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Stock market hits 12,000; What's next?

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Despite the turmoil in Egypt, on Tuesday of last week the Dow Jones Industrial Average closed above 12,000 — the first time since June 19, 2008.

The market was a little jittery the next day, but it has been trending upward.

Is the stock market recovery for real? Is it sustainable?

Five out of six area money managers and economists surveyed last week said yes.

They said investors have been reacting to the news about the economy, which has been mostly good, and downplaying potential concerns.

Also, they said, the stock market is a leader and that other closely watched economic indicators such as unemployment should follow eventually.

Momentum is also carrying the day, they said.

"Once the averages get through 12,000," said Scott Ballantyne, a business professor at Alvernia University in Reading, "it will be easier to rise to 13,000 rather than fall through 11,000."

Only one area money manager, Mike Savage, ChFC, founder of Savage Financial Group in East Stroudsburg, said watch out: Sometime this year, most likely in June or July when states start their fiscal year, it's all going to come crashing down.

Michael Ippoliti, CFP, of Valley National Financial Advisors in Hanover Township, Northampton County, said he believes the market has been rising on a number of positives:

"The retail sector has improved — probably more so on the higher end than the lower end — but there's more discretionary purchasing taking place. On the manufacturing side, we're seeing an extremely strong performance, the best since May 2004. The automotive market, which everyone anticipated was dead, is coming back."

Also, Ippoliti said, corporate earnings continue to meet or beat expectations.

Ippoliti said most investors are seeing more positives than negatives, and while he doesn't expect the market to move in a straight line upward, it could see 10 percent growth this year.

"The bottom line is things are definitely improving globally from where they were," he said.

Kevin Brosious, MBA, CPA/PFS, CFP, president of Wealth Management in Upper Macungie Township, agreed that investors are paying attention to the good data that is

being reported and discounting the negatives. It's a bull market, he said, "and discounting bad news is characteristic of a bull market."

Brosious expects the market to continue to climb, especially if the unemployment picture continues to improve. "We went from 9.8 percent unemployment in November to 9.4 percent in December," he said. "That's pretty good. If it continues to go in that direction, I would expect the market to continue to improve."

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*Kevin Brosious, president
Wealth Management
Upper Macungie Township*

Unemployment will be key, Brosious said. "Will we get back to almost 14,000, which is where we were before the crash in 2008? I don't think we'll get back there if the unemployment picture doesn't continue to improve. I just can't see it happening. But in the short term I believe there's a room for a little bit of improvement. Long term, it hinges on unemployment."

Like Brosious, Jesus Salas, an economics professor at Lehigh University, said he believes the market will continue upward as long as unemployment continues downward.

"We've seen a pretty stable increase on the Dow index starting after Thanksgiving," Salas said. "If unemployment continues to fall, this will be a good sign because unemployment is a lagging indicator of economic conditions. I would say I have good hopes for the market if ... the unemployment rate drops."

Christopher Jones, CFP, of Sparrow Wealth Management, which has offices in Easton and New York, said confidence seems to be carrying the day.

"There are things that have people concerned," he said, "but overall the feelings of confidence are carrying the market forward."

The confidence stems from the fundamentals of capitalism, he said. "The whole reason capitalism works is there is a fundamental underlying principle that companies are going to earn profits and that money is reinvested or given to its investors."

People invest, Jones said, because they believe they will get a fair return, and that's what's helping the markets to grow. "I fundamentally believe the markets are always going to grow in a steady way," he said.

Will the Dow continue above 12,000? "Absolutely," Jones said. However, he said, 12,000 is just a benchmark, and it doesn't mean much.

Alvernia's Ballantyne said he expects the market to rise on continued good earnings reports from companies and increased consumer demand.

"The economy in general has shown steady progress in continuing the recovery," he said. "The talk of inflation is an indication that demand is potentially accelerating. This

demonstrates a demand for commodities, which ultimately is an indicator for increased consumer demand."

However, Ballantyne said, there still could be corrections and/or deviations that occur in the short term.

Ippoliti agreed: "I believe that the upward momentum in the market should continue for the balance of the year as the bears morph into bulls and get conditioned as they buy into the market and feed the upward momentum. This is not to say that some negative phrase may enter the news that causes both bulls and bears to retrench. Those phrases include: global pandemic, nuclear attack, terrorist attack, bank failure, flash crash, black swan, and many more."

Savage is the one naysayer. He said what's been happening in the market is unsustainable. "We're going to hit a bump, probably later this year," he said.

Savage is adamant. "I guarantee it's going to collapse," he said. "I can't tell you when, but I can guarantee this won't last."

Savage's biggest concern is the federal deficit and the financial trouble that other countries around the globe and some states are facing. The crisis in Egypt, he said, started because the economy is so bad, and people can't buy food for their families.

The government can't keep printing money, he said. Budget crises are going to come back to haunt everyone, he said.

The stock market, Savage said, could continue to be "irrationally exuberant" for another six months or so. "But be sure to cover your downside," he said, "because it's coming. And we may get no warning."

