

Market Outlook:

Flipping the script

Ah yes, the cruel month of October rears its ugly head again. Last week's extreme market volatility refocused everyone's perceptions from joy to panic in an instant. But for several months much of my dialogue to you had gradually been shifting from *equity strategies and chasing alpha through capital gains to base lining a strategic floor to portfolio returns using a new found opportunity in short-term time deposits*. And why not? The current secular shift in global monetary policy combined with inflation/price increases has finally given investors the chance to build their investment portfolio from the bottom-up rather than the more risky top-down. At long last, after at least a decade of waiting, one no longer has to use stocks exclusively as a default surrogate for bond yields or portfolio security. And with last week's extreme capitulation this strategy makes more sense than in the past.

Think about it....too many of you had been relegated to taking unnecessary risks because the era of "easy money" (low interest rates) deprived you of an alternative investment scenario because diversification by asset class had been obliterated as a strategy.

It is a different epoch now, and the ability slowly to diversify risk is upon us.

However, this "new era" also presents us with a dual dilemma: it will become more expensive to borrow money, leading perhaps to a chapter of diminishing corporate profitability and higher household expenses.

Sophisticated investors surely must recognize that all cyclical and secular fundamental shifts in the financial markets present us with a myriad number of options, both good and bad, and that *artistry*....not science alone....more often than not accounts for prudent investment decision-making. Indeed, the exuberance...and sometime headaches...of equity-only portfolio choice is being replaced by a more temperate investment landscape. Last week was a wake-up call to that fact.

The irony of the interest rate shift is that we are finally getting what we had wished for....*a base line support level for portfolio returns*.

Maybe that's not as exciting a prospect as dabbling consistently in the stock market, but who said that the endeavor had to be exciting? Downdrafts, like what occurred last week, are not for the faint of heart. The enormous responsibility of protecting and growing our client's funds is about eliminating fear and the potential aftershocks of calamitous exogenous circumstances.

Nearly there

Thus, as corporate share buybacks funded by low-cost cash reserves proliferated, the equity market had its own downside support mechanism: the vastness of cash held in savings. Perhaps the linear over-valuation in stocks about which I have been lamenting for months was simply attributable to an improving economic climate (?) Or perhaps the alchemy of creating profits from "nothing" was made a little easier by borrowing that cash at zero-percent interest. Straight line capital appreciation cannot happen indefinitely.

It is yet to be determined if a rise in interest rates might adversely affect the long bull run in stocks. I am not *predicting* it.... I am *watching out* for it. But the age of robotically manufacturing profits is abating. Worse still, I am reading in many business journals about how a rise in interest rates might precipitate a bear market in bonds. True, if you are currently a long-term bond holder. But for those of us prescient enough to keep our powder dry on the sidelines, I reaffirm that this is an excellent time to begin "nibbling" on short term investments and laddering the opportunity before us.

The discerning investor should also recognize at this juncture that he can no longer simply "buy the averages". Instead, it's highly likely from our projections that there are unique long-term capital gains opportunities in healthcare, alternative energy, agriculture, infrastructure, and technology shares, amongst other sectors. More importantly, it just doesn't make good corporate sense anymore to hoard cash and ask your shareholders to reward you for impotent behavior. I would much rather see capital expenditures in the pursuit of doing good and solving problems that affect the long term health of the planet and its citizens. Curious that because of inertia, polarity, and malevolence in the public discourse it is perhaps more *technologically* probable that these issues can be addressed than it is *politically* probable.

More strongly, I believe the potential to balance investment risk because of higher interest rates is a net-positive for long-term portfolio performance. I am more inclined to deploy cash reserves than at any time in the past decade. Building a strategic "floor" to our client's investment performance expectations should make it more likely that we achieve extraordinary returns, with or without equity participation.

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