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Market Outlook:

Resetting the odds

It only took a few “down" days in the market last week for investors to begin cowering and thinking about how to protect their portfolios from a bear retreat, and what strategies to employ going forward to steady their accounts from a possible calamity of significant proportion.

See how quickly that happened?

So, owing to last week's little “wake-up call", I thought it would be helpful to reaffirm several points about which I have been writing during the past few months....a strategy for tackling bad (or any) markets:

Any professional money manager worth his/her salt should start the portfolio-building process with a clear understanding of the account's objectives and tolerances for risk. Too often this one essential is missed, and you wind up with square pegs trying to fit into round holes. Chasing gains for gain's sake without clearly understanding the risk factors creates a portfolio full of one-off transactions, disjointed from any particular philosophy or methodology. And, more importantly, this type of staccato investing usually leads to the *inverse* of the outcome you expected. Remember, a good portfolio manager is in the business of managing client's *expectations about their money* as much as they are managing the money, itself. An aggressive account allocated too conservatively is just as futile as a conservative account managed too aggressively.

It is also incumbent upon all parties to recognize that *time* is one of the most critical elements to any investment program. Typically, traders have less of it, and less patience for the whole process. These are not good clients for investment advisors because *without time* no strategy can be successful, really. Unfortunately, we are in the internet age, in which everything is supposed to have been done *yesterday*! That just simply is not what the investment schematic should be about.

If, in fact, last week's pullbacks were to represent a harbinger of more negative stock market news...for whatever reasons might be ascribed....the supposed disaster most likely would not happen immediately or swiftly.....although it might....and probably would look more like a steady drift sideways or downwards. Fortunately, the most successful money managers do not look to compare to specific portfolio benchmarks ("We were at X value; now we are at X minus 4%.."), but rather maneuver as if they were navigating a vessel, a route of getting from point A to point B. Most assuredly the progression is not a linear (straight line) configuration, but wavy with ups and downs along the way.

Thus, prudent portfolio stewardship is a matter of *consistency of methodology and process* rather than consistency of the integer of results.

Perspective

Overall, the economy and the financial markets are doing better than a decade ago. The tone has been set by government, business, and social institutions for a more accommodative climate of economic revitalization. That doesn't mean that the angle of ascent will be straight up. So if last week put a jolt into you, I would observe that you may have lost perspective about *why* you invest, *how* you invest, and *with whom* you invest. These issues must always be addressed with your representative to your satisfaction.

Investing must be thought of as a long term set of probabilities, and as a sequence of balances and equilibriums, with shifts occurring constantly that require portfolio fluidity and distribution.

Without a doubt we are at a confluence where changes in interest rates, inflation, portfolio allocation, politics, and consumer confidence are redefining the status quo of the building process begun during the past half-decade. To believe disingenuously in an inexorable push upwards of stock valuations, and other investment prices, is a tenuous proposition. The key to keeping one's sanity during this period of flux is to be aware of the forces which ebb and flow, prepare for the inevitable crisis in confidence, and then methodically evaluate one's options for going forward.

To capture alpha (positive return) you must prepare for the long-term and stay true to your discipline.

It's not overly complicated.