

Market Outlook:

It's all about perspective

With the summer rally in full swing, I'm hearing from clients about a duality in their mindset. On the one hand, they are grateful for my navigation prowess and hopeful about a continuation of the market's good fortune. On the other, they are terrified about their station in life (age, health, etc.); geopolitics; cross currents of unpredictable exogenous events; raising cash and "sitting the rest of the market out".

This classic imbalance between *wants* and *needs* is real, and must be respected.

What they, and I, see is a market held hostage to daily tweets, global confrontation, and government policies outside the span of their control, and which are oftentimes unrelated to the strict rules of science and economics. But it is not economic science that governs our everyday lives....it is, instead, filling the gas tank, paying the mortgage, getting our children a quality education. All these things are more ethereal, less quantifiable, but significantly more important than price-to-earnings ratios.

However, because of the steady pace upwards of the financial markets it may be several months hence that we look back and conclude when or what precipitated the end of the current bull cycle. "*What it is*" and "*what it feels like*" might be two different phenomena right now, but it definitely feels to me as if the tail is wagging the dog!!

Shield from harm

One of the most effective uses of my proprietary quantitative tools is to try and isolate patterns of economic trends which, in the aggregate, create probabilities of trend appreciation/depreciation. The question, then, is not which "shiny investment model" we need to invest in, but rather where the preponderance of the evidence might create the right blend (for each client) of positive outcomes. Quite simply, rather than trying to find a new good stock and bond picker, you need to keep the focus upon secular macro trends and try to be correct about the *balance of risks* associated with the portfolio.

The problem with this bull market (if you will indulge me your agreement that there is a problem) is that so few industries and so few individuals are directly benefitting from its largesse. Yes, some if not most profits this cycle are rising. Some are rising because of better corporate governance. But some others are manufacturing profitability through layoffs or stagnating wage growth. In truth, if a corporation can give Wall Street the impression that they are controlling costs, they may be accorded more favorable ratings than they deserve. Remember, *demand* should be the primary driver of revenues, and to this observer demand is the *least influential* factor in our current earnings cycle.

The most noble form of profitability is to have the moral fortitude to produce something beneficial to the global community at large, in addition to maintaining your obligation of return for your shareholders.

One reason for that moral vacuum is that we on Wall Street and you in the community don't demand loudly enough for that kind of fealty.

At this point in the economic cycle it appears that the next shoe to drop will be when our psychological frustrations begin to play a stronger role in our investment decision-making than does the simple expansion of "good news" and economic fundamentals.

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