FIRST TAKE

No worries for investors

Fed's plans should not hit stocks anytime soon

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Barring an unforeseen, exogenous event, this is how the bull market will end: The Federal Reserve will push interest rates higher until the economy slows and corporate earnings tumble.

That day is a ways off yet.

The Fed signaled Wednesday that it is reducing its market-friendly bond-buying program by $10 billion a month and that it would keep short-term interest rates at extraordinarily low levels. Here's the key wording: "Even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run."

Low interest rates are meant to stimulate the economy by making it easier for businesses and individuals to borrow and invest. Naturally, there are other consequences.

Rate story

Interest rates are still low compared with where they were at the top of the last bull market on Oct. 9, 2007.

13-week T-bill yield	
Oct. 10, 2007	3.93%
Wednesday	0.03%
10-yr. T-note yield	
Oct. 10, 2007	4.67%
Wednesday	2.56%
30-yr. T-bond yield	
Oct. 10, 2007	4.86%
Wednesday	3.22%

SOURCE YAHOO FINANCE

For investors, the primary consequence is that other investments, such as bank CDs and money market funds, look terribly unappealing. The average money fund yields 0.01%, according to iMoneyNet — literally less than nothing, after inflation.

Longer-term bonds are similarly unappealing. The 10-year Treasury note yields 2.56%. At that rate, you'll double your money in a bit more than 28 years.

The Fed did have encouraging words for the economy, saying that the jobs market is improving. Corporate profits are strong: Standard and Poor's is looking for a year-over-year increase of more than 8% in corporate earnings, and Thomson Reuters is looking for a bit more than 6% — both decent showings.

In many ways, the current market is looking like a normal middle-aged bull market. Typically, small- and midsize company stocks rise at the beginning of a bull market, because they're more nimble and more sensitive to short-term interest rates. And the past five years, both small and midcap stocks have beaten the large-cap Standard and Poor's 500-stock index.

As the bull market gets older, large companies pull ahead — in part because investors feel safer with them, and in part because they take longer to recover from a recession.

Big banks typically lag, because it takes them longer to work off bad loans. That's what's happening now.

Just before the stock market peaked in 2000, the Fed had hiked the fed funds rate to 6.5% from a low of 3% in 1992. The Fed pushed up short-term rates to 5.25% before the market peak in 2006 from a low of 1% in 2003. Barring unforeseen events — and there are plenty of good candidates — it will take considerable pushing from the Fed to kill this bull market.