

Cool Head. Steady Hands.

Overall, investor anxiety about stocks is intensifying. There appears to be strong momentum in the wake of the Brexit vote to "*dump everything*", to get out of the way of a snowball rolling downhill. What might have been a "normal" response, a more measured tightening of share prices within a cycle decline, has turned into a catastrophe for some, resulting in a total state of disequilibrium.

However, amongst the variables that changed last quarter, *last week*, for the financial markets, only *investor perception and confidence* exaggerated the downward velocity of the sell-off with any degree of conviction. The facts of the economy remain relatively the same as the week before.

Despite astonishing monetary and fiscal efforts that elevated us out of the recession, financial global bourses have become a victim of their own pecuniary success. They became too expensive, too speculative to sustain those five-year highs...Brexit or not.

Add to this mix the upcoming US Presidential election, and you concoct a host of unknowns that everyone is pointing towards to justify a "sell" bias.

Thus far, however, I see no particular data which lead me to change our perspective about secular trends, earnings patterns, sector weightings, or moral imperatives. Our expectations for a sturdy-but-slow climb from recession-driven lows outweigh any sense of panic. We are not going to be oblivious to the impending obstacles in front of us (terrorism, regional discord, economic uncertainty, etc) but, equally so, we are not going to punish ourselves for an optimistic, glass-half-full orientation, either.

Markets

The markets are being held hostage by financial uncertainty that trails the Brexit decision. But, as alluded to above, we do not see a *direct correlation* between those fears and fundamental or quantitative analysis of the investment landscape. It is not the stock market that governs our everyday lives, it is economic kitchen-table facts and our social customs. One's children's education, plentiful food and water, our jobs and hobbies, physical surroundings, health and well-being are those ethereal factors whose "happiness quotient" hopefully does not equate to the Brexit vote in a straight line, nor which determine our *personal Price/Earnings ratio*. While the cost of "things" changes constantly, our personal quotients are more grounded, and do not rise and fall with the Dow Jones Industrial Average...nor should they.

Brexit produced a classic psychological dislocation in which "*what is*" and "*what it feels like*" tilted our collective psyche so much that we lurched either towards panic or inertia, debilitating the normal order of things. The debate about what comes next is important, but the search for personal and market equilibrium is much more difficult to accomplish. *Two bogeys in the first three holes* does not constitute the whole story, nor is it an accurate depiction of the final score. However, for many of us in this particular instance, it seems like the tail is wagging the dog.

Unfortunately, a relatively low global interest rate scenario has made stocks the only game in town. But despite the inherent risks of owning equities we still see opportunity in biotech, healthcare and life sciences, alternative energy, infrastructure, agribusiness, and utilities. We are also keen on maximizing our interest in our Water Stock concept as a socially responsible tool for generating both conversation and profit from an issue that has generational significance.

My recurrent readers might recall that we had identified several factors in the past few months that might have predicted just such a manic, *right-side-of-the-parabola* reaction in the stock markets. Depending upon the magnitude of the decline in valuation in the coming weeks, we know that the timeline of recovery has definitely been elongated by several standard deviations. Only when we look back might we fully understand the severity...and reasons...for the market's Brexit capitulation. **However, it will not only be by the magnitude of the financial market's decline that we will measure the fallout, but by any changes that take place in consumer sentiment, spending, and behavior.**

Nearly everyone is captivated by the outcome of the Brexit vote, but for a variety of different reasons.....

Most notably for the amazement that many feel by the duration of the equity markets' remarkable 8 year recovery, and disgust with no appreciable effect upon their own financial circumstance. This is a tale of the divide between the rich and poor, one which widens with each quarterly earnings season. Now that the vote is over, pundits are left to digest this phenomenon that is taking root all over the globe. Fears of a "domino effect" from other nations are worrisome. But I would quickly add that wherever citizens go to bed hungry, dislocated, impoverished, and without hope, Brexit is the last thing on their minds.

To be sure, this is a complicated, multi-tiered political/financial issue. Free trade, globalization, currency exchange, and multi-cultural integration are factors that affect us all...even the impoverished and disinterested. But "who wins" and "who loses" cannot be determined *today*, and will take time to evaluate. As is its custom, the financial market is positioning for trading advantage during this time of crisis, leaving in abeyance other real-life issues that have little to do with "the Street".

This is why citizens turn off to the machinations of Wall Street to focus instead upon what matters to them with immediacy.

All those trillions of dollars...and Euros...tied up by the Brexit uncertainty are being left unproductive while market-makers see how/when they gain clarity again. The fallout from the debate has already begun. Sudden swings in valuations always produce ups and downs, winners and losers...and, of course, tremendous volatility. Moreover, the anger that many feel about the disparity between "*the haves*" and "*the have-nots*" becomes a potent political weapon not to be dismissed.

Even amongst those who keep an even keel about such things, emotions are running raw and powerfully. It is incumbent on those in the business of money management and finance, for example, to lead with a steady hand, using methodology and discipline...not emotion...to guide their clients. Complex tasks sometimes must be broken down into smaller steps. Evaluating one's overall asset allocation and risk tolerances is an excellent way to mitigate any potential financial or emotional damage. As you will see below, we are taking a more cautious approach this quarter with our overall balanced asset allocation, believing that bargains are to be had, but security of principal outweighs any desire to go bargain hunting.

Conclusion

Distrust of our political and social institutions everywhere around the globe cannot be overstated. The debate is raging with good reason. Consequences be damned, citizens are resolved to gaining equal access to their personal pot-of-gold. This is the social and economic movement that created the underpinnings for Brexit to occur.

These issues of fairness and access are not easy to grapple with. The same sense of unease and mistrust inhabits rich and poor alike, just in different ways. While the visuals are sometimes different, the grievances are interestingly quite common. By and large, human beings crave *certainty, comfort, and security*. Despite geography, age, race, or wealth, those are life's most powerful forces.

Psychologists and sociologists agree that there are more emotions and features that unite people than which divide them. Both Wall Street and Main Street can play a role in governing the shifts that are inevitably going to occur. More importantly, our leaders should demonstrate a willingness to coalesce around common goals and socially responsible solutions to real life problems. That would be a powerful rejoinder to the anxiety of Brexit for future stories to be told.

Suggested Balanced Account Asset Allocation, Q3, 2016

Equities: 50%
Fixed Income: 20%
Cash: 30%

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.

The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. This report is not to be construed as an offer to sell or solicitation to buy any security. It is intended for private information purposes only. Any opinions expressed are subject to change without notice. Alexander Capital and its affiliated companies and/or individuals may from time to time own or have positions in the securities or contrary to the recommendations discussed herein. Neither Alexander Capital, LP nor any of its affiliates (collectively, "Alexander Capital, LP") is responsible for any recommendation, solicitation, offer or agreement or any information about any transaction, security, customer account, or account activity in this communication.

Alexander Capital L.P., 17 State Street, 5th Floor, New York, New York 10004 646-564-2299