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*Your guide to understanding  
today's economy and  
financial markets*

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**THREDGOLD  
ECONOMIC  
ASSOCIATES**

The TEA Company  
A Professional Speaking and  
Economic Consulting Company  
1366 S Legend Hills Drive, Suite 150  
Clearfield, Utah 84015  
801-614-0403

[www.thredgold.com](http://www.thredgold.com)

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# 14 Plus

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

...stocks are back!

The Dow Jones Industrial Average (DJIA or the Dow) moved back north of the 14000 level on Monday, setting a new record high of 14087.55. The new level of the Dow marked the 55<sup>th</sup> record finish for the Dow during the past 12 months. Modest declines in the Dow average on October 2 & 3 were as much investors taking quick profits from the latest upward move as tied to any other factor.

The Dow's rise of 11.5% during 2007's first three quarters was the best for this period in eight years. At the same time, the S&P 500 approached its all-time high, while the Nasdaq average moved to its highest level in six years. The Nasdaq is up more than 13% in 2007.

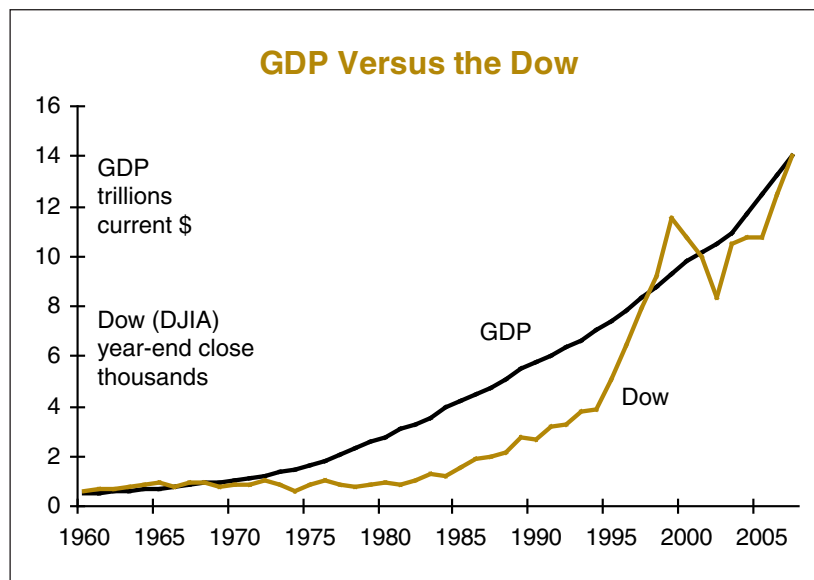
financial developments will eventually impact the American economy. The stock market declined earlier this year when the subprime lending fiasco was front page news. The stock market declined for awhile, then rebounded to new highs in early summer.

The stock market effectively said that while the subprime lending issue was of serious concern to aggressive lenders, thousands of homebuyers and "flippers" and many aggressive investors around the globe who bought subprime-based securities, life would go on for the broad economy.

## Global Anxiety

An expanded concern about credit and lending risk in all its variations spread

around the world in August, leading many investment products to trade erratically, if at all. Numerous investors at that time saw rising global credit risk anxiety as a reason to "shoot first and ask questions later"...i.e. to dump stocks as a precaution against the credit risk issue expanding further, and stock prices possibly getting hit harder...



More positive stock market performance of the past few weeks restores nearly \$2 trillion of market value that had been erased during excessive market turmoil in July and August. At that time, fears regarding lender and investor losses in subprime mortgage securities, combined with a global spread of rising risk anxiety for all types of debt securities, had also negatively impacted stock prices.

...those panic sellers did not fare well

The impressive rebound of stock prices both domestically and globally of recent weeks is the market again saying that while the broader credit risk issue is serious, and very damaging to people and institutions directly involved, life does go on, and the broad economy will handle this shock.

## Judge & Jury

I have long argued that the stock market is the ultimate "judge and jury" as to how domestic and global economic and

## Bank Losses

The Dow rose nearly 192 points on Monday even as Citigroup, the largest U.S.-based bank and UBS, Europe's largest

bank, announced nearly \$10 billion in loan and investment write-downs or charge-offs tied to recent credit risk issues...

...nearly \$10 billion

...stock prices of both companies actually moved *higher* as stock market players noted the banks' ability to put their problems largely behind them and move forward

Stock prices also moved higher on Monday as the fourth quarter began. Stocks have traditionally performed well in the October-December period, with gains in the S&P 500 during 11 of the past 12 years.

### Fed Support

Investors have also seen the Federal Reserve act aggressively to both provide necessary liquidity (think monetary grease) when needed and to cut its key interest rate by one-half percent on September 18. Investors are also comfortable that the Fed will respond again with further interest rate cuts IF needed to sustain investor confidence and to sustain U.S. economic growth. Recent declines in key U.S. inflation measures also give the Fed greater latitude to trim rates further if needed without sacrificing its inflation-fighting credibility.

### Long-Time Bull

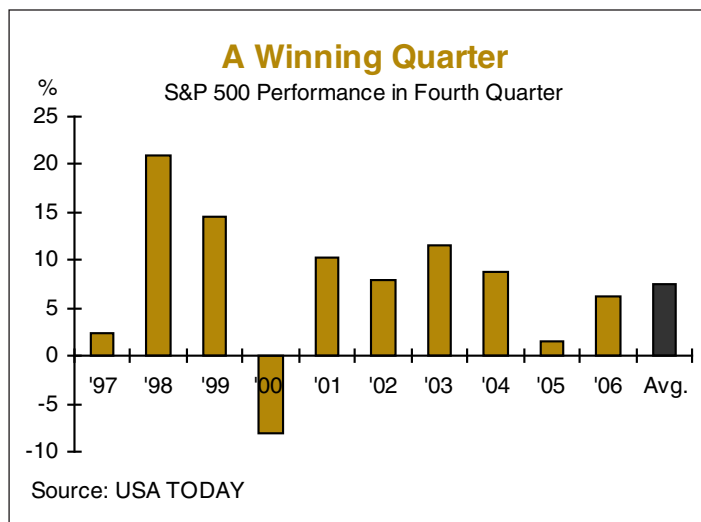
I have long been...and remain...a stock market bull. Our new book, [econAmerica](#), released nationwide by Wiley & Sons in July 2007, noted our very optimistic stock market (Dow average) forecasts of the past decade, each of which was exceeded by the market.

The chart on page 1 is from [econAmerica](#). It notes the long-term relationship between U.S. GDP (the annual value of all U.S.-based goods produced and services provided, in trillions of \$) and the Dow average (in thousands). When U.S. GDP first hit \$1 trillion, the Dow average first flirted with 1000. When GDP first hit \$10 trillion, the Dow hit 10000. U.S. GDP will reach the \$14 trillion total this year...

...and yes, the Dow is at 14000

Four other factors in my mind will add to rising stock prices in coming years...

- 1) billions of dollars that chased real estate in recent years will flow to the stock market. Such aggressive investment funds will find the stock market the place to be as real estate values move, on average, sideways for awhile



- 2) a rising recognition by Baby Boomers has emerged that additional savings and investment funds will be needed for our Golden Years, with many of these funds flowing to stocks. Also, younger workers are recognizing more and more that they need to save aggressively for their own future needs
- 3) corporate profits are at record levels, helping to justify current and higher stock values. A weaker dollar has led to strong profit growth for American companies with global operations
- 4) the global economy is very, very strong, leading to rising American exports to the world, and strong purchases of U.S. assets by foreign nationals

Stock prices don't move in straight lines...we certainly learned that lesson again in 2007. A renewed move to lower stock prices, tied to another surge in global credit anxiety or some other factor, is always possible.

However, I will remain bullish on stocks. The American stock market has been the best place to invest money for decades. In my mind, it will continue to be.

## "TEA"ser

The difference between genius and stupidity is that genius has its limits.

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Thredgold Economic Associates  
1366 S Legend Hills Drive, Suite 150  
Clearfield, Utah 84015  
[www.thredgold.com](http://www.thredgold.com)

Graphics and layout by Kendall Oliphant  
Research assistance from Shawn Thredgold