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Steady Hand

In the wake of tariffs, wars in Iran and Lebanon, escalating prices, and "measured" economic news, overall investor anxieties are intensifying. Collective mood appears to be vacillating anywhere between "dump everything" to "what should I hold?' A usually mundane mid-season inflection point has turned into a catastrophe for some, and simple disequilibrium for others.

However, the only variable that has appreciably changed during the first half of this year has been *investor perception and interpretation* of the velocity of events unfolding around them. The underlying fundamentals of a broader five-year post-Covid economic recovery remain substantially the same. Despite astonishing success, both medically and economically, in dealing with a global pandemic, financial bourses worldwide have become a victim of their own pecuniary success: they became too expensive, too speculative to sustain, and now teeter on the brink of record high valuations with nowhere to go but......sideways(?) Moreover, I am hearing way too many clients looking to justify a "sell" bias.

Thus far, however, I see no particular data which lead me to change our perspective about long term secular trends, earnings patterns, sector weightings, and securities selections. ***Our recommendations support a steady-but-slow climb from the depths of a Covid depression (literally and figuratively) which should outweigh any sense of immediate panic.*** Nor are we oblivious to the possibility of storm clouds on the horizon (terrorism, politics, regional discord). But, most importantly, we are not going to punish ourselves for our glass half -full interpretation of the data.

Markets

As alluded to above, markets are being held hostage by current events and an unwillingness by many to be drawn into the danger zone. However, there is no true correlation between those fears and the quantitative valuations we ascribe to our allocations. Indeed, it is not the stock market itself that governs our everyday lives. Rather, it is the economic reality that each of us encounters at work, at home, and in our communities that determines our gradient of satisfaction. The costs of education, healthcare, food, commutation, and energy determine our "happiness quotient". Those data do not correlate in a straight line from the news of the day. Rather, while the cost of things changes constantly, our personal Price/Earnings ratio is not confluent with the Dow Jones averages....nor should they be.

Today's valuations of stocks and the marketplace in which they trade (driven by a wildly successful first-half of the trading year) represent a classic dislocation in which *what it is* and *what it feels like* tilt our collective psyche so much so that we are either in a panic-driven inertia or, more benevolently, a state of uncertainty about what to buy next. One's search for personal equilibrium is upended by the news and hype about (1) how bad it could be or (2) how bad it already is.

Two bogeys in the first three holes does not constitute the whole round of golf, nor is the midpoint of a calendar year an indication of the success of a long-term strategic asset allocation. Patience is required, as is a calm mind. The tail, in this instance, is not wagging the dog!!

Unfortunately, a relatively low interest rate scenario has made stocks the only game in town. That is not always a good balance when seeking portfolio alpha. But despite the inherent risks of being overweighted in equities there is still opportunity for portfolio constancy in sectors such as healthcare, alternative energy, infrastructure, agribusiness, and utilities (water and electric).

My readers may recall that we identified several factors in the past few months that predicted this manic, right side of the parabola reaction to stock market appreciation. We knew, for example, that you cannot sustain linear upside valuation increases indefinitely without a pause for breath. Indeed, the post-Covid recovery has been punctuated by several standard deviations of pattern elongation, making it particularly susceptible to change-of- heart sell phases. Capitulations are a part of making money. The recent sell-offs in Tech and Energy shares is an example of news-driven spikes and contractions. We should expect that they will occur in other sectors this quarter, as well.

It is not only the magnitude of the financial market's gains that will determine when/if there is a sell-off but any immediate changes in how consumer sentiment and behavior respond to the stresses they feel around the kitchen table today. Already, 2026 is shaping up to be a cautious year for consumer spending. While some companies are reporting demonstrable surges in profits, those are attributed to cost increases that are passed on to their customers (gasoline, electric utilities, e.g.), Broader economic pressures might, however, cut into those margins. The macro, in this instance, moves the micro and fosters a strange dichotomy for businesses and individuals: while consumers are willing to open their pocketbooks to innovative products, external pressures like inflation, global warfare, and tariffs leave many in the breach. Financial resilience is being overwhelmed by exogenous events that are outside of the control of most businesses. Therefore, we see profitability more difficult to sustain into the second half of this year.

Strategy

Not everyone is captivated by the rash of new IPO's and sensational stock market gains. The amazement and satisfaction that we all feel about increases in our monthly account statements is tempered somewhat by a sense of unfairness and disgust that our personal lifestyles are not appreciably changing for the better. This is a tale of the divide between rich and poor, one which widens with each quarterly earnings season. It is hard to acknowledge that this phenomenon is "happening to us" while millionaires and trillionaires are being spawned through speculation. The domino effect of a wealth gap that is not viable adds to the disturbances many feel about the stock markets, in general. Whenever any one of us goes to bed hungry, impoverished, dislocated, or without hope, all of us are impacted. Empathy is as important to portfolio success as are earnings.

No doubt, these are complex, multi-tiered issues. The interruption of free trade, the application of tariffs upon our partners, the diminution of currency values, and the dislike of anyone not born in your country is not a US phenomenmon....it is everywhere. But "who wins" and" who loses" cannot be the standard by which market, or economic, success is defined. Yes, everyone is looking for a trading advantage, but leaving in abeyance the issues that affect real life, real neighbors, would be an affront to our morality

This, and more, is why citizens are turning off the news and paying less attention to the machinations of Wall Street.

It is incumbent on those in the financial profession to lead with a steady hand, using methodology and discipline...not emotion...to guide the way. Complex tasks must be broken down into smaller steps. Evaluating one's risk tolerances, for example, is an excellent place to start. Begin by ascribing a range to your ability to take risk rather than focusing upon the integer that measures your "ideal" annual rate of return. In doing so, you create an excellent barrier against financial and emotional damage being wrought upon your investments. Bargains can always be had, but security of principal should, in this author's opinion, outweigh any desire to go big-game hunting or chasing shiny objects. The psychological compensation, alone, could be invaluable.

None of this is to suggest that we are devoid of opportunities. Quite the contrary, our research posits an amazing shift that is developing within technology that inspires greater efficiency/profitability in healthcare, aerospace, industrial development, and alternative energy. The generational nuances are more subtle than our grandparent's industrial revolutions. These paradigm shifts, in fact, signal that new technologies are being applied to old concepts to produce better results. This style of "quantitative analytics" has always worked to uncover sectors with momentum that parallel unique opportunity for earnings/price gains for the future.

Conclusion

Distrust of our political, economic, and social institutions cannot be overstated in what is happening in 2026. The debate rages with good reason. Everyone is searching for their own pot-of-gold. It is how we hold on to hope for the future

But these issues of fairness and access to success are not easy to grapple with. The same sense of unease and mistrust inhabits the mind of rich and poor, alike....just in different ways: *"What's mine is mine and I'm not willing to give it up or share with anyone else."* While the trappings around us might be different, the grievances are interestingly quite common. By and large, human beings crave *certainty, comfort*, and *security*. Despite geography, age, race, or wealth status, those are life's most powerful forces.

Psychologists and sociologists agree that there are more emotions and features that unite people than which divide them. Both Wall Street and Main Street can play a role in shaping how that might occur. More importantly, our leaders must demonstrate a willingness themselves to coalesce around commonly held beliefs and goals, and to be responsible for those efforts. The outcome is always unpredictable, but the inevitability of failure is unacceptable.

Suggested Balanced Account Asset Allocation, Q3, 2026
Equities: 55%
Fixed Income: 25%
Cash: 20%

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