

Market Outlook:

First things first

The name of the game is "risk management".

First and foremost, confidence and outcome are birthed from *process*. Successful capital gains most often derive from a strict adherence to methodology, principle, and discipline. Worrying about the outcome is akin to a golfer standing on the tee with water on the left, trees on the right and "freezing" with paralysis. Building portfolio alpha is about laying the groundwork beforehand and then executing with self awareness and confidence.

I worry about the inundation of hyperbole-driven products that permeate the financial market's landscape when expert chatter seems to give the impression that "traditional" investments may have already succumbed to a lack of momentum, as it seems now. The global marketplace, littered by examples of tribalism and political uncertainty, is still fertile ground for potential innovation in sectors which morally exploit the remediation of societal ills for decades hence. Consider, I submit, the enormous capital gains (and social power) that might develop from bioscience research; infrastructure redevelopment; hardware and technology innovation; alternative energy; and agriculture modernization. Let's substitute science and common sense into our vocabulary versus hyperbole, irrationality, panic, and speculation.

The world is dangerously close to appearing tone deaf. Despite nearly a decade of post-Recession gains, the markets seem more disparate (by region, territory, political affiliation, or natural resource centralization) than periods earlier in the last century. **The question to this observer is not whether we can sustain recovery, but whether we can sustain social cohesion and investor confidence as the gaps between these basic ancestral needs widens.**

Take, for instance, the case of trade and geopolitical advantage. What used to be assumed as linear has now become hierarchical. He who has the most keeps the most. As if by design, the world has morphed into a *have versus have-not* marketplace. Has it always been so? To varying degrees, of course. But the enrichment of some at the expense of the many is at a level which today threatens the flow of goods, capital, and opportunity unfairly. Any vigilante who abuses the marketplace for avarice and proprietary gain fails to grasp the concept that we all inhabit the same planet and what affects one affects us all. Climate, hunger, and the monopolization of wealth would be primary examples of these data.

It is striking that as the economic recovery burgeons still only a portion of the population worldwide is keeping pace or accelerating at the same rate. It is also far more likely that the increases in wealth are taking place in urban areas, while rural segments are stagnating. For too many, "topline" economics are not matching anecdotal "real life" practice. The financial markets pay too much attention to media hype, talking heads, and celebrity film festivals than they do to everyday kitchen-table experiences. The clearest signal of these imbalances is how large the profit magnitude is for the richest corporations versus the margins for small business.

Who's here for the duration?

In last week's edition I referred to a sense of dread...perhaps boredom, even....that many feel about their future. Clearly, the financial markets need to do a better job of encouraging capital to flow in ways which inspire the dream that life will be better from one generation to the next. Thinking about short-term profits and "rolls of the dice" do none of that. If you're already rich, then disregard the previous paragraphs.

The absence of empirically larger consumer spending and decidedly wider corporate capital expenditures becomes the basis of a self fulfilling prophecy. I am worried that gold speculators, energy speculators, investment banking junkies, and merger and acquisition mavens think that the immediacy they respond to is the same thing as investing for the long term. In the past few months these surrogates for traditional asset allocation models have proliferated to the point that, once again, "*Investment-du-jour*" has almost become the motto of choice for Wall Street.

It may sound like it, but I do not begrudge these faddists their profits. What I do object to are those latecomers who use the engine of capital formation as a replacement for more risk-averse investment strategies. Because of their one-off style, these speculators are typically the first ones to leave the party when the heat gets turned up, and that's exactly the opposite of what risk averse investors are looking for.

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