Rocky Mountain News

Markets spring back with the crocus

April 19, 2007

So much for February's pessimism. With the Dow Jones industrial average hitting a record close Wednesday, the markets have rebounded from their winter swoon. What's up with that? We asked a number of local investment pros for their views about the market action.

Why have the markets rebounded now after February's decline?

After the former Federal Reserve governor softened his view of a possible recession, the market took that as a positive, and the market took off. But on a higher level, the markets are starting to realize the strength of the U.S. and global economies. Domestic stock valuations are at reasonable levels, and with even a 6 percent to 8 percent earnings growth rate, the stock market appears to be a "decent" investment.

Brooks Rarden, Northern Trust

The February decline was modest, relative to historic shocks. But investors felt surprised anyway and thought themselves smart buying on the dip. Since then, we've had enough good days (and good data) to build on that sentiment. We're back to "virtuous circle" time.

Jeff Tjornehoj, Lipper

The markets have rebounded since the end of February because the sell-off in China was short-lived and the sub-prime loans scare has been priced into the markets. Investors are now focused on the next move from the Fed and corporate earnings. With inflation under control, full employment and the decent housing numbers today, the Fed won't be lowering interest rates soon, but at least there is still that hope by year-end. Thus far, corporate earnings are proving to be better than the reduced expectations, which has also helped the Dow push higher.

Fred Taylor, Northstar Investment Advisors

The major drivers that are fueling the world's economy are still in place. Liquidity, the major source of higher prices, has not changed from two months ago. China is even adding liquidity by diversifying their foreign reserves. The economies around the world are virtually all performing well, which may imply this time around our economy will be supported by the global economy.

Greg Denewiler, Denewiler Capital Management

With the Dow moving back into record territory, does this mean investors no longer need worry?

Investors should always worry. I tend to worry more about risk when things are good and more about reward when things are bad. Investors seem to be overly discounting risk, not as much in the large-cap U.S. equity market, but in the "junkier" asset classes such as high yield and emerging market debt securities, where spreads seem too tight to me for the amount of risk that is being taken.

Warren Olsen, First Western Trust Bank

Investors always need to worry, and there is always reason to be concerned. Gas prices are approaching $3 per gallon, the situation in Iraq continues to look bleak, and there is the ever-present threat of a major terrorist attack. In spite of this, though, the economy is on very solid footing, and the first batch of corporate earnings have come in much stronger than the gurus on Wall Street predicted. These two factors should continue to push the market higher.

David A. Peterson, Peak Capital Investment Services

February's decline was a wake-up call that risk never goes away completely; my sense is that the recent lower inflation and higher housing numbers are a snooze button for risk for many investors.

Jeff Tjornehoj, Lipper

Generally speaking, higher prices over a short period of time increase risk and reduce reward. But with the S&P 500 undervalued relative to the 10-year Treasury bond, long-term investors who own shares in quality companies should not be worried at current share prices. With that said, investors in individual stocks should always be vigilant regarding the fundamentals of the companies they own.

Greg Evans, Millstone Evans Group of Raymond James & Associates