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MARY ALTAFFER / The Associated Press

The Dow's strong performance this week has investors wondering whether the rally is part of another bull run or short-term bear gains.

Market rally greeted with cautious optimism

By Adam Shell
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NEW YORK — After a brief lull, the young but powerful bull market that began in early March has regained its bullish mojo.

But the recent gains, while welcomed by profit-hungry investors, have left Wall Street wondering: Is the rally the start of a second leg of the bull? Or is the run-up a short-term bear trap that will burn giddy investors?

The resurgent rally has been ignited by a strong start to the second-quarter earnings season and a batch of incoming economic data that suggest the economy is healing.

Sure, investors applauded the Dow Jones industrials' climb Thursday back above the 9000 level for the first time since January, capping a nine-session run that has pushed the Dow up 11.3% to 9,069. But as has been the case since stocks began rallying furiously off of the March 9 bear market bottom — a time when equities were priced for the second coming of the Great Depression — there's no shortage of skeptics who don't believe in the rally and question its longevity.

Richard Suttmeier of ValuEngine.com says the market is moving higher on "momentum" buying, which is a telltale sign of "a blow-off top." He warns that the market is overvalued and that investors' expectations for the economy are too optimistic. A poor profit report from software giant Microsoft after the markets closed shows the risks.

There is a growing contingent on Wall Street that believes the recent run-up is the start of another uptrend. One such optimist is Carmine Grigoli, chief investment strategist at Mizuho Securities USA. In a note titled "A Second Leg for the Bull?" he said the mix of strong earnings, a broad advance that includes stocks in many sectors and huge amounts of cash on the sidelines is "characteristic of a buying stampede that occurs in the early stage of a major new advance." In an interview, he said, "The gloom is lifting. This is not a bear trap."

Mike O'Rourke, chief market strategist at BTIG, also thinks the rally has legs.

The more positive economic data after months of gloomy numbers have fueled such a huge rally that it is likely to lure investors who have been sitting on the sidelines back into stocks. "Regret — in this case, missing out on gains — is a big motivator when it comes to investing," O'Rourke says.

Another bullish sign is the fact that President Obama is getting pushback for his expensive proposals to overhaul health care. That signals that not every bill he pushes will pass. "Gridlock is bullish for the market," economist Edward Yardeni says.

Investors wait to grab bull by horns