The Savage Truth on Money: An optimistic voice

by Terry Savage

A large but subdued crowd of investors gathered in Orlando, Fla., for the annual MoneyShow last week. When asked for their outlook, fully a third of the audience said the market could linger around the 8,000 level for a decade, similar to the market of the 1970s, which traded around the 800 level for nearly a dozen years.

Pessimism abounded, although each investment guru could find at least one sector worthy for investment. Problem was, there were many conflicting viewpoints and suggestions.

The most optimistic, although cautious, view came from one of my favorite market analysts, Jim Stack of InvesTech Research (www.InvesTech.com). He noted that this recession cycle is aging and that we're likely near the end. That, of course, does not guarantee a strong rebound.

Stack used simple charts to make a key point: This bursting bubble might have nearly run its course. The first chart, a steep mountain peak, showed the dot-com bubble rise and fall. Overlaid on that chart was the housing price bubble of the last decade. The two lines almost exactly tracked each other, including the sharp, jagged rise and equally steep descent of prices.

If the two bubbles are such a good match, then we are clearly nearer the end â€” although not quite at the end â€” of the housing collapse. One caveat, according to Stack, is that the inventory of homes on the market has diminished only a bit, leaving room for more distress sales and somewhat lower prices to emerge.

As for the stock market, Stack has moved his investment allocation to 75 percent, up from 45 percent. That doesn't make him anywhere near a raging bull, but he did note that the stock market seems to be holding its November lows, small caps are stabilizing, and corporate earnings are down but still within the long-term trend.

Finally, the totally pessimistic media headlines remind Stack of other bear market bottoms â€” notably the Business Week cover that famously predicted "The Death of Equities" in 1979, just before the last great bull market began!

Almost every speaker pointed out the current deflationary environment â€” with asset values falling faster than even the Fed and Treasury can create new liquidity. But more than a few were willing to look beyond the deflationary valley to a possible inflation down the road.

Certainly there were bulls on gold stocks, agricultural commodities and even energy â€” although that may be down the road. Jim Jubak, markets editor for MSNMoney, notes that fertilizer and agriculture-related stocks are already starting to move up because the demand for food will most certainly resume on a global basis.

There were several respected speakers who advised buying intermediate-term, high-quality corporate bonds to capture the yields that are so tempting when compared with Treasuries, now paying almost zero percent.

Jack Ablin of Chicago's Harris Bank went as far as to recommend an exchange-traded fund that buys high yield (used to be called "junk") bonds. He is currently willing to temporarily take the risk that either the companies would fail or that inflation would push interest rates higher in the future. But Forbes columnist Richard Lehmann warned of a slew of junk bond failures just around the corner.

Joe Battipaglia, market strategist for Stifel Nicolaus and a well-known CNBC pundit, roused the audience with a warning to avoid stocks that are anywhere near the epicenter of TARP.

He warned that once the government gets control, as in the banking or even auto sectors, they are likely to start making rules around compensation and spending â€” driving the best talent to other businesses and limiting investment profit possibilities.

He reminded companies that "they'll rue the day they took government money." Of course, the banking industry didn't have much of a choice: All were required to participate.

This was a meeting of the "investor class" â€” those concerned with declining values in their stock portfolios and 401(k) plans â€” but still believers that the market will provide the growth they need to boost their retirement accounts.

Their relative optimism comes from long experience and stands in contrast to the many recent investors who forswear future stock market investments after watching their hard-earned money disappear down the drain in retirement plans.

The one thing these investors agreed on is the need to keep corporate America competitive and growing â€” not only to provide jobs, but to return those investment dollars to their rightful owners!

And that's The Savage Truth!

Terry Savage is a registered investment adviser and is on the board of the Chicago Mercantile Exchange. She appears weekly on WMAQ-Channel 5's 4:30 p.m. newscast. Her new book, "The Savage Number: How Much Money Do You Make?" has just been published.

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