow Jones and S&P!!

And why not? US unemployment is at a 10 year low. Wages are rising, if only modestly. And corporate earnings continue to impress.

Hold on a minute. Perception is not always truth. And, I would argue, the markets are doing their best against a backdrop that doesn't fully corroborate people's vision of what is really happening in the economy at-large.

The most noteworthy of these contradictions is that the wealthy (corporations, individuals) are indeed prospering as stock valuations increase, but the gap between the well-off and those who aspire to wealth is dangerously widening. Less than 17% of the population actually has a financial stake in ownership of stocks and bonds, the majority of those holding mutual funds or employer sponsored retirement plans. We shouldn't ignore the discrepancy between *direct* equity ownership/speculation and indirect passive investing. Those aforementioned unemployment statistics also reveal the tale of many gainfully employed persons in jobs which don't offer these professional perquisites.

A majority of those earnings successes, however, is confined to multinational big-capitalization names while smaller cap and emerging market shares take a smaller percentage of the gains. Most upside news surprises are already priced into stocks at these lofty levels. As breadth narrows at the market's apex, I see migration into more defensive categories like tangible assets, utilities, and consumer non-cyclicals. Last week's precipitous fall in global averages can't be directly attributable to heinous domestic political debate, or devolving race relations, or even terrorist acts. Rather, the market fell of its own weight because, quite frankly, it is mathematically improbable to sustain linear momentum like the kind we have been experiencing. No one knows what might trigger the next capitulation, but history tells us it's "in there".

The second significant hedge to the market's success is that we live in a period of stingingly low interest rates that offers no real alternative to stocks as an investment option. If, for example, one were to choose any other asset class in which to invest (e.g. real estate, art, jewelry, commodities) the cost of borrowing money to obtain these items is so low that over-leveraging, or margin borrowing, hyper-inflates the true value of the asset....the same precursor that brought upon the last credit crisis a decade ago. We have to be careful that debt levels don't begin to surpass our *real* ability to pay back the loan!!

Loss of faith

Lastly, what I find particularly troubling is the hyperbolic exaggeration with which the stock market's pace is being defined. Indeed, fantasy is not reality, nor can one ever logically conflate the two. The strain of daily living for those just "getting by" financially is our generation's embodiment of a lack of empathy, and an affirmation of societal greed, that defines this current linear bull phase and our public condition.

We've had these aberrations before and they lead, usually, to introspection and problem-solving at best, market corrections and social unrest at worst. Of those two, where do you think we are now?

Not being a social scientist I am not expert enough to characterize the resolution to our social dilemma. But the "problem", if there is one, with the markets can best be mitigated through prudent portfolio analytical methodology. Beginning with a macro view to define all risk parameters, money flow conditions, and a host of other economic data, we should be able to cut through the subversions of "daydream investing" or hyperbole offered by television commentators and anonymous bloggers. Reliance upon fact-based statistics and quantitative integers, for example, provides a framework which offers guidance about portfolio drawdown protection. Taking the guesswork out of investing by using my proprietary algorithms and quantitative cycle analysis enhances our client's upside market potential, while trying at the same time to limit downside risk.

Methodology doesn't require abandoning hope or exuberance. A healthy confidence level is an investor's best asset. But the ultimate question for me is whether a skilled analyst can outperform in a variety of market conditions against a similarly confident amateur who tacitly winks at non-correlated events and fails to anticipate the wretched aftermath of his unforeseen mistakes.

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