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Crawling out of the Hole

• The baby bull market is a year old today, but many investors are still holding back, waiting to see if it will keep moving forward. History suggests it will.

By NEAL ST. ANTHONY

A year ago last Friday, veteran investment manager Greg Kulka was interrupted on his Mexican holiday to take a call from an agitated 62-year-old client.

"He wanted out of the stock market," Kulka recalled. "He is a reasonable guy, but I could just feel the capitulation. He had no idea that [his investments] could be cut in half." Kulka did his client's bidding.

"We took him out of the market," Kulka said. A few days later, after stocks hit fresh lows as panic gripped global markets on March 9, 2009, Kulka called the man back.

"I called him and said, 'We've got to put half this money back in the market. The yield alone on the S&P 500 was approaching 4 percent and insiders are buying their stocks.' We slowly pieced him back into the market, and he's happier today."

The bull market turns one year old today. Major stock indexes are up more than 60 percent, although still far off their 2007 highs. Confidence seems to have returned to the capital markets, due in no small part to the government rescue of the overleveraged financial titans. The housing decline seems to be bottoming and Minnesota's unemployment rate is finally declining while the national unemployment has at least stopped rising.

"Corporate America is still in its bunker, but their earnings are getting better because they fired all of us," exclaimed Brian Belski, a Minnesota boy who lost his analyst job at Merrill Lynch, which was one of the bad actors in the mortgage debacle. "They're going to have to start hiring as the economy comes back."

Belski, now chief investment strategist at Oppenheimer & Co., called the market's turnaround early last year. And it's not over yet, he said.

"By the end of this year, the markets will be higher, employment will be coming back and the consumer is starting to come back. Real estate prices have bottomed," Belski said. "The guy around the block just got a job. Maybe it doesn't pay as much as the last one. But it's a job."

Yet many Wall Street professionals are sensing a pullback in the market. And many investors burned by last year's volatility remain wary. While the sky-is-falling fear and outrage of a year ago have eased, the whiplash from layoffs, lost savings, foreclosures and unraveling Ponzi schemes has left us suspicious and scarred.

"Normally a rise of 60 percent [in the stock market] should be reason for quite a bit of optimism," Werner De Bondt, a professor of behavioral finance at DePaul University in Chicago, told the Milwaukee Journal Sentinel. "Instead, people are cutting spending, saving more, turning inward and going into a defensive posture. The middle class is under pressure."

Bullish forecasts

David Chalupnik, head of equity investments at FAF Advisors, the investment-management unit of U.S. Bancorp, said consumer spending growth is strongest among people who make more than $150,000 because they typically have the proportionately largest exposure to a rising stock market.

Chalupnik also believes this bull has a ways to run.

"History suggests that after one big down year [such as 2008 and early 2009], and one year of a bull market, there are typically three more years of single-digit returns that accompany a business expansion," he said. "And then you prepare for the next downturn."

Chalupnik forecasts that the Standard & Poor's 500 companies, in aggregate, will earn $80 per share this year. Put a typical 16-times-earnings market multiple on that and the 12-month forecast becomes 1,280 for the S&P 500, another 10 or 11 percent rise. The index closed at 1,138.50 on Monday.

Doug Ramsey, research chief at the often-bearish Leuthold Group, said the ongoing bull-bear debate is in relative balance, and many institutional investors on the sidelines are starting to come into stocks now for fear they're going to lose out on more upside.

"Our work, statistical and anecdotal, suggests inventories [outside of housing] are so uncomfortably low that the 'economic bounce' is likely to last well over a year," Ramsey said.

OK, I'm still worried about the future. The unprecedented federal spending of the last couple of years is troublesome.

That said, much of our huge debt was built over the previous eight years, thanks to the Bush tax cuts that most benefited the wealthy, the expansion of the Medicare drug benefit and the $1 trillion-plus borrowing to fight wars in Iraq and Afghanistan. And we use more imported oil than we did before Sept. 11, 2001.

We don't need another massive stimulus bill. But the 2009-10 spending helped keep the economy alive and several million Americans at work. The government should now focus on a much smaller jobs-subsidy program targeted at small businesses, which create 75 percent of the jobs in a nascent recovery.

The capital gains and income tax cuts of 2001 should snap back to where they were during the 1990s. Coincidentally, that was also the most prosperous time in our history.