

Market Outlook:

Conflict psychology

Whether a head of state, banker, senator, mayor, police chief, mother, teacher, or clerk you are constantly affected by the news on a macro and micro scale. And if you are one of those, *and an investor*, you must be terribly troubled by the grand scale of downside divergent signals you were getting in the last two weeks regarding war in the Middle East, earnings declines in your “favorite” companies, or concerns about safety and security at home and abroad. The news is gloomy for investors as oil prices surge, earnings decelerate, and inflation creeps. No doubt, alarms about the durability of what had been a post-Covid recovery are getting stronger as the focus has shifted from solemnity to uncertainty. While there might be little agreement about which figures are precise, these divergences offer a convenient excuse to reevaluate the data and perhaps to unload marketable securities to reduce your risks.

The public is always gathering data that ranks performance and measurable statistics, sifting them down on a granular level to a simple, comprehensible integer. All around us these measurements proliferate as a means of comparing our “well-being” to that of others. The integer serves as an easy reference point of evaluation. We do these calculations in our head and on paper in such large quantities that our appetite for comparison becomes almost insatiable. Nuances be damned....you’re either up or you’re down!

Yet, despite levels of sophistication that experts (and the general public) apply to these factors, the most persistent tool that scientists use to evaluate the market’s appetite for risk is still *how the public feels about met or unmet expectations*. At the end of the day (year), when performance analytics are calculated, the key question is whether investors perceive conditions as *better* or *worse* than where we were and in which direction are we headed.

No one can dispute that current events in Iran portend significant changes ahead. It’s too early for us to categorize them either as good or bad, but we know that the global economy has been shaken. And anytime there is uncertainty there is hesitation about moving forward. Our own metrics say that the surge in stock prices has been temporarily halted, and that the likelihood of inflation and/or recession has been heightened. The amount of money being allocated towards war moves the balance from fiscal stimulus into an economic vacuum. We are not suggesting that we have reached an unmanageable tipping point. Only that, over the long run, factors are now in play that change the original estimates. Hopefully, you have anticipated the possibility of exogenous influences by protecting your asset allocation from the unknown. If not, be mindful that any imbalances can be addressed. The point is that analysis is a combination of numbers and expectations, and constantly in a state of flux.

No doubt, artificial intelligence (AI) and other sophisticated technologies have made it easier to aggregate and quantify the information that all investors need to build effective outcomes. Surviving market crashes and rebalancing sector weightings is tactlessly becoming just a matter of clicking on an icon. But *expectations* and *timeliness* are ephemeral qualities that have little to do with mathematics and much more a function of one’s financial status in the social hierarchy. No doubt, the rich have an advantage/head start here. Portfolio managers are tasked with walking a delicate balance between data and psychology to arrive at a risk profile that is appropriate for each of his/her clients.

To some extent, the sheer volume of information available out there in the ether-sphere represents a fast-paced “*what have you done for me lately*” mind set. Essentially, we have more “stuff” to consume than we know what to do with it. As the gap between knowledge and instinct widens, it moves us further from fact-based investing towards a wild west continuum, one which fosters rewards based upon promulgating unrealistic comparisons, like the kind discussed above. This author believes, however, that using information effectively requires us to understand nuance and emotion combined with real data in order to mitigate the variables. Irrespective of the annualized integers that most people fixate upon, initiatives cannot be digitalized. Each of us holds our own scorecard, right or wrong.

The semantics are, indeed, complex. But so too are individuals. Any attempt to quantify common sense is just an exercise in folly. Think about the futility of tracking integers and harvesting their measurement. Are we searching only for better metrics, or for decisions that are more responsive to the issues that matter as useful citizens of our community? The philosophy of the “big score” ...to the exclusion of method *and* compassion....wrongfully places the emphasis upon hubris and bravado.

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