

12-Dec-2002 By: Dr. Robert J. Froehlich offers 3 reasons why the markets have halted their descent in From Wall Street to e-street. Wyle E. Coyote

As I travel across the country meeting with investors and financial advisors, everyone is struggling for a way to explain what has happened to our stock market over the past three years. Well, I think I have finally come up with an explanation ... we are in a Wyle E. Coyote stock market. I call it a Wyle E. Coyote stock market because many investors feel just like the Wyle E. Coyote character from the "Roadrunner" cartoon. You have just jumped off the cliff, your rocket skates have flamed out and now you fall 10,000 feet to be flattened on the desert floor ... but at least you have stopped going down, just like our markets. Here are three primary reasons why our markets have hit a floor.

This Is Not Japan

Maybe the number one concern on stock market investors' minds in the United States is that the domestic equity market is going to completely collapse just like it did in Japan. I don't believe this is going to happen and here is why. When the Japanese equity market burst, they continued to add employees ... when the U.S. equity market burst, we cut more than 2 million jobs and are still cutting. When the Japanese equity bubble burst they continued to spend on unproductive capital expenditures ... in the U.S. we are experiencing the largest post-war decline ever in capital expenditures. And when the bubble burst in Japan, the central banks started to raise interest rates. In the United States, we cut rates 13 times and money is almost free. Here's one final frame of reference that shows we are not Japan. In the 1980s at the peak of our savings and loan crisis, bad bank loans had ballooned so high that they accounted for 3% of our economy as measured by our gross domestic product (GDP). Today in Japan, bad loans account for over 30% of their GDP ... 10 times worse than our savings and loan crisis. Like I said, this is not Japan.

Revised Global Outlook

The second reason that our markets have hit bottom and are rebounding is the changing global outlook. Global economies are turning the corner and many are showing signs of recovery. However, that recovery will be at a slower pace than I would like to see. Inflation will rise much slower and will not exist in many parts of the world, such as the United States. Any central bank around the world thinking of interest rate hikes has delayed that policy and many have reversed it completely.

New Keys To Attracting Investors

The third and final reason that we have already seen the floor is that investors are looking for places to invest. While many bears on Wall Street are predicting that investors will never invest in stocks again, I don't agree. I believe investors will and are coming back in a big way. If you expect to attract some of that money from investors in this new world order, your company is going to need to display three traits: First, you have to provide an easy-to-understand business model. Second, you must enjoy a dominant market position in your particular industry. Third and finally, you better have little debt and strong cash flow. Companies that possess these three advantages will have investors flocking to their doorsteps.

A December To Remember?

Even with all of the bad news and negative undertones in our stock market, I want to remind you that there are a lot of extremely positive things going on in the investment world today. In fact, there are enough of them to send our market to the end of the year with a December to remember. Think about

some of this positive news for a minute:

- Auto sales are extremely strong
- Mortgage refinancing has hit record levels
- Home equity loans have hit record levels
- Corporate profits have turned positive
- Real disposable income is actually up
- There is no inflation

Finally, don't forget the real wildcard of our market, productivity, which has remained strong and will remain strong. This is so important because continued acceleration in productivity means INFLATION will SLOW and PROFITS can IMPROVE ... even when you are flattened on the desert floor like Wyle E. Coyote.

There is only one month left for the Dow to reach 10,000 by year-end. I still believe it will happen ... the only question is who will be in the stock market to celebrate with me?
I'll still see ya at 10,000!