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Parallax Dysphasia

Gaze up at a starlit night sky and you'll see thousands...dare I say, millions...of shiny orbs punctuating the darkness. Each light appears "next to" another and there are wide arrays of shapes, brightness, and patterns. From our perch on earth the tapestry is two-dimensional, a canvass of shiny objects. Yet, in reality, the sky is a three-dimensional time and space continuum.

Without mixing improper metaphors, let us say that the landscape of financial securities is equally as three dimensional even though on paper all securities appear to be residing side by side, just the same. As with the stars, financial instruments originate from different timelines, geographies, and sectors; traverse not just a two dimensional framework on a graph, but occupy a network of varied planes, vectors and velocities. The point is that while some objects appear to exist in close proximity to others, they may, in fact, be unrelated, non-correlated, or simply in a different space, altogether.

Why is this metaphor noteworthy? Because investors have been eagerly drawing parallels between events, statistics, and valuations that simply do not correlate to the same timeline even though those data appear to be congruent and confluent. This parallel disconnect is something about which I have written previously and forms the basis of what I title Parallax Dysphasia.

Thus, as the world emerges from a financial, medical, and moral pandemic it might *appear as if* all data converge equally to result in common outcomes and common opportunity, but nothing is further from the truth. While the confluence of current events might converge neatly on a graph, the fundamentals necessary and sufficient to estimate our three dimensional macrocosm are hidden in plain view.

Foremost of these errors in reckoning is unwittingly convincing ourselves that *the rise in stock prices is alright as long as we keep those record valuations separate from the disaster wrought upon others by the pandemic.* Leaving the "other guy" to fend for himself irrespective of our moral obligation to each other incurs a staggering cost upon the rest of the global economy. Nowhere is the comparison more stark than the gap between the wealthy and the poor engaged in a life and death daily struggle for food, security, housing, education, and peace of mind.

Those of us in the financial world callously are taught to believe (only) that everything in economics boils down to profit and loss. Conscience is an immeasurable quantity and obviously not the first statistic found on a balance sheet. Strange, too, because business knows how to feed the hungry, splice genes, cure disease, produce water and electricity, and educate our children. The infrastructure for doing all these things exists, or can be created. But, as our educators taught us, business reverts to profits first. Eliminating human malady is not a line item in the budget.

The second error investors make is defining all regions of the globe uniformly. Not everywhere are resources in equal supply. In fact, the industrial nations are richer *because of* access to infrastructure and natural resources; the poorer countries lag behind in both. Scarcity of capital and natural resources perpetuates the cycle of lifetime heartache that afflicts millions of people. These things are taken for granted by those who have them, coveted by those without. Thus, that look at the heavens, the stars above, might seem tranquil from millions of miles away, but we know that the sciences tell us much more about the intricacies of life that are not always visible to the naked eye. Here on planet Earth, one's zip code, skin color, or nationality is unfortunately a stronger precondition for acquiring wealth and status than any other variable.

Markets

These are but two small examples of how defining, describing, measuring, and investing in a vast backdrop of potential opportunity is both subjective and objective in nature. We are all faced with decisions whose subtleties determine the outcome of making money in the financial markets. Whether one has the patience to sort through that process is a factor that also most often affects the outcome. But consider: just having the luxury of being able to invest already puts you in a strata above the vast number of "others" who have no such opportunity.

The pandemic may have held data in abeyance, but did relatively little to quell the years of progress and momentum built during the past decade. Yes, there are supply chain issues currently, and much talk about price inflation and earnings reductions for the immediate quarter, as well as local and international geopolitical wrangling. These are man-made changes in the culture and climate, but there are organic shifts taking place as well. Some of these patterns are of short duration while others are generational. But above all, each of these paradigm shifts can be quantified from inception, their timelines graphed, and the probability of duration measured. In almost every case, from ecology, climate, and infrastructure to healthcare, biotech, and technology there are strong positives and enduring stochastic integers.

The world is being transformed in ways that were unfathomable decades ago. How we shop/consume, receive medical care, produce our foods, harvest water, communicate, travel the globe and outer space have gone through remarkable change....and the pandemic, in our opinion, accelerated some of these generational shifts for the good. What once might have been unimagined is now a part of everyday life.

Market returns are exceeding historical pace. Even the most optimistic forecasts failed to foretell today's levels. We believe that secular themes are poised to do even more. Those things that contribute to a cleaner, more sustainable future (medicine, energy, agriculture, technology, e.g.) are the investment opportunities for the next generation. Emerging markets will gain access to internet capabilities that will be more affordable, and start to reshape their former financial limitations and psychological boundaries. As a result, an expanding "middle class" widens the window of prosperity, and puts the previously impoverished on an equal footing for sharing wealth.

Strategy

As more of us look at capital as an influence agent, as well as its traditional role in building net-worth, there becomes a keener appreciation for structuring social stability and political consensus to maintain equilibrium. Rather than depleting the globe of its natural resources it will become possible to nurture and replenish them. Randomness and unpredictability affects everything from tangible assets to alternatives. The appetite for participating in socially responsible investing (SRI) is growing, not because of the "vogue" factor but because it is the right thing to do and the most secure way to build profits into one's portfolio in a highly capricious world.

The last 18 months have certainly heightened anxieties about the future. Hypotheses that were always assumed to be true have, by necessity, changed and evolved quickly during the pandemic. Life's minutiae and daily survival have supplanted long term goal-setting. Many of us are asking *"What are the costs of guessing wrong?",* or *"How much longer must we endure this disease?"*

Informed asset allocation helps us to diversify risk while still seeking to maximize profits. We advise caution going forward, in particular lowering our equity exposure for the near-term....there simply is too much uncertainty surrounding the financial markets and the economy to know when this cycle of contraction will end.....but it *will* end. The essence of our quantitative methodology is to generate return (alpha) while limiting volatility or causing harm to profits already won.

Conclusion

Understanding not only the *potential* but the *consequences* of investing creates a responsible mindset about how money influences our world. The pillars of our proprietary method involve balancing anecdotal experiences and extraordinary supposition against economic data...earnings, price trends, relative strength quotients, and sector relevance.....to outperform traditional benchmarks, a task we have done successfully for over 4 decades. Today's landscape has never been more consequential, nor more controversial, replete with a unique opportunity to conquer anxieties and build optimism for the long-term.

Suggested balanced account asset allocation, Q4, 2021

Equity:	**38%**
Fixed Income:	**32%**
Cash:	**30%**

Arlington Econometrics is a quantitative market tool. Utilizing proprietary algorithmic equations, AE offers solutions for market-timing, asset allocation, and macro economic analysis. Using historical time-series measurements, Arlington Econometrics optimizes the analytical process and forecasting coefficients to make economic forecasting more objective.

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