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Climbing that Wall of Worry

Investors kept climbing that proverbial "wall of worry" in the month of May. My May newsletter focused on the "sell in May and go away" theory and how that sentiment might not be applicable this year.

May proved to be a good month as stocks continued their ascent. Bonds, however posted their biggest losses in more than two years, pushing yields higher. The 30-year fixed mortgage rate rose above 4%. In addition, the yield on the 10-year US Treasury broke above 2%, landing the benchmark bond on par with the dividend yield of the S&P 500 for the first time in a while.

If you thought selling in May and going away was a good idea, it was – in terms of Bonds. Although Stocks performed great, the proxy for longer term bonds – the iShares Barclays 20-Year Treasuries Bond ETF - skidded 7.4% during the month of May.

Stocks are steadily climbing the "wall of worry." By my estimates and according to the following indicators, despite the economic malaise, the stock market has not yet peaked.

- The consumer confidence index is at its highest level since February 2008.
- Housing prices spiked10.9% in March from a year ago. This is the biggest appreciation over the last seven years.
- Moody's raised its assessment of the US banking system from negative to stable for the first time since the dark days of 2008.
- Bernanke is still reluctant to taper fiscal stimulus too soon for fear of jeopardizing the recovery and without more vibrant job recovery.
- The CBO projects the budget deficit will shrink to 6.4 billion this year or 4% of GDP…modest, but in the right direction.
- The price of crude oil only gets attention when it goes up. Right now it is falling. Oil prices are down 16% which helps with consumer spending.
- Businesses have cleaned up their balance sheets and now hold huge reserves.

There is one bit of a technical analysis factoid out there that is hard to ignore. It has been quite some time since we have seen a 5% pull back in the stock market. This is very unusual. More commonly, we see one or two stock market corrections per year of 5 to 10%. It is likely we will get a correction at some point in the next few months, which is healthy for the market as it weeds out some speculation. Long term, corrections offer great buying opportunities.

Have a great summer with your family and friends. As Albert Einstein once said, "Learn from yesterday, live for today, hope for tomorrow." Spend your life wisely.