

A trader on Monday works on the floor of the New York Stock Exchange. AP

Bull market stays out of nosebleed section

Rally keeps valuations at safe level

By Adam Shell
USA Today

NEW YORK — Bull markets often die when stocks are richly valued. But this bull is still in the valuation sweet spot.

The bull market that began four years ago has pushed stocks up 124 percent and near record highs.

But what the big rally hasn't done is cause stock valuations to hit nosebleed levels that put the bull market at risk, said Jeffrey Kleintop, chief market strategist at LPL Financial.

The market, which stalled last week at levels last seen near the stock market's 2007 peak, rose 0.6 percent Friday.

The Wall Street consensus: The market is prone to a 3 percent to 5 percent pullback, noted Chris Verrone, analyst at Strategas Research Partners.

The Standard & Poor's 500-stock index is trading at a price-to-earnings ratio of just 14.9, based on the previous four quarters' earnings. That is below the 18.8 average since 1998.

It is also significantly lower than the peak P-Es in the previous five bull markets since World War II, according to LPL Financial.

"There might be some ups and downs, but we will likely have another leg up in this bull market," says Kleintop. "Bull markets end at higher stock market valuations."

The market's attractive pricing relative to history is a big reason Kleintop says any market pullback should be viewed as a good time to buy rather than a warning sign that the big run-up is over and a bear market is looming.

However, Kleintop warns that the market might have a hard time moving higher right now as it digests the Dow Jones industrial average hitting 14,000 this month for the first time since October 2007.

His research shows that the Dow has had difficulty rising in recent years after hitting a key milestone.

Last year, the Dow hurdled 13,000 in February but went sideways for 10 months.

Still, low valuations act as a floor of sorts for the stock market.

"The pattern may be repeated this year," said Kleintop. "However, the bull market is not likely to be over. If so, stocks would be ending a bull market with the S&P 500 priced at its lowest multiple of earnings for a bull market since World War II."

Paul Hickey, co-founder of Bespoke Investment Group, agrees that low valuations will provide nice support for the stock market. "Just because the Dow or S&P 500 hits a multi-year high doesn't necessarily mean that the market immediately pulls back," he says.

Hickey said for the S&P 500 to be trading at a similar valuation to the last time it was above 1500 in late 2007, it would need to rally about 12 percent and climb above 1700.