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Market Outlook:

Permission granted

The new year began with an unwavering opinion by most observers and analysts that the global recession is defeated and that the overall economy is strong, barring any unforeseen or exogenous outside influences which might inhibit its health and expansion.

Well.....welcome to the *real* world of unexpected twists, turns, and personality defects.

With not yet one full week expired, the world's focus shifted violently from politics in Washington DC to conflicts in the Middle East, and back again. In its wake, oil prices, industrial capacity, consumer demand, and market earnings all came under greater scrutiny.

Are we at crisis levels yet? No. But an otherwise clear sky turned awfully foreboding in a hurry. There are takeaways we can draw upon very early in 2020 that might restore sanity and fiduciary responsibility and keep the whole thing from tumbling into yet another abyss....

Primarily, I urge clients to heed my oft-told admonition that *the stock markets and the global economy are not necessarily one in the same*. Despite their apparent lock-step (correlated) relationship, they are two distinctly different entities. In past missives I have referred to their symbiotic chart patterns as a *parallel disconnect*, attempting to draw your attention to two roads, seemingly intersecting, but which differ markedly in their organic construct. These two phenomena do, indeed, embody quite separate data points and identities, despite the fact that when traversing similar arcs they look as if they are twins.

The reason why I view this as a governing principle of 2020 portfolio analysis is because I see many of those experts mentioned above using current events and crises to conflate sector analysis with economic analysis. It is possible, for example, to have robust success investing in certain protective sectors while the rest of the economy takes on a negative direction. Surely you cannot believe that an average annual portfolio return above 20 percent such as occurred last year is sustainable indefinitely, no matter how robustly economic matters flourish?

Beginning January 1st of this year your expectations must be re-set to a level which approximates the "real" facts on the ground.

Storm clouds

When policymakers enthusiastically try to establish fiscal and social policy, they become obsessed by, and captive to, markers that closely align with what they know from prior experience. However, demographics, norms, and algorithms are constantly changing, and often trip up those who fail strategically to think ahead. The path to dealing with unforeseen crises is thus littered with impediments that our leaders have never before encountered. The calamity which ensues creates disjunction and portfolio/consumer loss of confidence. We are in a 24 hour news cycle, and anything which disrupts the current norm instantaneously inflicts a chaotic response. Too often market rallies and trends are torn asunder by knee-jerk response and panic.

It is my judgment that, given the obscenely high "relative strength" integers of the global bourses currently, investors are actually seeking justification to take money off the table without appearing as if they are in a psychological breakdown as well. Nevertheless, this year should actually be a strong one for investors if they realize that asset allocation is a fluid game, influenced by proper methodology, timing, and mind-set.

Our clients might have noticed that even as the bourses approached their all-time highs last year we were carefully locking in profits and gradually shifting our asset allocation to an *"aggressively defensive"* framework. This enabled us to weather the fluctuations of year-end considerations while advocating strongly for our sentiments about another positive performance this year. Already, our current quarter recommendations center around yield, capital gains, and longer term earnings growth in areas such as Basic Materials, Utilities, Financials, and Consumer Non-Cyclicals. Overbought conditions on many sectors are still problematic, but our proprietary quantifications **(ArlingtonEconometrics)** are designed to mitigate the pitfalls of simply tracking an "average".

Look, I get it. Everybody is looking to maximize their investment returns, but too often at the expense of fulfilling other objectives such as risk aversion and capital preservation. Market risk cannot be eliminated entirely, but reliability of performance depends upon consistency of message. Always remember that just because you think an investment looks attractive it doesn't mean that it's the right one for you or the right time to buy.