

Do I hear 9?

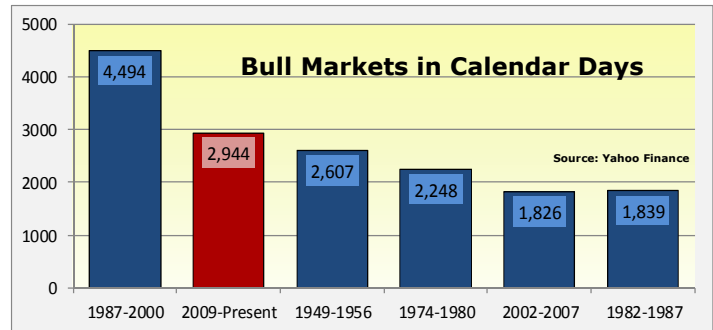
"Open bid at 6, I have 6, now 7, will you gimme 7? I hear 7 bid at 6, now 8, would you go 9? I'm at 8, do I hear 9? now 8, do you wana go 9? 8 Going-Going..."
The second longest bull market in history celebrated its eighth anniversary this past March 9th. Is this Bull Market "Going-Going-Gone"? Or could the Bulls bid the stock market higher and higher and go for nine?

Last year started out with the worst 10-day stock market decline in history! This year, although far from historic, began with the continued upward momentum of economic enthusiasm betting on the prospects of lower personal and corporate taxes, elimination of burdensome regulation, and government infrastructure spending. According to FactSet the S&P 500 is valued at a lofty 17.5 times projected earnings which is well above the 10-year average of 13.9. Investors who have bid up the stock prices are banking on increases in economic output and corporate profits to support this elevated Price/Earnings (P/E) level.

The stock market is driven by corporate earnings which are driven by the strength of US and foreign economies. America wields the most economic weight as the US accounts for 17% of gross world output and the American consumer is 2/3rds of our Gross Domestic Product (GDP). The consumer is very confident according to the Conference Board Consumer Confidence index which jumped sharply in March to its highest level in over 16 years! Also, Deloitte's CFO Signals™ Survey exclaims "Optimism Abounds". CFOs' optimism regarding their own companies' prospects soared to a seven year high while economic projections both in Europe and here at home hit a 4 year high. But Deloitte also says 80% of those CFOs think the US equity markets are overvalued.

The combination of this economic enthusiasm and the prospect for sustained growth has buoyed the stock markets to lofty levels. Optimism can drive markets, but ultimately, corporate earnings are the key to higher stock prices. Several key economic indicators point to better future earnings both here and abroad.

Real estate plays an integral role in economic expansion. Residential real estate not only provides housing for families but is also often the greatest source of personal wealth, whereas commercial real estate creates space for companies to grow. US housing prices



soared by 5.9% in January from a year earlier, a 31-month high "as demand remains hot" as Case Shiller reported. Likewise experts are cautiously optimistic that the gains in commercial real estate will persist even in the face of higher interest rates. Commercial real estate benefits from GDP growth, household formation, and strong job gains.

Employment and wage gains have put more money in the hands of American consumers who propel 2/3rds of the US economy. The Bureau of Labor Statistics reported better-than-expected brisk hiring in February. Nonfarm payrolls soared by 235,000 which followed the January increase of 238,000 jobs. The American job machine has moved back into high gear this year, while unemployment is firmly below 5%. The labor force participation rate, after falling since 2000 and holding steady for the last few years, has risen to 63% in February, the highest level in three years.



As the labor market has strengthened and the moderate economic expansion persists, the Federal Reserve voted to maintain their policy of gradually

raising short-term interest rates. Unexpectedly, mid and long-term interest rates stabilized, or even fell slightly, and are still very low by historical standards.

Will the US finally break out of sub-par growth? Will our expectations of regulation and tax cuts result in stronger growth or is this market built on these false hopes? Can this investor and corporate enthusiasm result in real growth? Will the auctioneer's chant heighten this bidding frenzy and push this Bull Market to a 9th year? Or is this Bull Market "Going-Going-Gone"?