

Market Outlook:

Tippy toe

The long, steady uptrend in the financial markets has been under intense pressure recently, most notably from an uncomfortable conclusion to the first quarter because of disorderly political rhetoric, and from an inevitability that interest rates will be rising in the not-too-distant future.

Going from a Pollyanna mindset to Godzilla-like panic in the span of just weeks, the market is revealing...as it always does....the capriciousness of unexceptional buy and hold investing.

Of course, certain segments of the economy (Non-Cyclicals, Technology) have shown an immunity to the short term volatility, but an even larger universe of stocks has "given back" its first quarter gains when the going got difficult. There is no calculus that applies uniformly to all sectors. Instead, it is imperative to look at financial and non-financial factors individually when making selections for a balanced portfolio.

The likelihood of continued volatility in global markets is putting investors in a foul mood and heightening the probability of even more unpredictability in financial markets for the near term.

Thus, we expect to see a diminution in the *percentage upside probabilities* for stocks and other financial assets for the balance of the year. Unfortunately, the marketplace has become too dependent upon double-digit returns in the past decade whereas it should have been considered as aberrant from historical norms.

By far, the biggest concern we have about continued corporate profitability falls upon the consumer demand side of the equation. An uncertain consumer is less likely to part with his discretionary cash....particularly if he perceives to have less of it! Concurrently, corporations are loathe to invest in infrastructure, inventory, and research if the demand is not already built into the pipeline. Who goes first? Time will tell.

The banks have it wrong

Tighter monetary policy, on the other hand, is a non-negotiable burden for economic growth for some. Prices are rising, particularly in core commodities and foodstuffs, exacerbating the possibility that the Federal Reserve and global central banks will hasten to move quickly in addressing inflation concerns. A worse-case scenario exists when you have prices rising, consumers recoiling, and portfolio valuations receding....all of which are germinating in their infancy right now. If interest rates do climb this year at the projected rate forecasted, it will mark a line of demarcation *away from* the boom in financial assets that the last decade gifted us.

Curious, too, that the commercial banks have taken their good ol' time in offering up any incentives and rewards for their savings account customers by mimicking the steady, but slow, rise in interest rates and offering some of those increases to their depositors. Instead, they have been sitting on a mini-windfall by taking those several basis point increases in yields and applying them to their own assets in the lending area. It's time they be held to account for their role in delaying the availability of an alternative investment scenario for clients in CD's and other time deposits. So much for the feel-good, trickle-down effect of the recent tax cuts upon the average stake holder.

Alternatives

The jingoism and isolationist/protectionist oratory we have been hearing in the past year is indicative of yet another sea change in global commercial standards. While "red meat" for its supporters, it represents a nearly 180 degree turnaround from the compassion and optimism expressed by world leaders over 40 years ago at the beginning of the last great bull market expansion.

We have been championing for a more enlightened discipline to investing during the past several years, one in which a keener appreciation of earnings growth driven by need and demand, along with a social benefits dynamic, combine to yield a more patient approach to investing overall. In fact, it is wearisome and generally more risky trying to create a "quick hit" philosophy, typically the product of a millennial mindset and technology evolving from an instant gratification way of thinking about how to exploit on-line trading platforms "efficiently". More significantly, our goal is to avert the panic and mood swings that unfortunately have become commonplace and more disruptive to today's portfolios, and which throw significant roadblocks into the symmetry of smoothly moving valuations from point A to point B.

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