Stock rally strong but vulnerable

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NEW YORK — The summer rally on Wall Street sizzles on. Stocks are at fresh 2009 highs. And many signs point to an economic recovery.

But all that upbeat news raises a question for investors: Is there anything that can derail this unexpectedly powerful bull market that has pushed the broad U.S. stock market up a lofty 52 percent since it bottomed out on March 9?

Playing devil's advocate might seem misplaced after Tuesday, when stocks continued their rise after a key housing price index posted its first quarterly rise in three years and the latest reading on consumer confidence beat expectations. The reports raised hopes the housing slump has hit bottom and consumers are feeling less pessimistic about their financial condition, providing fresh ammunition to investors betting on a lasting economic recovery.

But given that no bull market lasts forever, it seems prudent to consider what might put an end to the run-up.

Possible bull market killers:

■ A double-dip recession. Just because many economists believe the recession that began in December 2007 is over and a recovery is on the horizon doesn't mean the economy can't suffer a relapse that will put renewed pressure on consumers, corporate profits and stocks, says Steven Ricchiuto, chief economist at Mizuho Securities USA.

■ A seasonal swoon. When it comes to stock performance, historical data show the month of September is dead last, a fact that could spook investors and result in a self-fulfilling prophecy of falling prices.

■ A tightfisted consumer. Since consumers account for two-thirds of U.S. economic activity, any signs that retail sales aren't improving — because people are unwilling to spend due to job fears, declining home values or the need to reduce debt — will put a dent in the recovery thesis, says Pat Adams, portfolio manager at Choice Investment Management.

The first test is the current back-to-school season, which may give a glimpse into the strength of the key Christmas shopping season. "The consumer is dead; I don't know how you counteract that," Adams says. "There won't be a Christmas this year."