

**Market Outlook:**

**Telling a tale...**

Memories of the 2008 Great Recession persist. Despite a glowing earnings season, improving employment statistics, and modestly better wages and job security numbers, last month nevertheless harkened back to a time of uncertainty with a report that corporations are still being too stingy when it comes to capital expenditures (other than share repurchases) for new hiring and wage increases, and consumers are playing it close to the vest when considering discretionary spending or leaving their job to take another. Why move hundreds of miles, uproot family, to take a job that might not be there tomorrow?

Most disturbing about these "precursor" messages is the litany of businesses that are falling behind or "going under" altogether.

Even though the record stock market rally continues, it leaves in its wake a chronicle of those who float successfully above the fray while a myriad number of "others" are flailing courageously underwater.

As I have written in past missives, there is an extraordinary divergence between the empirical data and the anecdotal accounts. Our view is that the financial and psychological gaps between those who are doing well and those who are not are widening and serve, at a minimum, as a discussion point about containing an economic worst case scenario were it to occur. In the world of quantitative science and statistical analysis, the inverse is often true whereby the "top" of a market is most often a harbinger of the opposite happening from what the consensus says.....a perfect correlation of negative consequences.

That's not to say that economic data aren't moving in the right direction. After all, there has to be a reason for all the optimism. And indeed, as noted above, there is. But as bull markets go, this one is getting extremely long-in-the-tooth and suggesting, ironically, that all the euphoria might be masking a fate which historically happens at the top of every bull market cycle.

**....of bubbles and illusions**

Fortunately, we are not ignoring nor denying the validity of the data but, rather, describing the realities of how a portfolio manager assesses potential risks on behalf of his client's portfolio allocation and acts with conviction *not* to let a calamity unfold. Any indication that the market is in its latter stages must be respected and acted upon.

One only need look, for example, at price to earnings (P/E) ratios to glimpse the future. There has been a steady elongation in those patterns which anecdotally are not being matched by sales and demand numbers reported this past quarter. *Were any economic weakness to occur* then there might possibly be an erosion in stock valuations commensurate to any turnaround in the data....perhaps not explosively, but gradually over time.

Profitability has already been reported to be outpacing the rate of share price performance. At whatever time that spectacular tempo were to recede, we once again might expect a capitulation in the averages.

Just what are businesses going to do with their new-found profits? Hire more people? Invest in research? Or continue to buy back their outstanding shares in the public marketplace to support their stakeholders' price expectations? Unfortunately, we have already seen the answer to that "altruism" and it isn't the answer we need. Sure, it is nice if you are a shareholder in one of these companies. There is nothing "wrong" or illegal with that behavior.

But as the Federal Reserve moves to raise interest rates later this year, the biggest obstacle to this type of repurchase activity is that it is going to cost a lot more money to give the appearance of solvency and good governance than it has in the past. The era of "easy money" may or may not come to an end in the near future, but CEO's and their Board of Directors will have to give serious thought to how they deploy their cash stash beyond the mindless act of buying up their outstanding float as simply to manufacture the facade of a couple of good profit quarters.

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