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Market Outlook:

It has been obvious, even to the casual observer, that all market gauges are running hot, pulling an overwhelming majority of stocks along for the ride. But for that reason alone I have been rightfully accused of being both a cheerleader and a wet blanket...stressing that one has to play the advance very carefully and with a great deal of discipline. While the divergences that we thought might have materialized as the rally extended have not, we remind anyone reading that typical rallies do not traverse straight lines, and that ignoring caution is most always a recipe for an unexpected disappointment.

Mind you, there is very little "negative" to fixate upon at present. There are enormous pockets of strength in Basic Materials, Non-Cyclicals, and Technology, amongst others. But as you are aware, even after replenishing our accounts with specific "buy" candidates from our October 1st recommended list, our bias is to take profits in here, not to be speculating indiscriminately. The glamour names might attract the balance of everyone's attention, but you can't afford simply to keep buying without any discretion at the top of a market cycle.

Although not a technical analyst, I urge everyone not to chase a price trend, and to buy when the odds favor capital appreciation instead of price reversal, especially in the short-term.

On balance, I am cautiously optimistic about the intermediate term (3-5 years) for equities worldwide. I would only change that bias if a huge preponderance of stocks were to "tip over" and begin to break below significant price support levels. Right now, we are a long way from that happening.

It is interesting to note, however, that following the latest earnings season reports there are fewer "aggressive buy" recommendations emanating from Wall Street analysts than earlier in the year. Perhaps this is attributable to late-year caution. Perhaps it is related to the inertia in our political discourse, or global instability, or simply bull-trend fatigue.

There is very little doubt in anyone's mind that the run-up in global bourses is advanced. As long as interest rates remain low there is just no other alternative to stocks for investors who prefer to be fully invested and who seek capital appreciation potential in their portfolios. Once again, I must admonish that **when "everyone" feels compelled to own stocks (or anything for that matter) history tells us it is the most dangerous time.** I am *not* predicting an end to the bull market. Quite the contrary. But the market stereotypically undergoes cyclic phases, both up and down. As long as my relative strength integers (RSI) remain as high as they are, I believe investors should at least prepare themselves for the "other side" of the parabola.

Where things get interesting now is trying to justify and pick apart the causes for the rally.....

I have already given you my primary element contributing to stock appreciation: *low global interest rates and accommodative monetary policy worldwide following the credit collapse in 2008.* The Federal Reserve's Open Market Committee (FOMC) meeting last week proved to be a real yawn because their conclusion was to announce that the economy is doing well, and that they will continue to monitor closely any developments in price inflation. It is widely expected that they will act (raising interest rates) before the end of this year. Concurrently, October government statistics were released mid-week indicating that jobs and wage growth also are doing better than forecasted. Curiously, the Bank of England used this same benign data last week to raise their lending rates by .25 percent for the first time in a decade...a modest acknowledgement of some inflationary pressures within.

Were growth and demand *not* to improve at the rate economists expect, central banks have left themselves with very little room to maneuver, and certainly not at the magnitude with which they did a decade ago. Besides, monetary policy can only do so much. The world requires coordinated fiscal policy to address social requirements and regional financial inequities which impede demand from sustaining.

There are no warning lights, beepers, buzzers, or sirens that come with this "erector set" of investing. Do not wait for the "opposite" of your expectations to occur before you address your portfolio comfort zones. My role, and that of any professional money manager, is to make sure that there is sufficient diversification...by asset class and by security type...to heighten the probability of alpha, and to mitigate (but not eliminate altogether) the effects of complacency or something even more challenging.

I always prefer that markets traverse a carefully defined parabolic sine wave. Unfortunately, in this linear, and speculatively, oriented current landscape the best we can hope for is to evaluate intrinsic value in companies whose share prices are igniting, and to orient our portfolios around long-term demographics and sectors that perform positively irrespective of short term influences. I have said repeatedly that we find that potential in agriculture, technology, water, alternative energy, telecommunications, tangible assets, and consumer durables.

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