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Market Outlook:

Two sides of a penny

While war rages between Ukraine and Russia, and markets churn under intense volatility, we've noticed a strident dichotomy between two kinds of investor: those who believe this is the beginning of the end, and those who stay the course. (No doubt, there are shades of grey in between, but clearly there is a dread developing concerning inflation, joblessness, world security, and hope for the future.)

The former are selling out of their investments, locking in profits gainfully won during the past few years, hoarding cash, but also dabbling occasionally in bargain hunting for depressed prices and looking for a "score" of a one or two point bounce.

The latter group are more conscious of spreading their risk amongst a variety of sectors, asset classes…and also holding cash in abeyance.

The biggest travesty however is that the market, once again, has become a micro-managed cosmos, dictated by 24 hour news cycles and instant access to information that is constantly evolving. In truth, no one knows the real catalysts of market performance, only that data and analytics get tossed aside when emotion becomes stronger than fact. The reality lies somewhere in between…war might not *cause* asset bubbles to collapse, but uncertainty impacts the landscape in overwhelming ways. Thus, true money management requires adherence to a set of principles which guide performance outcomes *before* exogenous influences can happen.

Corrections and contractions are a normal part of investing. Consider, though, how low interest rates during the past decade might have contributed to the bull cycle by making money inexpensive to borrow and causing stocks to become the only alternative for investors from which to choose. Now, as central banks begin raising borrowing costs (interest rates) to protect against hyper ventilating the economy, we must try to predict the influence of yet another variable. Or perhaps higher interest rates are an indication of a robust economy that is charging ahead?

In two years of the Covid pandemic we saw a slowdown in output, hiring, supply chain distribution, and expectations. If ever there were to be a "bottom" in the markets that would have been it. And yet, despite the obstacles, the market performed splendidly. Pent-up demand is fueling the surge…and the shortages…not a change in the underlying fundamentals of global growth. Good for the economy…and good for your portfolio.

Now we ask, *"could the market surge be causing the bubble to collapse upon itself?"* Do valuations sustainably rise in a straight line? My clients and readers know that I have answered that question again and again. *Markets move in parabolic cycles that can be quantified for duration and magnitude.* Trying to defy the laws of physics and economics usually leads to poor portfolio outcomes.

So what do we do now? More carnage or more opportunity? The answer correlates to the notion posed in the first paragraph. Obviously, higher oil and food prices will lead to greater short-term tension in stock performance. While tangible assets might have been a safe haven for defensive money, the question remains for how long can those asset bubbles sustain?

Look, I get it. People hate "losing" money. However, not all portfolio declines are "losses". Reacting with fear or panic to one's monthly statement is no more appropriate than "doubling down" on losses and trying to speculate about where to find the bottom. Preparing ahead of time through prudent asset allocation mitigates the effects of market volatility, particularly the declines. Economists, money managers, and politicians don't cause market capitulations….gravity does.

Cyclic phase analytics tells us that form efficiently modulates according to time and magnitude. Zeniths are preceded by nadirs; nadirs are preceded by zeniths.

It will take time to sort out the intangibles in today's market, or to figure out how the first quarter will impact upon the next 3. We know that change is a part of the process. In fact, it is the *only* unknown that we can predict with certainty.