

The Denver Post

BUSINESS

September 19, 2006

Stuck Market Still Draws Big Interest



*By Al Lewis
Denver Post Staff Columnist
DenverPost.com*

The Dow Jones industrial average may be stuck.

I mean really stuck - as in not going anywhere for two decades.

"The stock market high of 2000 will likely not be surpassed on a continuous basis until 2020," Denver money manager Jeff Wilson of Wilson Advisory Group told me.

Sounds crazy, I know. But we've been stuck for six years already.

The last time the Dow set a record was in January 2000 when it hit 11,723. The market is inching close to that high again - closing Monday at 11,555. But every time the Dow gets near its high, it retreats.

The closest it came this year was May 10, when it hit 11,642.

Wilson noted that the stock market has stalled for decades at a time in the past:

From January 1900 to August 1921, the Dow went from a 66 to 67.

From August 1929 to November 1954, it went from 380 to 386.

From February 1964 to July 1982, it went from 800 to 808.

If the Dow is stuck like this again, Baby Boomers can change their name to baby busters as they retire en masse over the next several years. A hot stock market won't save them.

"I'm surprised the market has done as well as it has," said Mac Clouse, director of the Reiman School of Finance at the University of Denver. "There is nothing fundamentally good out there that says the market should be reaching new highs."

There's war in the Middle East, lofty oil prices, spiking interest rates, a deflating housing market, a pile of consumer debt, the continued threat of inflation, an increased chance of a recession next year and terrorism in both liquid and gel.

Despite all that gloom, though, the economy has held up amazingly well.

Unemployment is low, corporate balance sheets are strong and the gross domestic product keeps growing at a healthy, albeit slowing, clip.

"We've lost the momentum we had during the wonderful recovery period of '03 and '04," said John Claxton, vice president of RBC Dain Rauscher. "Yet, we have growth in the economy and growth of (corporate) operating earnings still well above historic levels."

Since the beginning of the year, Claxton has predicted an 11,600 Dow by year-end. That would mean a respectable gain of nearly 10 percent for the year. But that gain was also available when the Dow hit its most recent high in May.

Since May, investors have piled up billions in money market accounts, taking advantage of interest rates as high as 5 percent.

Why deal with global uncertainty when there's a sure thing? But now they're getting antsy, said Andre Ratkai of Praxis Advisory Group in Denver.

He predicts November's elections will give them a reason to jump back in, possibly driving the Dow to a new high then. But he doesn't see the Dow breaking too far away from its current trading range.

"The budget deficit, the trade deficit, rising materials costs - those will keep the market from blasting off into some wonderful bull market," he said. "Any ascent from here will be in fits and starts."

I'll be writing my stock market mea culpa if Ratkai is right. In May, I predicted the Dow had essentially seen its high for the year. This prediction has held up surprisingly well over the summer. And even though the

market is close to that level, my prediction may still hold.

September is historically a difficult month for the market, and October is the month when the market has taken its most dramatic nose dives. The big gains that come in November may be on top of big losses between now and then.

"A lot of people are just waiting for this big October smashup," Ratkai said. "I don't think it's going to happen. There are too many people who are expecting it."

Count Wilson among those expecting it. But he said he views the next nasty downturn as a buying opportunity. But at what point should investors buy?

"When everyone is freaking out," Wilson said. "The key will be to look at BusinessWeek, Time and Newsweek magazines. When they say this is the end of the stock market as we know it, that's the time to buy."

Al Lewis' column appears Sundays, Tuesdays and Fridays. Respond to Lewis at denverpostbloghouse.com/lewis, 303-954-1967 or alewis@denverpost.com.