

REASONS TO BE BULLISH—The Money Marathon February 2013

Markets move on fear and greed. The general public behaves like a herd of animals and stampedes to the exit when there is fear and likewise pushes to get in the door when the market is going up, not wanting to miss the move. Many times, it is good to be willing to buy when everyone else is selling and to sell when everyone else is buying. However, momentum can go a long way, and bull markets and bear markets alike can go farther than they should in both directions.

With all that said, I think there are a number of reasons to be bullish for the long run. Here is a list.

- 1) The Year-End Fiscal Cliff Came and Went without a Disaster. The increase in taxes was not nearly as bad as it could have been. As an example, the highest dividend tax is 20%, and it could have been 43%. Estate tax laws were extended preserving the over \$5 million credit per person allowing a couple to avoid estate taxes on estates under \$10 million. Although they have not addressed spending, I think there is some movement showing that they might handle this part in a way that doesn't bring the economy to a screeching halt.
- 2) Bonds are not a Good Alternative. With rates at historical lows, buying long-term treasury bonds may prove to be a long-term disaster. As an example, a 1% increase in rates would cause a 30 year government bond paying a little over 3% to drop in value 9%. A 3% increase could cause nearly a 30% drop in value. The 10-year treasury pays 1.8%, and most short term investments that are guaranteed pay 1% or less.
- 3) Many Good Quality Stocks Pay 3% or More. High quality dividend-paying stocks pay 3% or more, and they increase their dividends every year. So, a stock that pays 3% that grows the dividend 9% a year will double the dividend in 8 years, effectively paying 6% on cost.
- 4) The Great Rotation is Starting to Occur. People have been scared of stocks following two bear markets and have not been willing to invest in the market. That is finally changing, and there is a lot of money on the sidelines ready to invest that can drive the market higher.
- 5) Energy Independence. With the new technologies allowing us to drill for new sources of oil and gas, we are finding supplies that we once never thought possible. This will lead to energy independence, cutting our dependence from the Middle East in less than 10 years. Natural gas prices are so much lower here than in the rest of the world that we are getting a huge increase in manufacturing jobs that would have previously located overseas.
- 6) Reasonable Valuations: Stocks are not overpriced, particularly compared to the alternatives. The long-term ratio of stock price earnings ratios plus inflation has historically been 19. Over 19 means stocks are overpriced, and under 19 means they are underpriced. Today, it is 16 (14 PE plus 2% inflation) - meaning undervalued. Although stocks are up over 100% since March of 2009, this century began with the S&P 500 at 1466, and 13 years later it is only slightly higher at 1500.
- 7) Corporate Balance Sheets are Stronger Than Ever: Business has deleveraged, and corporate balance sheets have never been better. Many larger companies that pay 3% and more dividends are able to borrow money at less than half the dividend rate and repurchase their stock,

effectively saving money because the borrowing rate is cheaper than the dividend. These repurchases can lead to higher stock prices.

Things That Could Go Wrong: Are there things that can go wrong? Certainly, and here are a two. A Congressional and Presidential protracted fight over deficit reduction with no meaningful results could set us on a path towards effective bankruptcy, like Greece. This is a big concern. Secondly, our country and 40 others are printing money like “it is going out of style”. This could be an inflationary problem down the road. Inflation is terrible for bonds, and good for land and gold. Stocks can do well with some inflation, but hyper-inflation would be bad for stocks. These are not minor concerns by any means. I am optimistic, however, that as a country we will ultimately do the right thing for the long-term benefit of the country. If we do address these two issues, stocks might explode to the upside.

Finally, with the large move in January and last year, I do expect a market correction of 3% to 6% at some point. But, at that point I would be a buyer of quality stocks.

Remember - every investor’s situation is unique. It is important to review your specific situation with a financial professional.

Ed Douglas is a Certified Financial Planner/Consultant, Chairman Emeritus of Citizens Bancshares and author of three books, *Making a Million With Only \$2000-Every Young Person Can Do It*, *The Money Marathon: 7 Simple Steps to Financial Freedom* and *25 Truths: Life Principles of the Happiest and Most Successful Among Us*, all available at www.eddouglas.com and on Amazon. Ed can be contacted for financial planning services or seminars based on his books at ed@eddouglas.com or 660-646-2066 or at his office at 601 Locust.

25 TRUTHS: TRUTH NUMBER 19: EXERCISE, EXERCISE, EXERCISE (Live a healthy lifestyle.) Ed’s books are available at eddouglas.com, Hy-Vee, Amazon, or Boji Stone.

THE NEWLY REPUBLISHED VERSION OF 25 TRUTHS: LIFE PRINCIPLES OF THE HAPPIEST AND MOST SATISFIED AMONG US IS AVAILABLE ON AMAZON FOR \$12.95 OR CONTACT ME AT 660-646-2066 OR VISIT THE HY-VEE OR BOJI STONE. THE BOOK MAKES A GREAT GIFT FOR YOUR STUDENT OR YOUNG ADULT.