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## Latest bull market celebrates its first birthday

After reaching a high of 14,164.53 on Oct. 9, 2007, the Dow Jones industrial average fell to 6,547.05 on March 9, 2009. Despite some drops along the way, it has gained more than 60% since then.



Sources: Associated Press, Dow Jones, USA TODAY research  
Credit: Graphic by Julia Schmalz, Juan Thomassie, Adam Shell and David Craig, USA TODAY

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By Robert Deutsch, USA TODAY file

## As bull market turns 1, is it time to party, or worry?

By Adam Shell, USA TODAY

NEW YORK — It is hard to kill a bull market in its first year of life. The last time a baby bull was buried on *Wall Street* before celebrating its first birthday was during the Great Depression.

It is just as rare for stock bull markets to die before they turn 2. You have to go back to 1947 to find a bull rally that didn't last at least 24 months.

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On average, the life expectancy of a bull market is nearly four years, according to InvesTech Research.

Why are data on bull market mortality rates relevant?

Because on Wednesday, investors will celebrate the first birthday of the current bull market — the one born a day after

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stocks hit rock bottom on March 9, 2009, ending the second-worst stock market meltdown in history.

But since investors are forward-looking animals who deal in probabilities when making decisions, their focus will shift quickly to what's next for the market. And how stocks performed in the early stages of powerful uptrends in the past provides a roadmap for still-nervous investors wondering how long the good times can last.

"It's not that bull markets can't end in less than one year or two years, ... but the historical odds are in our favor," notes James Stack, editor of *InvesTech Research*, in a note to subscribers.

Optimists contend that there are plenty of reasons the odds point to a second year of gains. But investors shouldn't expect the same kind of shoot-the-lights-out type of returns. "The first year will win the prize by far when it comes to magnitude of returns," predicts Bob Doll, chief equity strategist at **BlackRock**.

Still, the continuing tailwinds from all the government stimulus injected into the economy, Doll says, should be powerful enough to overcome the headwinds associated with consumers paying down debt and fast-rising government deficits.

But Doll warns of bumps along the way. "We will see more aftershocks like the Greek debt crisis from the major financial earthquake of late 2008 and early 2009," he says.

Bull markets tend not to fizzle quickly for one simple reason: "Normally, economic recoveries last a couple of years," if not longer, says Tobias Levkovich, chief U.S. equity strategist at **Citi** Investment Research.

So unless the economy suffers a double dip, the ongoing expansion — even if it is less robust than normal — should translate into stronger-than-expected profits for U.S. companies, Levkovich says. Earnings are a key driver of stock prices. "I think the market rallies this year," he says.

But haven't stocks raced up too far, too fast and gotten ahead of the slow pace of the recovery, setting them up for a fall?

No, says Stephen Auth, chief investment officer of equities at **Federated Investors**.

Auth rejects the most-cited reason skeptics use to predict the rally's demise, namely that the Standard & Poor's 500 index's nearly 70% rally since the bear market low suggests that there is little upside left.

"The (bear market closing low of 676.53) was a false low," says Auth. He says the market fell to an artificially depressed level due to fears of the entire financial system collapsing.

Auth argues that a better level to look at to get a more accurate gauge of the size of the market's rebound is the intra-day low of 839.80 hit on Oct. 10, 2008, as it came on record trading volume of more than 11 billion shares — more than one-third larger than the day of the March 9, 2009, low. With the S&P at 1138.50 the market is up only 36% from the 840 level.

"For people to say we have already (priced in) the sharp economic recovery is nonsense," Auth says. "We haven't even (recouped all the losses) caused by the Armageddon scenario. We haven't even gotten back to 1250." That was where the S&P 500 was trading before the mid-September 2008 bankruptcy filing of Wall Street titan **Lehman Bros.**, an event that arguably triggered the financial crisis.

**The bear side of the equation**

So what would it take to end the bull market prematurely? A 20% drop, which is the definition of a bear market. A dip of that magnitude is possible, say more skeptical market strategists.

"You can't rule out a drop of 20% now or ever," says Michael Farr, president of money management firm **Farr Miller & Washington**.

Risks to the economic outlook remain, Farr stresses. He points out that **Federal Reserve** Chairman **Ben Bernanke** said recently that the "recovery is not yet self-sustaining." Farr worries that it will be tough to get a consumer-led expansion going with so many people saddled with high debt and job insecurity. Consumers are key to a revival because they account for roughly two-thirds of economic activity in the U.S.

"This is a wait-and-see period for the economy," Farr says. "The main cliffhanger is whether the ample supply of government dollars will find traction and, in time, lead to renewed growth and hiring. Markets are plenty vulnerable to shock and disappointment right now. Investors are undecided. Yell 'Boo!' and they may all run for the door at once."

**Jobs are a big factor**

Another risk is jobs. Simply put: If the economy can't generate jobs, and jobless claims increase sharply, "The bull might be over," says Richard Bernstein, CEO of **Richard Bernstein Capital Management**. The flip side is if jobs come back, it is very bullish for stocks, he adds. Citing a still-skeptical investor base, a strengthening dollar, which makes U.S. assets more attractive, and a strong profit outlook, Bernstein says there is a "very good probability the bull market continues to its second birthday."

The average stock mutual fund was up 55% in the 12 months ended in February. So protecting gains is a

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paramount concern to Main Street investors, many of whom saw their portfolios slashed in half in the 2007-2009 bear market.

Still, the notion that stocks still have room to run simply because they are not back to where they were before the worst fears of investors caused a selling stampede is just part of the bull's story.

#### Bulls make their case

The other key building blocks of the bull case include:

**•Major roadblocks still absent.** Two of the biggest rally killers — interest rate hikes by the Federal Reserve and a big spike in inflation — "simply are not present yet," says James Paulsen, chief investment strategist at Wells Capital Management.

Many investors are worried that the Fed's so-called exit strategy, in which the U.S. central bank drains cheap money from the financial system and boosts borrowing costs in an effort to stave off inflation, will put what Bernanke dubs the nascent economic recovery in jeopardy. But Paulsen argues that even if the Fed starts to raise short-term interest rates, currently near 0%, it won't spell the end of the stock rally. The rally is not at risk, he argues, until sometime after the Fed begins to raise rates.

**•Investor fear still present.** Typically, stock rallies run into trouble when investors get too optimistic, too complacent and too convinced that profiting in the stock market is a sure thing. But despite the big gains in the first year of the bull, sentiment is anything but ebullient.

And from a contrarian standpoint, that is bullish.

Not only are stocks climbing the "Wall of Worry," they are also dealing with more daunting "Cliffs of Concern," says Citi's Levkovich.

"There is all this stuff to worry about," Levkovich says. "Debt problems in Greece. China tightening its monetary policy (or its property bubble bursting). Commercial real estate woes. What about the banking sector? What about jobs? What about underfunded pension plans? It goes on and on.

"I am not saying these problems are not out there, or that they are irrelevant," Levkovich says. "We do have reason to worry."

But investors must recognize, Levkovich adds, that all these risks get priced into the market. More important, investors must realize that if any better-than-expected news surfaces, the markets have room to go higher.

**•Earnings power is underappreciated.** Optimists such as Federated's Auth are betting that the economic recovery will be stronger and last longer than the current consensus opinion on Wall Street. Most economists are calling for a subpar recovery due to banks cutting back on credit and the ongoing process of individuals paying down debt after years of spending beyond their means.

If Auth is right, and manufacturing is in the early stages of recovery, and job growth is about to turn positive and U.S. companies with major foreign operations continue to reap big profits in faster-growing emerging markets, corporate profitability should be better than analysts are now predicting.

Profits will also benefit from the fact that most companies prepared for a depression that never happened by cutting costs and headcounts. So when sales pick up, the profits will pile up more quickly on the bottom line.

"We have earnings rebounding substantially in the next couple of years," Auth says.

How big a rebound? Analysts' consensus estimate for 2010 earnings for S&P 500 companies is roughly \$76 per share, and Auth is estimating closer to \$85 to \$90, which puts the current market price-to-earnings ratio at around 12.7, which is below the long-term average of 15.

**•Cash on sidelines still piling up.** "We still have a ton of sidelined cash, or dry powder, sitting on the sidelines," says Paulsen. By his estimates households have upwards of \$7 trillion sitting in cash or cash equivalents. Because most of Americans have bought into the "new normal" thesis of less spending, less risk-taking and lower returns, Paulsen says there could be a lot of "potential converts" who might have to switch to a more aggressive strategy and buy stocks if the recovery is better than economists think.

Ever since the financial crisis began, money flows into domestic stock funds have been woefully small, as investors have flocked to the perceived safety of bond funds.

That trend continued in the week ended Feb. 24, the most recent data available, as domestic stock funds had inflows of just \$151 million, vs. nearly \$8 billion going into bond funds, according to the [Investment Company Institute](#).

#### Summing up future risks

But bears such as Michael Panzner, who writes the blog *Financial Armageddon*, say bulls are "blind to the worsening economic reality all around them," and in danger of getting hurt again by falling asset prices.

Headwinds are plentiful, Panzner says.

There has been little improvement in bank lending or credit availability, he says. The "long-term unemployment situation is getting worse" and economic data, which had been pointing up, have flattened out recently, suggesting a growing risk of a double dip, or economic relapse, he says.

The banking system also remains weak, as is the financial position of sovereign states such as Greece as well as states such as California.

He predicts a not-too-pretty fallout.

"In my view, the effect will be, at the least, a retest of what we saw last March," Panzner says. "At worst, much lower lows. It may not happen in 2010. However, it could be over the next couple of years."

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I loved it when the stock market plunged over the past couple of years. I was able to pick up more lots of the stocks in my portfolio at much cheaper prices along the way. Hey, investors, BOO! HAHAAHAAAA.

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Good point. Historically, the bear returns every five years and the recession comes back every 10 years. What can I do during those times? Buy, buy, buy.