

Tea Leaf

...weekly since 1976

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Long-Time Bull!

Written by Jeff Thredgold, CSP, President, Thredgold Economic Associates

The Dow Jones Industrial Average (DJIA or Dow) is currently flirting with the 13000 level, after setting a series of new highs in prior days. This rise complements my long-term view that the stock market has been—and remains—the place to be.

Optimism regarding stock market performance in coming years is one of the four major factors that drive our upbeat view of future U.S. economic performance, as discussed in our new book, *econAmerica*, to be released in late June by Wiley & Sons. I thought it might be of interest to note our forecasts of stock market performance during the past 10 years. At no point did we ever back away from our optimistic forecasts.

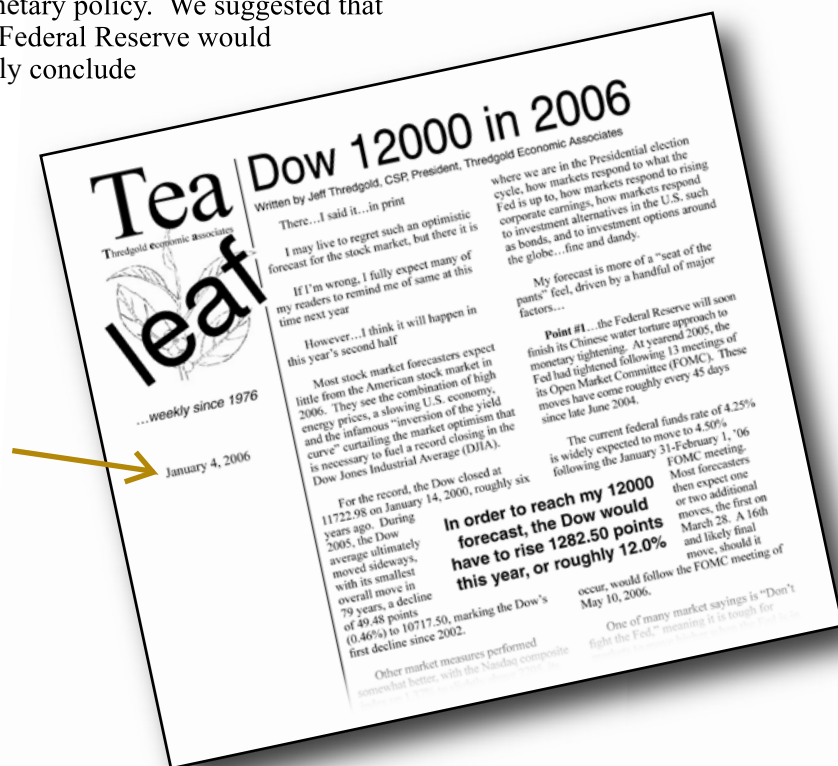
In the January 4, 2006 issue of the *Tea Leaf*, four reasons were given why the Dow average (at 10717 at yearend 2005) would not only break the all-time record of 11722 set in January 2000, but also trade above the 12000 level in 2006's second half.

We noted the following:

1. The stock market would respond favorably to the Federal Reserve concluding its "water torture" approach to monetary policy. We suggested that the Federal Reserve would likely conclude

its aggressive monetary tightening on May 16, 2006, with "a 16th and likely final move" to 5.00 percent. We missed it by one. The Fed ultimately tightened 17 times between June 2004 and June 2006 and has remained on the sidelines

2. Numerous foreign stock markets had outperformed U.S. markets in 2005, which suggested greater relative value within U.S. markets
3. A rising awareness among 78 million Baby Boomers that they had not saved aggressively enough for retirement would lead savings and investment higher, with billions of new dollars earmarked for stock market investment. This remains a long-term issue and is a key element supporting our view that the American stock market will do very well in coming years
4. Billions of dollars would leave coastal and Southwestern real estate markets and be invested in the stock market as further signs of a real estate bubble emerged. This should also drive stock prices higher in coming years



Our Dow 10000 Call: A Chronology

The Dow Jones Industrial Average first closed above 10000 on March 29, 1999. Readers of the *Tea Leaf*, as well as its predecessor, *Dateline: The Economy*, (while I was Senior Vice President and Chief Economist for many years of national banking giant KeyCorp) have known me as a stock market bull from day one. The following are direct quotes from various issues of the *Tea Leaf* of the past few years.

March 26, 1997...“This Fed tightening move could ultimately be one of the cornerstone events that lead to ‘Dow 7500.’”

April 30, 1997...“People thought I was crazy during early 1994 when I was speaking around the country and predicting a 4000 Dow by year-end (missed it by seven weeks). Many thought the same a year ago (early 1996) when I predicted the Dow over 6000 by year-end 1996. I still expect ‘Dow 7500’ during 1997.”

June 11, 1997...“As a long-time stock market ‘bull’ I have been very pleased to see the Dow trade above the 7500 level in recent days. ... Where do we go from here? OK ... here goes ... at least ‘Dow 7800’ in the near term ... and ‘Dow 10000’ before the turn of the century.”

September 3, 1997...“I still expect Dow 10000 prior to the turn of the decade/century/millennium, although volatility will remain the norm.”

October 15, 1997...“A Dow reaching 10000 by the turn of the century and modest annual growth in equity values thereafter seems reasonable.”

March 11, 1998...“How high is high for the Dow? Maybe 9000 before the end of this year?”

September 23, 1998 (while the stock market was getting pummeled)...“I may be accused of drinking my own bath water, but I still expect new highs in the Dow average in 1999.”

November 18, 1998...“... the (stock) market is still reasonably priced.”

Why Have We Been Bullish on Stocks for So Long?

Two Simple Reasons

The *first broad theme*—strong U.S. corporate balance sheets and rising U.S. corporate earnings. U.S. corporations dominate many major industries around the world. U.S. companies, large and small, have proven to be some of the most imaginative, flexible, powerful, and innovative on the global stage.

The rise in corporate earnings of the past decade has never been matched. In fact, powerful earnings growth of the past five years would strongly suggest that the stock market is actually undervalued.

The *second broad theme*—the shift of the Baby Boomer from consumer to saver in a big way in coming years. The nation’s 78 million Boomers are now in the process of moving from “the Age of Aquarius to the Age of Arthritis.” Such a shift will continue to lead billions of new investment funds monthly into American equities.

Company stock buyback programs have also flourished in recent years. These announcements and follow-up purchases can be used by corporate executives to signal to market investors that they consider their share prices to be undervalued.

A differing view sees stock buyback programs as a temporary ploy to increase stock prices, but primarily an admission that a company does not have much in the way of growth potential. Otherwise, companies would spend their money on new plant and equipment and/or other corporate acquisitions.

Regardless of the view you might favor, the power of stock buyback programs has been another element leading to rising stock prices. It is also a powerful means of limiting downside moves as company executives see opportunities to retire stock.

We remain bullish on the stock market...and bullish on America!

“TEA”ser

Don’t use a big word where a diminutive one will suffice.

—Scott Friedman



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