

Market Outlook:

Post Road

As so many seminal and transformational events have befallen us during the generations, we have come to define those periods “just after” by looking *backwards*, calling them “post-this”, or “post-that”. For example, “*post- industrial revolution*”; “*post- Civil War*”; “*post-World War 2*”; and more recently, “*post-Covid*”. Hopefully, and very soon, there will be a “post-Ukrainian War”.....These analyses become the subtext of historical examination in books, discussions, and other forums. Placing existential threats into context is exactly what historians are expected to do, perhaps so that we might learn from them or forego their occurrence ever again.

I would posit, though, that it is also important to think of the world in a “*pre-condition*”, particularly as it relates to finance and investing. To think of things imaginatively, as they might be, and how capital can shape the possibilities of achievements not yet realized.

Certainly, the War in Ukraine cannot be ignored by the capital markets. But how does one price in the effect of feckless aggression, human suffering, or the threat of a larger global conflagration? These unknowns might be the most significant of our lifetime. The shifting of power balances and geopolitics affects everything in our calculus, from the price of goods and services, earnings potential, and even one’s macro overview and optimism about the future. Asset allocation becomes a primary determinant in the likelihood of portfolio success, both in the long term and short term. Carelessly buying an index fund leaves one vulnerable to the exigencies of the broader market as a whole. That kind of volatility is not usually what clients are asking for. On the other hand, holding cash as an asset class is not thought of as being particularly aggressive. And yet using cash as an investment allocation decision...not a default fallback...can be an expression of one’s preparedness to take risk in the future when the analytics determine the prudence of deploying those reserves.

What you cannot do is allow panic to dictate either the mood or the action. Investors must be resolute and determined that their methodology is appropriate to their level of risk-taking.

Cosmos versus chaos

This morning, the cost of gasoline and food is higher. Supply chain disruptions and, yes, Covid, give us all pause about the upcoming few months. Sector weightings and careful decision making have never been more important.

The markets will take care of themselves in their own way, at their own pace. Recent volatility appears massively disconnected from world events...unless you ascribe it solely to profit taking or value buying. Portfolio managers, economists, and the general public must make decisions *now* about how to confront those real world challenges. The difference though is that many investors do so under the guise of “*today and tomorrow*”...not “*this year, this decade*.”

Our view is that one must approach the financial markets and wealth building with a wider aperture of perspective and an extremely high level of optimism and entrepreneurship. This is not to imply that one must be a prude, a “Pollyanna”. On the contrary, a “*post-event*” mentality can successfully be replaced with a “*pre*”-disposition about opportunity and capital gains. Widespread inflation is a part of our world right now, but not the reason why businesses cannot compete. Rather, it reflects a buildup in demand during the pandemic that made it impossible to catch up under current conditions. No doubt, corporate and government sanctions on oil and disruptions in grain exports because of the Ukrainian conflict contribute, as well. Let’s make portfolios inflation-proof by investing in Basic Materials, Energy (alternatives), and Utilities. Let’s also prepare for future technology and healthcare needs. How about feeding the hungry and housing the homeless? There are numerous ways to buttress one’s risk right now. We may not know when global conflicts will erupt, or end, but portfolios must be fluid enough not to *imply* pessimism, but to *demonstrate* optimism. Circumstances, and quantitative data, allow us to infer valuations and sector-specific opportunity before they occur without giving in to passionate distress that might wreak havoc upon hard earned assets.

Looking at, within, and beyond impediments is the knack to building successful portfolio outcomes and the skill which separates the foolhardy in all of us from the entrepreneurial optimist.

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