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**Market Outlook:**

**Wasting a good bull market**

You are hearing at an alarmingly increasing pace that the Dow Jones and S&P averages are making new high after new high. This is causing a peculiar panic both for those who are in the market, wondering when they might safely cash in their winnings, and those not yet fully invested who believe that the gravy train has already left the station without them. With markets soaring, the fear of "missing out" is growing. There is an old Wall Street axiom which mocks this emotion, in fact. It is called the Dow Jones Theory and it says, *"when everyone clamors to 'get in', that is the time for everyone else to get out!".*

As you know, we have been subsisting in a "low interest rate" environment for over a decade. And while the hope was that keeping rates low might spur increases in borrowing and, thus, more economic capacity, the real offshoot of those policies has been corporate cash hoarding and stock buybacks, margin squeezes for major banks, runaway record stock market valuation expansion, and near-zero savings rates for average investors. It is as if once the first dose wore off, the central bankers prescribed a second, then a third shot of adrenaline without diagnosing the underlying affliction.

Indeed, policy makers have forgotten the age-old *alternative investment scenario*, in which risk averse savers might actually be rewarded for building savings and avoiding speculation in the equity markets.

Instead, just the opposite has occurred. And yet, no matter which way policy develops, there will always be criticism from one side or the other that money is either "too tight" or "too available".

Is it possible that a lack of alternative options for investors could actually spawn another market collapse leading to a crisis like the one that led to the recent Great Recession?

Obviously, no one is hoping for that outcome. But we know that when price-to-earnings (P/E) ratios accelerate in favor of the "P" some kind of reversion to the mean is likely to occur.....unless, of course, the "E" expands exponentially to catch up with runaway stock prices.

Most analysts are forecasting an earnings slowdown for the next fiscal year. This means that the *rates of earnings acceleration* are not likely to surpass the numbers posted this year. Despite this, the same forecasters are saying that the global economy is weathering all obstacles and still on course for expansion in 2019. Indeed, the economy, in the aggregate, is far in front of where it was just 5 years ago.

**Lesson learned**

My hopes are that an increase in interest rates, at whatever time it might occur, could offer some alternative relief for investors and the markets by eliminating what has been a *default argument* for buying stocks. An increase in savings rates of return might inflict short-term pain on the stock markets temporarily, but align more closely with a competition for your dollars without involving unnecessary risk-taking.

It would provide peace of mind for investors looking to "hold on" to, and safely reinvest, gains already won from the recent bull market. By drawing out the investment progression for clients by including cash, savings, and time deposits, rising rates mollify the inherent risks of an all equity phase. By injecting confidence, not just cash, into the portfolio process bankers, economists, and politicians would achieve their end-game to expand capital formation.

Have the central banks inadvertently twisted the landscape by their insistence to "stimulate" the economy? Clearly up to this point they have not created the kind of growth and savings they thought they would when structuring an artificially low-rate climate, so why not address the savings and confidence issues stalling development which they unwisely overlooked previously?

It is shortsighted to conflate *stock market prosperity* with *unconditional economic prosperity for everyone*. I have called this the Parallel Disconnect....two economic trends seemingly correlated both in magnitude and amplitude but in reality two phenomena just passing in the night without cohesion or compassion. The global economy is a highly splintered amalgam of *legacy versus innovation*. I believe we are in a fertile period of earnings growth for areas of inventiveness such as biotech, healthcare, agriculture, infrastructure, and technology, if the political will and the moral compass align correctly.