

Market Outlook:

The other shoe

Here we are, just a few weeks into the final quarter of 2021 and people are looking around trying to figure out how much they earned in portfolio appreciation during the first 9 months of the year and whether or not it is too late to try for one more “big score” before the end of the year. Bear in mind, though, that the markets adhere to no such artificial constraint such as seasons, quarters, or months. Rather, the economy flexes to its own pulse, and although one may try to pigeon-hole the data into neat little categories it is only through the passage of time that analysts can look back and understand the dynamics of cycle shifts and trend changes.

Nevertheless, there is always a relentless sense of urgency projected by investors at the end of the calendar year. This is magnified by the fact that we live in a “want it now” culture, that access to trading on the internet makes everyone an “expert”, and that the markets seem more to be a “gaming table”, inducing a gambler's physical and psychological addiction to the stock and bond markets rather than a true commitment to social change and capital formation. Looking at the investment landscape as your personal tax-planning event obscures an opportunity to make money in the long run. It is an annual ritual to look at things personally, usually with poor fourth quarter results.

As earnings-driven investors we believe the indices could be negatively impacted for the next few months owing to an impingement upon corporate margins caused by rising costs of production, supply chain slowdowns and bottlenecks, and a consumer who is extremely concerned about the effects of Covid 19 (and variants) upon his livelihood and discretionary spending. Curiously, our overall economic optimism stems from the fact that those aforementioned “bottlenecks” are not the result of true shortages in raw materials, but because of a colossal pent-up demand/purchase cycle released following the pandemic. Failure to plan and build up inventories is why we are where we are today.

It's not that bad

Already this year the markets have seen a contraction from their highs of about 6 percent which we believe might magnify to double digit rates in the coming quarters. The timing of a slowdown is obviously influenced by exogenous factors, but we feel comfortable noting that the trend lines are topping out, all the same. Irrespective of fiscal or monetary efforts to intervene, the real variable still rests with consumer attitudes.

Yes, they *want* the economy to improve, they *yearn* for a cure to the pandemic, but their heart tells them to hunker down against an unseen foe that could wreak havoc upon their retirement plans, education funding for their kids, and their next vacation commitment.

All this being said, we believe that there is sufficient room on the upside for equity valuations to flourish and for entrepreneurial opportunity to generate capital gains...if one widens the aperture of perception to include issues that cut across sectors, countries (geographies), and market capitalization *over the next generation*. The market is not a linear creature; it does not go up in straight lines forever. Nor is it a quixotic wager of the dice “on black”. The first half of the year was a bonanza for investors in the wake of a massive pandemic lockdown the year before. Now, we look to hold on to hard won gains, ride the wave downwards if necessary, and brace ourselves for the next round of asset allocation rebalancing when it comes.

To be sure, the next 75 days will be important, not because of their impact upon your portfolio performance or any specific economic data, but exactly for the *opposite* reason: it is vital that investors remove their ego from the epicenter of micro matters and micro portfolio management and look outside of themselves at things which matter to the planet, their community, and their neighbors such as replenishing forests and waterways, feeding the poor, finding cures for disease, rebuilding the roads, cleaning the environment, and educating our next generation. In the process, there are capital gains and value-added wealth which can accrue to your investment account.

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