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Market Outlook:

Old rules don't apply

Markets have become so volatile, and so vexing, lately that it is not unusual to see an investor figuratively pick up his portfolio "ball" and just go home to wait it out. I'm not referring to a "sell everything" mindset in which one attempts at some later date to time their next entry back into the market. No, it resembles something more akin to just leaving the festivities to someone else for the time being, holding on to whatever gains one already has, and reassessing the situation after the turn of the year. To that effect, I am predicting that **while the numerical integers surrounding the daily performance of the averages might continue to be significantly volatile for the balance of December, the sheer breadth of participation could be somewhat muted.**

So why, then, do investors continue to play by the "old rules" in which *buy and hold* produces severe emotional distress every time the Dow Jones goes down (or up) 500 points? Certainly, not tinkering with the portfolio is more advisable than micro-managing one's account. But current events are a dreadful reminder that markets do go down and that euphoria and bull markets can only last for so long.

Therefore, this is also a good moment to suggest that even though the last few years have been financially rewarding, the whole endeavor of portfolio construction and management is to reduce risk and to mitigate against the potential for collapse....such as we are seeing currently.

Was this bear capitulation a surprise? Only if you haven't been paying attention.

The value of a quantitative discipline (such as the kind my proprietary database, **ArlingtonEconometrics**, proscribes) is that one can more easily compare valuation metrics against a reliable data history so as to remove exogenous variables that might distort the analytical process. In other words*, quantitative methodology provides a consistent numerical framework for creating asset allocation within a portfolio to reflect more precisely each client's risk/reward metrics.*

Which are you... *buying and holding*, or *rotating sector weighting* to cushion the effect of a myriad number of factors that influence portfolio dynamics and performance? To be sure, there are many influences upon financial assets right now, from interest rates, politics, trade, social imperatives, and more. This is not a time to move along without a science or discipline.

Lesson learned

Conventional modeling is not right for everyone because it imposes a one-size-fits-all predisposition to building wealth. And, as we experienced in 1999 and 2008, it also doesn't allow for subtleties and unintended extremes, nor a speedy recovery from market catastrophes.

Having a "balanced portfolio" doesn't imply inertia. Rather, it means boasting a fluid process of daily evaluation...even if there are long periods of portfolio transactional inactivity as a result.

The basic fallacy of the "old rules" is that they accept as true that times are always indestructible. And yet, history...and current events...shows us that *each day* is fraught with its own unpredictability. To wit, the current investment tapestry has become a living nightmare for traditionalists.

The goal should always be to diversify and to recognize that efficient adjustments in asset allocation play a greater role in the probability of portfolio success than does any individual security....or offbeat speculative wager you might make.... within that portfolio. It is human nature to think about your portfolio in terms of *each component's* profits, losses, price, etc. I understand that. But successful investing is regarding the well-oiled *aggregate* of portfolio mixture, time horizon, and performance relative to one's long term discipline.