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DJIA: 13,025.04

S&P: 1,416.23

NASDAQ: 3,010.24

30yr. T-Bond: 2.80%

Market Outlook:

Locked and loaded.

Now that the election is over, and the markets are oversold, the Mideast is again volatile, and the “fiscal cliff” is fast approaching, most market concern rests with “who’s going to be the first one in the pool?” Interestingly, although the stars are aligned once again to make money in the equities markets, it is still a psychological, not financial, component that governs people’s capital deployment considerations.

As interest rates have been manipulated into a zero-sum game, literally and figuratively, the only option for converting cash into capital gains has become stocks.

But who is going to trade the security of the fixed income markets for the volatility of owning stocks? And why *must* they? No one is forcing investors to make those choices. Besides, in the real world that I live in, both professionally and personally, navigation through the financial landscape is not a question of either/or but of fine shadings and *degrees* of risk-taking.

Why must one consider equities today? Because a cornucopia of other options is receding into smaller and smaller baskets, and most of those *don’t* include traditional risk-averse vehicles such as CD’s and Treasury bonds.

Most problematic, though, is that even as a climate of confidence widens, investor’s risk appetite has not appreciably kept pace. **The gap between “feelings” and “actions” is narrowing, but not sufficient to turn a wary stock market into a raging bull stampede.**

But to be fair, that’s not how the game works, anyway. Everything in *my* universe is measured on a timeline that would make sprinters wince with anxiety. “First one in” is not only a motto, it is a funeral dirge when compared to the average investor’s *expectations* for portfolio performance. In an age of instant gratification, a five year reversal is intolerable. And to the intolerant I remind them that it took years to bury ourselves in debt and greed, and it will take years to replace them with patience and profitability.

Style versus substance.

The reasons for our expansion in breadth are as much secular as they are micro. Industries which led the cyclical decline in equities (e.g. Retail, Financials, Housing, Industrials) have “bottomed” and are showing nascent signs of recovery. Along with demand, earnings projections are also rejuvenating. **If it can be said that low interest rates fueled a greed-inspired excess in borrowing, it might also be argued that low interest rates make stocks look more attractive for their potential capital gains.**

The uncertainty surrounding micro-data (fiscal cliff, taxes) is already priced into the market, so rather than being an obstacle, those data become an opportunist’s upside probability. **Recognizing that there are very few “straight lines” in quantitative studies, the odds now favor a protracted period of accumulation in equities, foretelling a longer cycle of upside equity price mark-ups.** In particular, the U.S. equity basket is becoming a safe haven for global investors who see geopolitical uncertainty stalling regional growth.

During the summer, I had been writing that we were “*closer to the end of a bear cycle than we were at its initiation.*” The obviousness of that statement shouldn’t be overshadowed by the fact that we needed nearly three years to complete that bear journey. Perversely, it always looks bleakest from the bottom of the well, but we only have “up” to go if, in fact, we are at the end of this bear market.

Any symmetry in the financial markets is always slightly askew. When we feel best, is always the time to look out for disaster. When we feel worst, good times are around the next bend. Understanding the inverse nature of market timing and psychology is just the first step towards using that knowledge to prosper from one’s methodology and discipline. But it is a healthy sign that we pay attention to empirical changes in policy, data, and current events than to let mania and negativity ruin what might be an opportunity to profit from emerging secular trends.

As with most things “Wall Street,” there will always be a healthy skepticism of the industries’ motivation. In this case, let’s try to be good stewards of our client’s needs for responsible capital gains and security. If so, we might be turning a corner from despair to guarded optimism.

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