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Market Outlook:

As markets apparently permanently reside "at the top", this robust landscape offers us a glimpse of a new migration into what it now means to be prudently asset allocated. As this new normalcy comes into focus the debate about whether these benchmarks represent a *dire warning sign* or *new definitions* heats up. While I certainly believe that there is the possibility of retrenchment in stock prices, many are just accepting the status quo as the new norm, thus making up new rules and standards as they go along.

Contemporary asset allocation models are not, in fact, new. Many of the investment themes we see today have been here before. When economic power shifts towards stocks (as opposed to fixed income) upside premiums shrink and financial risk heightens. Additionally, lower yields in bonds creates a more volatile landscape that moves to a more staccato beat, more trading, and less long-term certainty.

If this is correct, then what does the "new normal" represent for investors going forward? The answer lies in one's tolerance for emotional stress and higher portfolio hazard.

Indeed, when investing was "easy"...requiring very little in the way of imagination or innovation....asset allocation was simply a matter of using widely held percentages and gradients to determine one's ideal portfolio settings. Low risk (and low equity exposure) produced low(er) alpha and higher sleep-at-night quotients!! Allowing for the occasional exogenous event was very rare and sometimes predictable as to what it might be and when/where it might occur.

In that context, companies with strong consumer franchises did better than most other stocks. Real estate, brick and mortar retail stores, durable goods, and financials all thrived when cash was king and buyers were "flush"....a golden age of productivity and commercialism. Investors need to realize, however, that all journeys...economic and otherwise...are parabolic and transitory. As quickly as "guarantees" materialize they can also evaporate. At the gambling tables this is referred to as the "law of averages", and invariably those "laws" catch up to you.

Today's consumer landscape looks much different, and far from *leading* the economy is lagging quite badly. Notice how companies who had a rich tradition of decades-long earnings acceleration and high dividends are no longer the darlings of Wall Street. As the economy has changed so too have the metrics related to those hallowed brand names.

Correlations between and amongst our business network have changed dramatically, too. Blue chip stocks don't transact with one another the same way they did a generation ago. The "old normal" has been turned on its head by technology, politics, recession, terrorism, and globalism. The" modern" portfolio has unwittingly become more short-term oriented, more volatile, more aligned towards tangible assets, and just a little bit scarier.

I still believe, however that a good portfolio is "agnostic" when it comes to capitalization, region, or sector. For example, I remind my readers that topics that relate to future generations and socially responsible subject matter can produce significant capital gains potential. Clean water; global security; efficient renewable energy sources; eradication of hunger, poverty, and disease; technological innovation; education; infrastructure; and personal values score quite high on my valuation and capital gains assessments.

The new baseline for the modern portfolio "at the top" should still be highly correlated to quantitative analytics. However, the most meaningful quotient is the one that reflects people's needs in juxtaposition to an aristocratic hierarchy. Any portfolio approach which too narrowly selects "concentrated" positions should be a non-starter for those looking to reduce risk. In a world of overly ambitious, singularly focused, vastly speculative portfolio construction it helps to minimize drawdown potential by adhering to a strategy of top-down themes rather than attempting to corner the market on a particular sector or strategy.

In particular, classic macro portfolios should have exposure to a variety of projected earnings performers from a multiplicity of sectors and topics. Our example seeks to challenge conventional wisdom about focusing on the *near-term* or *news-driven* events. In fact, those very narrow parameters typically result in a backward looking weighting approach. We, on the other hand, look for analogous trends and fundamentals which predict the future prospects of companies by using historical parallels regarding intermediate and longer-term outcomes. Lastly, there is no "ideal" portfolio. Rather, there are ideals to which one might subscribe that deescalate the impact of current events or other adaptations that amplify risk in a portfolio.