



## Equity Market Update

The big story remains the fiscal cliff in the USA. From a tactical perspective this continues to create a “buy the rumor, sell the news” type of environment.

### The Cyclical Perspective

My cyclical view remains relatively constructive. My research has found that the largest market downturns tend to occur within recessions. That means that any change in cyclical positioning would coincide with a high probability of recession. While the economy remains very weak, I still do not see a high probability of a prolonged and protracted downturn in the economy. In other words, I don't see a 2002 or 2008 style recession on the horizon. Obviously, a downward surprise in the fiscal cliff discussions would change that view, but I still don't see any major surprises coming out of the talks. We're still likely looking at cuts in the range of \$150B-\$200B in total. Not insignificant, but not worth panicking over either.

The Orcam U.S. Recession Index continues to point to a weakening economy, but not a contracting economy. The risks here are to the downside, but not at levels that are consistent with recession or protracted market declines (20%+ losses).

**From a more cyclical (longer-term) view I am inclined to remain bullish.**

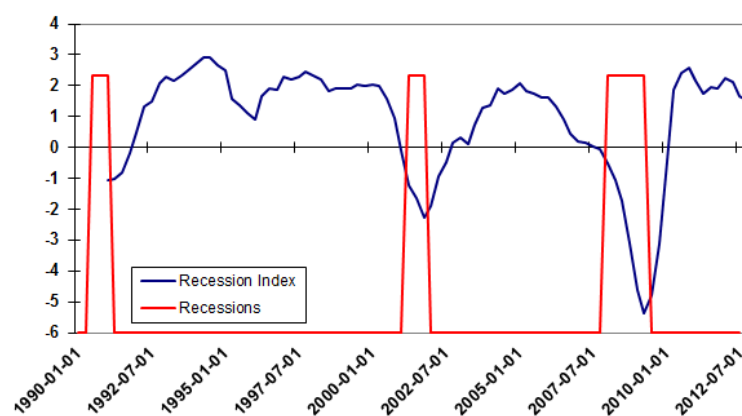
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**Long story short—  
Uncertainty will continue to lift as a fiscal cliff resolution comes to fruition.**

**Orcam U.S. Recession Index**



Source: Orcam Financial Group, LLC

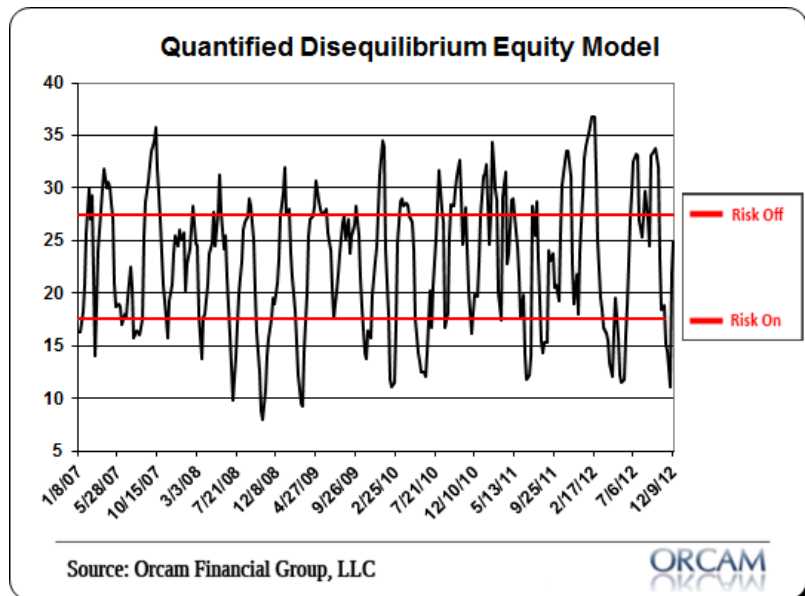
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## The Tactical View - Uncertainty is Lifting

I've been saying for several months now that I expect a resolution to the fiscal cliff before year-end. Fortunately, I think we got some good news today. Not only did President Obama say that we are "weeks" away from a resolution, but Eric Cantor, the House Majority Leader, said the House will not recess until they have resolved the fiscal cliff. That means a resolution will very likely come to fruition in the coming weeks. Until then, I wouldn't be shocked to see the market continue trading in a "buy the rumor, sell the news" type mentality. That is, we won't price in all the gains and a full lifting of the uncertainty until a fiscal cliff announcement is in the books.

This view is also consistent with the current readings in our primary equity model. The QD model has reversed sharply from recent lows. As we mentioned into the early November downturn, this created a very good risk/reward environment as the uncertainty of the election and fiscal cliff was creating some unwarranted selling. The model is also consistent with my view that we will continue to see upside bias into the year-end as seasonality and underperforming money managers chase the indices on any gains.

Unfortunately, the recent gains in the market leave us in a sort of "dead zone" for the market. This time of year tends to be very quiet so I would be lying if I told you that I think the market has a huge amount of upside before year-end. It likely doesn't. But I would still remain positioned in a bullish posture from a tactical position as the risk/reward is still favoring the upside in equities.



**From a more tactical equity position I am inclined to remain bullish.**

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