

**Market Outlook:**

**Scaling the heights**

Given the constantly upward movement of the Dow Jones "goalposts", it is no wonder that investor enthusiasm continues to grow, especially during the current successful earnings season. If one stays long enough at the party, only good things might happen...or so the thinking goes. Nonetheless, one could also make a reasonable case for caution at this juncture.

How far is the near-term upside potential for stock averages?

Instead of calling for an all-out market correction, how about we just forecast for a future a little less robust?

Look, no one can examine the data and reasonably argue that growth is anything but exemplary. Capital spending is up, profits are widening, indicators are positive, and the recovery has firmly taken root across a spectrum of businesses. Meanwhile, growth sectors are breaking new price (valuation) barriers and portfolio prices are skyrocketing. The past seven years have been the benchmark for benchmarks, no doubt.

In general, this has been one of the longest, and best, bull cycles in market history. What, then, might possibly put a lid on future prospects?

Firstly, we must recognize that sell-offs are not the enemy...they occur and must, unfortunately, be accepted. When markets "top out" they provide an important resistance threshold from which new calibrations of potential probabilities become more efficient. It is worth noting that without capitulations preceding them, bull cycles cannot exist!

That bit of trivia aside, the price formations of equities during the last 2 years are consistent with a choppiness usually associated with red caution lights, if not a deeper concern about price reversals overall. No doubt profits are strong today, but they are only one factor, sometimes manufactured by exogenous influences, that change market multiples over time. In our estimation, the path of least resistance, at present, is that we are about to enter, at best, a phase of trimming the sails and setting a backdrop of cautious confidence.

We are also looking at the possibility of near term interest rate hikes as providing additional safe-haven alternatives for those whose risk appetite has already been sated.

**A top...or a correction?**

Genuine bull cycles exist most efficiently in a climate of asset class diversification, rising consumer demand, and social stability. At present, very few of those factors sufficiently exists well enough for us to convert from cautiousness to blazing optimism. Our estimates are that consumer spending (particularly discretionary, portfolio-earned monies) has limits. A climate of psychological anxiety is never a good thing for financial markets. The age of chasing anything because it's "new and shiny", be it dot.com, or real estate, or taxi cab alternatives, has come and gone, along with a serious breach of confidence in many of our social and cultural institutions, including the financial organizations that peddle that kind of hype. A reduction in end-user purchasing usually precedes a reorganization of corporate balance sheets.

The breadth and scope of some of these non-market related factors is the most onerous influence upon equity valuations, and they are not going to go away anytime soon. Even a modest perception shift of consumer mistrust, or malaise, might likely reverse the course of the bull trend or, worse, leave a vacuum that might only be filled by falling stock prices.

The enduring legacy of this historic bull recovery will be its duration and magnitude and, quite possibly, how it eventually reversed its course.

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