

Sujet: Pourquoi être optimiste ? Why be bullish ?

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Why Be Bullish?

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This article is a guest contribution by Dr. Charles Lieberman, [Advisors Capital Management](#) ^[1].

Investors are nervous that Greece and Europe's need to restrain fiscal policy could spill over and cause a double dip recession in the United States. That isn't totally impossible, but it is highly unlikely. The U.S. economy is building momentum and derailing the expansion is quickly becoming difficult. Fundamentals also strongly support an improving economy. Thus, rather than weakness in Europe undermining domestic growth, it is far more likely that a healthier economy here and in Asia will spill over to help the Europeans.

Greece accounts for about 2% of total European Union GDP, so it would not even be able to derail a solid expansion in Europe, if they had one underway. Greece is just too small. A larger negative impulse will come from Spain and Portugal as they also raise taxes and cut government spending. However, some of this negative impulse will be offset by the weaker euro and lower interest rates. Europe may flirt with a decline in GDP in 2010, but expansion in the key countries of Europe, France and Germany, should provide enough impetus for growth to avoid recession.

Domestically, our economy has been building momentum for several quarters and the solid expansion that is now underway is increasingly unlikely to falter. First, monetary policy is still highly accommodative, as interest rates remain at very low levels. And the turmoil in Europe adds another reason for the Fed to wait a bit longer to be certain the expansion will not falter before it considers raising interest rates to more normal levels. Second, there is tremendous pent up demand to rebuild inventories or replenish depleted stocks of capital and durable goods. Total inventories are still declining, despite the rise in production that has already occurred. But more is needed. For example, auto sales have risen sharply off the lows of 2009, but the rate at which cars are junked is still above the current sales rate, suggesting that auto sales are still unsustainably low. A similar condition applies to housing, where population growth still exceeds by a considerable margin the rate of new housing starts. So unsold housing inventory continues to fall and construction must soon rise more significantly.

Most critically, job growth has resumed, which makes the expansion self-reinforcing. As workers are hired, they earn more income, which enables households to increase consumer spending, which boosts corporate sales and revenues, while forcing firms to hire more people. With employment growth in four out of the last six months, this virtuous circle is now clearly underway and it will take a significant shock, far more than the turmoil in Greece, to turn around our huge economy. But the economy's expansion doesn't rest only on the shoulders of consumers.

<http://advisoranalyst.com/glablog/2010/05/18/why-be-bullish/print/>

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In the corporate sector, a depressed rate of investment has allowed the capital stock to age. This is particularly unsustainable in an era in which rapid technological change renders equipment obsolete at a rapid pace. Moreover, corporate balance sheets have never been in better shape. Firms built cash when the credit crisis hit and now hold more cash relative to market value than ever before. That cash will be put to use and capital investment is now rising. Moreover, we're clearly back to M&A activity, where at least one new deal happens every week. In addition, companies have the cash to finance investment or to increase dividends, which brings us to the observation that stocks are rather attractively priced.

The market has rallied sharply since its low in March 2009, but corporate earnings have increased sharply as well, exceeding analyst estimates in every quarter. The S&P 500 now trades at around 14 times 2010 earnings, a rather low multiple relative to prevailing interest rates. Profit margins increased in each of the past four quarters and should rise further as the expansion gains strength. Indeed, companies report that order books are filling up and they see rising sales ahead. And while productivity has increased sharply, it is no longer adequate to enable firms to meet demand with their existing workforce, so hiring has resumed. All of these positives fit together and reinforce one another, which makes the expansion even more entrenched.

The turmoil in Greece has been disruptive to our markets, partly because investors remember the credit crisis that started in the housing sector and fear a similar contagion emanating from the credit problems in Europe. That psychology is perfectly understandable. This concern is reinforced by the focus on the domestic banking sector, as Congress and the Administration vilify the banks to justify the financial reform legislation and keep it on track. These newsworthy issues may capture our attention, but they are unlikely to derail the expansion.

As always, retail investors repeat their same mistakes. Just as they sold tech stocks after the market melted down and didn't buy stocks until the rally had lifted prices to full valuations, they are still buying bonds now, despite the historically low level of interest rates. And, they are avoiding stocks even though stock valuations are highly attractive.

Equities will surely remain quite volatile near-term. However, the Europeans are very anxious to reduce the turmoil in the capital markets in Europe and they have allocated almost \$1 trillion to the task. As Europe calms down, we may be forced to find new issues to fear. Or, perhaps stocks will just resume their upward path.

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