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Turn, turn, turn.
A time to plant...a time to reap

A funny thing happened on the way to one of Wall Street's longest bull market rallies. Business and politics unwittingly conspired to alchemize plump profits at the expense of the "average guy" and in the process reengineered the metrics of how to determine output, yield, and profitability. While no one who owns stocks had been complaining about portfolio riches on the way up, there are enough stragglers and negative contemplation to the great wealth phenomenon that we should be taking notice.

Nowhere is the wealth gap more apparent than in the brutal global life and death struggle against famine and starvation.

Much of the emerging economies of Africa and Asia have empty larders either because of politics or climate. Crop science has shown the ability to address hunger issues, but the painstaking process of building agricultural infrastructure is a complex network of geopolitical will and moral courage.

As with anything in the capital markets, the issue usually is defined by *expenses and profitability*. The other part of the equation is simply a matter of conscience and motivation. Some agricultural companies already know the science of splicing genes, warding off insects, managing water flows, and increasing crop yield. Advances in genomics and soil science allows crop producers to zero-in on desired traits and nutrient content which saves time, money and experimentation that typically was found in "older" methods and non-assisted technologies. Avoiding the tinkering and testing of the past, today's farming infrastructure can track the process from seed to crop more efficiently, eliminating the wasted time and product that oftentimes usurped the daily activities of yesterday's farmers.

Eliminating tainted or diseased product from the supply chain is the landmark achievement of agricultural science this century.

The problem is that not all nations have the resources to avail themselves of these new technologies. Inspired mostly by Western methods and infrastructure, wealthier nations have magnified their food bounty while the poor continue to lag. Spiking food prices, scarcity, climate and politics, as mentioned earlier, have relegated the less fortunate to perpetual desolation. The staples of a good life, including housing education, healthcare, and food are taken for granted by those who have them, coveted by those without.

The financial crisis (2008) exacerbated the plight of the poor by gutting supply chains, incomes, and global social interest as governments wrestled with more "pressing" needs of keeping their economies afloat. In a world where almost a billion people go hungry, demand for agricultural equity and justice is surprisingly mute. Science might have the tools to come to the rescue, but even the scientists must sit idly by while government and social institutions diddle around with jingoism and the politics of identity.

Climate change is a defining factor in shifting the rhetoric and dynamic of this discussion. In a warming world, increased famine and population dislocation have become, unfortunately, the new normal. Rising temperatures actually *raise* the rate of crop growth, but the demand for potable water and fertile land is also increasing as the population soars. Science postulates that as temperatures rise the net output per square foot of farm acreage will *drop* because of insufficient water capabilities. In dry areas of the globe, with fresh water for irrigation becoming more scarce...or being siphoned off to nourish other crops....staple farming must either learn to adapt or perish. Wet parts of the world are overly saturated; drought-ridden countries are hurting even more.

What my quantitative research observes, anecdotally and numerically, is that "conventional" agriculture has not been, nor will be, enough to solve the problem of hunger alone. Nor has the focus of government and the corporate sector been sufficient to solve the decades-old issue of poverty and starvation. As we learn more about genetics and food, the planet must look at where and why people are malnourished and starving and begin to galvanize science, the private sector, government, and resources more effectively and compassionately.

Wall Street is warming to the concept of using innovation in science to "do good" as well as to create long-term yield. It is possible, in fact, to do both...to enlarge the value of your 401-k while doing so responsibly and consistent with values-based profitability. A company that feeds the poor using better science, or which increases clean energy production, can also have a rising share price. Whether you, the investor, would rather own one of the five best companies at this "sustainable" mission or something less socially responsible also speaks volumes about your own investment objectives, methodologies, and, quite frankly, your empathy.

My efforts in building "silo specific" portfolios have culminated in our latest endeavor, the Global Agriculture Portfolio Strategy, an amalgam of over 100 stocks that my proprietary algorithms have selected based upon earnings patterns, price projections, and their affiliation with related businesses in solving the issue of hunger worldwide.

Good stewardship of our planet, fair compliance and governance, and profitability from innovation and strong demand are themes that are resonating with a higher percentage of my clients as a result of our proprietary database calculations which show that profitability does not have to come at a "cost" to anything else. It is possible to allocate a reasonable portion of portfolio assets to socially responsible themes and still grow the value of the account without sacrificing methodology, objectives, or performance. In fact, I would argue that *not* to do so dramatically limits one's exposure to new science and innovation.

Still, it is important to note that limiting one's portfolio choices or trying to capitalize on *one special trend* (biotech, semiconductors, real estate, etc.) also prohibits the diversification and potential that we require for an effective portfolio outcome. There is no question in my mind that a wide array of sectors offers anticipation for secular success and macro exposure. Therefore we refer to our sector quotients that classify alternative energy, biopharmaceuticals, infrastructure, computer science, agriculture, basic materials, education, healthcare, as sectors for mining the long-term potential of intergenerational and global wealth building.

It is vital not to underestimate the damage of bellicose political discourse in the US and elsewhere that poses severe roadblocks to portfolio building and investing for the balance of the year. Reckless rhetoric, political inertia and lack of willpower, and financial uncertainty about the sustainability of the recovery have already thrown a monkey wrench into the first quarter's performance of portfolios. And it's not certain whether the hangover of this apathy won't linger for several more months or beyond. The magnitude of both psychological and numerical swings at the end of last quarter surely has an effect upon the confidence levels of investors going forward.

Our strategy for dealing with this uncertainty is aggressively to create downside limits for our sector allocations while also retooling our optimistic upside projections into a more moderate framework. We had been warning of a "linear spike" in stock prices for several months. Unfortunately, those prognostications came true and we are now left to recalibrate and protect our clients' long-term interests. Before the year is over, the Federal Reserve and its new Chairman have given indication of interest rate increases, and we have no reason to doubt their fervor to protect against an expanding capital base. Therefore, we can envision actively transitioning towards laddering fixed income products as a bulwark against the probability of sagging equity performance.

As yields rise, we expect a significant recoil in stock projections and GDP output. In fact, we are starting to observe a closer correlation between the "normal" historic relationship between bond yields and stock prices which, unfortunately, should be factored into our thinking about asset allocation for the remainder of the year.

Once again, it is vital that I direct your attention to the distinction between the stock market and the economy. Indeed, sometimes they emulate each other in trajectory and magnitude. Other times not. That is to be expected. If we wind up "giving back" all of this quarter's illustrious gains, then such is the nature of stock investing, as well as the fallacy of conflating better economic news with an unusually "linear" stock market trajectory.

Some might wonder, *"well then, why did I hire you if you simply mirror the S&P?"* Mirror the S&P? We did not mirror the S&P *down* in 1986, or 1996, or 2000, or 2008 when many of you branched off unsolicited into sector specific investing and lost while our "tortoise" overtook the hare. No, our job is to preserve and protect assets while growing capital gains for the long term, and those clients and readers who have been with me for decades have benefitted appreciably. In this missive, alone, we have laid out an alternative for long term capital gains wealth building by focusing on secular (generational) issues that we calibrate have remarkable potential for portfolio success, as well as the ability to provide solutions away from the mainstream.

As we said in January, *"strap in!!"*

Suggested balanced account asset allocation, Q2, 2018
Equity: 46%
Fixed Income: 34%
Cash: 20%

Arlington Econometrics is a quantitative market tool. Utilizing proprietary algorithmic equations, AE offers solutions for market-timing, asset allocation, and macro economic analysis. Using historical time-series measurements, Arlington Econometrics optimizes the analytical process and forecasting coefficients to make economic forecasting more objective.