

In like a lion. Out like a lamb?

Yes, I know it's only the beginning of February, but the opening days of the new administration seem to have raised a few eyebrows on Wall Street and made more than a few investors rethink the euphoria that prevailed through the year-end holidays. In the wake of that short honeymoon, we have again seen several triple-digit drops, following the Dow's brief visit north of the less-than-magical 20,000 mark. One can only wonder where the heightened pace of activity in the Washington Beltway will be leading.

Part of the enthusiasm relates to the likelihood of lowered tax rates, an eased regulatory environment, and (at least for some folks) efforts to strengthen homeland security. The first two are legislative issues that will take time to draft, discuss, iron out, and move ahead for approval. The latter is a markedly different concern. Although the seeds of terrorism may have been sown abroad, most of the sad events that have taken place as a result have been home grown.

It's important to remain aware that over time overall market valuations reflect the progress of underlying business prosperity, but what takes place in the short term is largely determined by changes in investor psychology. Seasonal reports of earnings by companies may have some impact, but geopolitical developments regularly play an even greater role. If the lunatic in North Korea takes action to test the new administration, anything can happen. For that matter, the Middle East is still a hotbed that may never cool off.

When stock prices are tending toward the rich side, it increases the likelihood of at least an interim pullback. As most seasoned investors know, pullbacks of 10% during the year are more common than not. It's like breathing in and breathing out. With that said, however, one would be well advised to err on the cautious side until we get a clearer view of what's happening in the nation's capital. This is a time to put out the yellow flag and wait for signs that the dust is settling. At the moment, it's hard to see the trees for the forest.