

Is It Time To Get Nervous?

With 10 months to go before the November election, it appears that the recent market euphoria may be beginning to fade. Expectations of a more robust pace of business activity are one thing, but there's a considerable lag time between the talk about changes that may have a favorable impact on corporate profits and the reality of when that might actually happen.

Consumer confidence has risen to the highest level since 2007, just before the onset of the Great Recession. That's an encouraging sign, especially since there's been a near lockstep advance between this indicator and the leading market averages.

From this vantage point, it seems likely that the U.S. economy will continue moving ahead, though more than likely at a pace that's restrained.

But prospects are one thing; they are hopes, nothing more. Whether these hopes will be fulfilled is another story. Every year, Wall Street analysts crank out their earnings estimates for the next 12 months. With rare exception, the numbers start on the optimistic side and then get pared back over the course of the year. So here we are again with yet another vote of confidence from the "pros", but the odds are that this year's pattern of revisions will follow those of the past.

This perspective may well trigger the thought of reducing one's risk quotient while pondering the economic developments that lie ahead. Yes, there are divergent views of what's to come and often there are disruptions along the way. That's normal and that's what investors accept on the path toward long-term success.

Focusing primarily on the U.S. because international markets are still dormant ignores the fact that U.S. valuations are stretched, not ridiculously so, but enough to raise an eyebrow. The same goes for concern about where interest rates may be headed over the coming year. And so on. What's more, investing in the U.S. market because other opportunities may appear to be less compelling pays no attention to where valuations are today.

This is one of the times when there is increasing reason to think about taking a less aggressive stance while awaiting information that may strengthen your reasons for making or adding to commitments. What is unwise is the belief that you should never take a breather.