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It's the little things

Markets are in the process of weighing the variables which most impact performance for the balance of the year, trying imperfectly to condense all that has already transpired into one simple narrative that it can use to predict the next three months and beyond. That discussion ranges between recognizing imbalances between the haves and have-nots, as well as deciphering the causes of a slowdown in earnings and productivity figures for the first three quarters. Throw in the maelstrom of current events such as terrorism, cultural and regional conflict, the US Presidential election, and currency devaluations that have rendered some nations impotent. There is no question that the pulse beats are getting shorter, and the volatility is getting larger as we build towards a wealth-effect apex.

To some, the Presidential election is the primary impediment to current and future market activity. While we certainly acknowledge the impact of consumer confidence, fiscal policy, and political consensus upon the financial markets, we also believe that the overall significance of this one-time event to secular demographic market trends is largely inconsequential because trends are indelible, elections are transitory.

There is always a tendency to look at things as *they are* versus *the way we wish they were*....that's just human nature. Probably every generation deals with the same conundrum of feeling that it was better in the old days, and that what lies ahead is a mixture of hopefulness blended with a smattering of gloom-and-doom. But we also get a sense that the current market flux might be emblematic of something different this time, perhaps more seminal and meaningful.

Markets

For one, the market advance is getting "older" in its post-recession progression. As it moves forward there is a wider earnings gap between the wealthy and those that aspire to wealth such that more people worldwide are becoming disinterested in and alienated from current events, their cultural institutions, their communities and neighbors. The wealthy appear to be accelerating their advantage, too. Most "average" wage earners had flat or falling income for the past decade, according to statistics compiled and analyzed by regional census data. While there has traditionally been the assumption in most advanced economies since World War II that we would be "better off" than our parents, that trend ended with a giant thud in the last ten years.

Maintaining social cohesion during a period of fiscal austerity and monetary "rigidity" is the most difficult task we ask of our national and local leaders. An accelerated level of divisiveness and dissonance might explain why our political discourse has become so strident.

We may be asking too much of our public officials and institutions, however. While many of our problems are economics-driven, the blame also lies with those who fall victim to apathy and self pity. Yes, there are some who feel that it used to be "easier" to be patriotic, to feel a sense of country and community. Today, with so many things that divide us and which offer financial or social impediment, life has seemingly become a matter of surviving day-to-day, finding one's identity in the little things.

In fact, this condition is not limited to one nation, one region. Worldwide, there are governments and social systems which choke off innovation and access, causing many to lose what is unique about their position and place in the workforce and society at large. The drumbeat of technological and social advances moves forward. It should be the mission of government and the private sector to harness those successes for the well-being of all persons, not just a select few. Right now, unfortunately, much of the world, and thus the financial bourses, are suffering from the devaluation of what it means to be a contributing member of one's society.

There is this perception that change is evolving at an extremely rapid pace, too quickly for the laggards to keep pace. An accelerating timeline is magnifying the *rate of evolution* of things good and bad. Most notably, the wealthy are getting richer at a faster pace during the past five years, while the scope of impoverishment is similarly escalating faster also. **In effect, the global economy is expanding faster at both ends of the wealth spectrum like a rubber band, thus causing many to fear what would happen if the band snaps....as it did just one decade ago.**

That is why it feels "different" this time for those who cannot, yet again, absorb a painful financial implosion which could have been averted with proper due diligence and the right moral climate beforehand.

Are these normal stresses and strains, or is something unusual happening right now?

I would rather posit the following question instead: *"shouldn't we learn to adjust to the inevitable irregularities and the magnitude of their impact rather than trying to dispense with them altogether?"*

Strategy
We believe that what makes it different this time is the stress upon nations and regions to control the supply/demand continuum on their natural resources, which affects in every way the balance of political and economic power held by those nations. As a result of austerity programs and monetary restrictions, the world has been in a chaotic scramble to rebuild, resulting in a terrible imbalance of outcomes...one which favors the wealthy from the start. We observe that the proliferation of cultural conflicts is largely made up of *financial strife*, in which armed conflict and revolt is simply an ineffective and imperfect way of expressing frustration about hopelessness and lack of upward mobility.

That assessment is extraordinarily simplistic, I know, and does not in any way purport to convey the complexities of global populism. But it does provide an insight into how the world's stock markets tend to condense everything down to their basest element, and become a 24 hour trading platform for *current events* and *exogenous non-market related factors*, rather than the true investment nexus they were originally conceived to be.

Anecdotal and fundamental data both support the notion of a contracting market timeline. And since *perception* and *measurement* combine to factor into a significant percentage of one's decision-making equation, we now observe that financial statistics are unquestionably trading in tighter mini-cycles, and that it is becoming more common for this to occur. Since the recession (2008), the onset of tighter money and inert political institutions has changed the way market cycles unfold.

Thus, we are finding quite different response and success rates during the recovery sometimes determined by geography and patterns of natural resources concentration. As a result, the market's growth seems less global, far more jingoistic, and extraordinarily less comprehensive.

The lesson of this recovery phase is that absent a strong consumer, and his sense of inclusion and participation, there are few possible successful outcomes that might occur simply by manipulating interest rates, monetary policy, or political pronouncement, alone.

It would make sense, then, that taking the foot off the brake of monetary control and letting the economy find its own equilibrium without intervention might be the next best option currently available. The ultimate end-user (the consumer) should dictate the foundation of future demand and innovation from which the private sector must, in turn, respond. The premium should be upon diffusing the great disparity between manipulated markets and disenfranchised consumers.

Conclusion
Corporate and political policies must find a way of regulating the gap between ground rules and people's *perception* of the ground rules. And because we have already seen how market's immediate knee jerk reactions to buy and sell decisions have become commonplace, there also needs to be a new focus upon rebranding the concept of *investment* versus *immediate profit.....asset (risk) management* versus *trading and speculating.*

Markets need to become more sector agnostic and more wide-ranging in scope. What if we paid closer attention to the similarities amongst geographies and their populations than to those elements which unusually divide them?. Human needs such as housing, food, water, personal security, and reliable healthcare transcend geography, and should be commonly available. Access to these basic human rights might help to level the playing field of financial opportunity and, thus, market performance, dispelling the notion that capitalism is one-dimensional and geographically ethnocentric.

The unique feature of *quantitative studies* is that it is boundary-neutral and non-specific in its focus or biases. It implies only that *real* risks are sometimes necessary, and not always as onerous as one might fear. It assumes also that macro factors have a measureable timeline, a life-cycle, and that polluting that analysis with ego, manipulation, or mismanagement only leads to an undesired skewed outcome.

While corporate growth rates have certainly been hindered by a climate of cynicism, increasing demand, influenced by new job creation and wage expansion, is moving the needle for profit expectations. Inventory expansion is finally starting to correlate more closely with anticipated consumer behaviors.

As alluded to earlier, our intermediate analysis and portfolio allocation more closely approximates with secular demographic themes, most notably biotech, alternative energy, infrastructure, healthcare, technology, telecommunications, and agriculture. Bonds are only a peripheral consideration for us right now, as long as interest rates (and equivalent yield plays) remain at an historical nadir.

Suggested Balanced Account Asset Allocation, Q4, 2016

Equities: **65%**
Fixed Income: **15%**
Cash: **20%**

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