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Dow's record highs improves investors' outlook

By Cornelius Frolik

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The Dow Jones industrial average rose to record-breaking highs five consecutive days last week, and the milestone means the retirement accounts and financial portfolios of some Ohioans have completely recovered from the depths of the 2009 recession.

Nervous investors withdrew their money from the stock market during the downturn. But many investors who stayed in the equity markets have recouped their losses. The Dow has more than doubled in the last four years. ...

...The surging blue-chip index also reflects and influences economic confidence and activity, financial experts said. In the long term, stocks trade on corporate earnings, and gains in the stock market signal expectations of future growth.

"Not always, but sometimes the stock market sort of captures, encapsulates and reflects the psychological outlook of the day, and right now that seems to be quite positive," said James Brock, an economics professor at Miami University. ...

...The Federal Reserve's monetary policies also have made stocks attractive to investors because bonds are producing such low returns.

Record closings

On Tuesday, the Dow Jones industrial average gained 125.95 points, or 0.89 percent, and closed at a record 14,253.77. The Dow continued to climb on Wednesday, rising 0.3 percent to 14,296.39. On Thursday, the index gained 33.25 points, rising to 14,329.49. The Dow ended the week on a high note, reaching 14,397.07 on Friday.

The Dow's previous record close was 14,164.53 on Oct. 9, 2007. The Dow is an index of the stocks of the 30 largest public companies.

The stock market's most recent rally dates back to mid-November, and it has climbed more than 14 percent since then. But the Dow's larger accomplishment is more than doubling since plummeting to a low of 6,547 on March 9, 2009.

"I think people have underestimated the strength of the stock market and are underestimating the strength of the economic recovery," said David Kudla, CEO and chief investment strategist of the investment-advisory firm Mainstay Capital Management, and an adjunct professor at the University of Dayton.

Investors need growth components in their portfolios, and the historic gains will encourage investors to return to stocks because of meager returns on "safer" investments, such as bonds and Treasury notes, Kudla said

The stock market typically forecasts economic activity six to nine months in the future, and the soaring stock market inspires confidence that the economic recovery is building momentum, he said. Home prices and car sales are up, and many corporations are reporting strong earnings.

"Over the long term, if stocks are moving higher, that is an expectation that corporate earnings will be higher in the future," said Kudla, who is also the executive director of the Redefining Investment Strategy Education 13, a forum that will be held at UD in April. "If corporate earnings are expected to be higher in the future, that means corporations are expanding and growing and hiring people." ...