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A Déjà Vu Moment

A déjà vu moment was celebrated in the month of January. The Dow Jones Industrial Average (DJIA), the most recognizable stock index, drove past 14,000 for the first time in more than 5 years. The DJIA is gradually closing in on the record close of 14,087 that was recorded back in October of 2007.

This market rally is reminiscent of the year 2000 when stock prices also peaked. That year, Alan Greenspan's prophetic "irrational exuberance" speech came true as stock prices fell back the next couple of years. Looking back, we have had approximately 12 years of flat stock market growth.

However:

- The labor market is growing at a steady rate. We added 157,000 jobs in January and hired more people in 2012 than expected.
- Housing, construction, manufacturing, and auto sales are all recovering.
- Tax legislature is permanent (at least for now).
- Generational low interest rates are helping consumers.
- Congress averted a debt-ceiling crisis (at least for now).
- \$34 billion of new money was invested in stock mutual funds and exchange traded funds in the last 4 weeks. This new money trend seems to have reversed itself as consumers are coming back to invest. They should have gotten in earlier, but retail investors always seem to be late to the party.
- There is still \$11 trillion of cash on the sidelines waiting for what may be an opportune time to invest.

Not all of the news is rosy. We still have the same geo-political and budget debt issues, but most economists are starting to think the economic glass is half-full. Some of the negatives do seem to be fading away. No one knows if 2013 will be as good as 2012 but there are a lot of hopeful signs.

The Elephant in the Room

With the U.S. Stock market approaching its highest level in history, is it time to get worried?

U.S. stocks in 2000 were clearly overvalued with the dot-com bubble. U.S. stocks in 2007 were fair, but the housing bubble and credit crisis unraveled us into the deepest recession since the Great Depression in 1929.

U.S. stock valuations in 2013 don't seem to be out of the realm of reason, especially relative to other asset categories. U.S. stocks may be the cleanest shirt in the laundry basket - metaphorically speaking.

2013 may not be an exciting stock market increase like we saw in 1995-1996, but for now, I like what I see...

As always, enjoy a warm February filled with love. We hope to see and talk with you soon.

Dave