

Rocky Mountain News

Investors summit Dow 14er

Market rallies through storms of rising rates, subprime lending woes, soaring oil prices to climb 1,000 points in 59 trading days

By Rocky Wire Reports

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The Dow Jones industrial average closed above 14,000 Thursday for the first time, capping a stunning four-month rally that has been driven by corporate buyouts, strong corporate profits and stock buybacks.

The stock market has advanced past mounting concerns about rising mortgage default rates, rising oil prices and higher interest rates. Measured in terms of corporate profits, it is the most expensive stocks have been in almost two years.

Stocks are still not expensive by the standards of, say, the late 1990s, but they may no longer be cheap, financial specialists are increasingly concluding.

"It's not as attractive as it was," Tobias Levkovich, the chief equity strategist at Citigroup, said about the stock market. "But it's not unattractive."

The Dow Jones industrial average, the best-known gauge of the stock market and made up of 30 large companies, rose 82.19 points, to 14,000.41. The Dow is up 12.3 percent for the year.

The Standard & Poor's 500 index, which provides a more comprehensive view of the market, closed up 6.91 points, to 1,553.08, and is up 9.5 percent for the year.

This new market reality - and the litany of worries associated with the housing market that have bothered skeptics for some time - is raising concerns about whether stocks can continue their ascent. It also has made markets more volatile relative to the recent past, with days of big increases followed by sharp drops.

The Dow and the market overall were led higher by International Business Machines, which reported stronger-than-expected quarterly profits Wednesday, and Exxon-Mobil, which climbed as oil prices closed in on \$76 a barrel. Technology stocks, utilities, energy and industrial stocks were broadly higher.

Sixty-nine of 112 S&P 500 members that have released second-quarter results beat analysts' estimates, according to Bloomberg data. IBM's profit and higher sales at Juniper Networks Inc. improved the outlook for computer-related companies, whose shares have been the best performers in the S&P 500 over the past 12 months.

"We've had very good news coming out of tech," said Thomas Nyheim, who helps manage \$2.8 billion at Christiana Bank & Trust Co. in Greenville, Del. "The market has marched up strongly."

Financial stocks, however, had another rough day.

Profits at large companies had been expected to start slowing significantly this year but have held up better than many analysts predicted. In part, that is because the earnings forecasts companies and analysts devised this year may have been too pessimistic, market specialists suggest.

"The economy is mixed but not as weak as when a lot of people made their earnings expectations at the end of the first quarter," said Leo P. Grohowski, chief investment officer at U.S. Trust, a division of Bank of America that serves wealthy clients.

"I think we are seeing people trying to decide whether earnings are sustainable," said Jeffrey Dunham, principal at Dunham & Associates in San Diego. He said the stock market's recent run-up in part reflects investors' desire not to miss out on gains.

"I don't see any big conviction by anybody to leap into the market, but we're all terrified to not be players. It's gone awfully far in an awfully short time, and the market is trying to figure out is this a head fake or is this the real deal?"

"We don't have another '99 occurring here," he said, referring to the stock market run-up in 1999 that preceded the dot-com collapse. "Things haven't reached stupid levels."

Euphoria and market reality

The Dow Jones industrial average on Thursday closed above 14,000 for the first time. But with the gains come increased concerns. The *Rocky Mountain News* asked local market watchers to comment on the factors that could stop the bull run before the end of 2007.

- **David Peterson, Peak Capital Investment Services:** "Many things such as terrorist attacks, sudden spikes in inflation, oil rising to over \$100 a barrel or a meteor hitting Wall Street, but the one I'm most concerned about is the housing market. As people suffer sticker shock as their adjustable-rate mortgages change, the housing sector is likely to experience a continued slowdown. Although unlikely, in my opinion, this has potential to derail the market."
- **Warren Olsen, First Western Investment Management:** "I think the biggest risk to the market for the remainder of the year is a jump in inflation, which causes the Fed to raise interest rates. Although the market is coming around to the idea that there is a greater likelihood of an interest rate increase rather than a decrease, a rate increase could stop the market in its tracks. A secondary risk could be a major meltdown in the subprime market that triggers a series of other events. I view this as pretty unlikely, though."
- **John Claxton, RBC Dain Rauscher:** "Earnings growth that surprises to the downside and/or higher interest rates. This global near-perfect storm of higher economic growth rates abroad, a "soft landing" at home, the low dollar, relatively low domestic interest rates and reasonable valuations will need a breather eventually."
- **Greg Denewiler, Denewiler Capital Management/Sage Investment Management:** "Higher oil prices haven't done it. We have seen hints that earnings fears have created some concern. However, they appear to be beating expectations again. Any change in global liquidity is probably the biggest threat. Higher credit spreads or a few leveraged buyout defaults would cool the flow of money."
- **Sacha Millstone, the Millstone Evans Group of Raymond James & Associates:** "Short of something unexpected and catastrophic - and if it is unexpected that means I would not be able to predict it - I don't see this bull run stopping until late 2008 or 2009."
- **Vitaliy Katsenelson, Investment Management Associates:** "Consumer weakness caused by a weakening housing market. We are already seeing it in the weakening sales of Home Depot and Lowe's."
- **Don Cassidy, Retirement Investing Institute:** "I really don't attach any significance to round numbers. What seems more central to me is the P/E of the market, which is getting a little generous unless the economy is flawless going forward. Investors need to buy on dips, not when new highs are widely celebrated."

• **Patricia Ryan, Colorado State University:** "It is true the (Dow Jones) closed at a record high today. This number may be as much psychological as anything else. It is possible that we might see a small correction, as we often do after reaching a hurdle, but the market is moving strongly."

• **Joshua Stevens, AMG National Trust Bank:** "We have felt for some time the market is in a period of transition, reflecting the transition in the underlying economy. Market transitions are often rocky and uncertain periods, and we view the potential withdrawal of liquidity from financial markets (through tougher lending practices and higher interest rates) and the potential for slower earnings growth in traditional value sectors of the market as risks."

• **Jeff Wilson, Wilson Advisory Group:** "Subprime meltdown. Inability of private equity and investment bankers to finance their high-yield LBO purchases of private companies. Oil at \$100. An interruption of oil passing through the Strait of Hormuz."

• **Gregory Anderson, GRAnderson Wealth Management Group:** "If inflation and interest rates suddenly rear their heads, we could have a problem. But I don't see that happening, and I think it would have to be a combination of the two."

What's keeping the bulls on a run?

Sixty-nine of 112 Standard & Poor's 500 index members that have released second quarter results beat analysts' estimates.

© The Dow average closed above 14,000 just 59 trading days after surpassing 13,000. That's more than twice as fast as its previous 1,000-point advance.

© The Dow's advance Thursday again put the index above 14,000 but didn't propel it past the trading high of 14,021.95 set this week.

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