

There isn't a party atmosphere in the stock markets, as there was in the 1990s, but stocks have performed well. AP

Why does this bull get so little respect?

S&P 500 has triple-digit gain since 2009

By Adam Shell
USA Today

The current bull market on Wall Street has one thing in common with late comedian Rodney Dangerfield: It gets no respect.

The Standard and Poor's 500, an index of large-company U.S. stocks, eked out a fresh five-year high Thursday at 1480.94. It is up 119 percent since the bull market began March 9, 2009, which means it is a member of the "100 percent Gain Club" — just one of nine bull markets in the benchmark index's history to post a triple-digit gain, according to Bespoke Investment Group.

In cash terms, the stock market has generated $10.5 trillion in paper wealth since the bear market ended, according to Wilshire Associates.

So why is this historically significant market advance so despised?

"It is the Rodney Dangerfield of bull markets," said Gene Needles, CEO of American Beacon Funds. He said most investors don't know how strong the market is because they have focused on short-term volatility. "They've been reading all of the dire headlines. Fiscal cliff. Debt-ceiling debate. Europe. Pick your poison. It hasn't felt like a bull market. It's not like in the 1990s, when there was a ticker-tape-parade-type atmosphere every day on Wall Street."

The statistics tell a story of success, not failure. But investors, especially on Main Street, don't seem to care. For much of the past 44 months, many investors, psychologically and financially scarred by the 2008-09 financial crisis, have sworn off stocks.

In search of perceived safety and a good night's sleep, they have plowed the bulk of their life savings into low-yielding bonds or deposited their cash in banks that pay nearly zero interest. In the five years ended in 2012, individual investors have yanked an estimated $557 billion out of U.S. stock mutual funds, while funneling $1 trillion into bond funds, accord-



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ing to data from the Investment Company Institute, a fund company trade group.

It's as if investors can't forgive the market for burning them so badly a few years ago; a plunge that was less than a decade removed from the tech-stock-inspired crash in 2000. Investors have been unwilling to give the stock market a second, or third, chance.

A lack of trust

"Investors don't really trust the market itself, so they don't trust the rally," said Paul Hickey, co-founder of Bespoke Investment Group.

Despite lingering pessimism, the fact that the stock market keeps rising ever closer to its all-time high is a positive sign, counters Needles. "It's more of a sign of a market breakout than a top," he said. "Investors have a renewed appetite for risk."

There are other theories as to why stocks have lost their luster as the go-to investment to save for college or fund a retirement nest egg.

Andres Garcia-Amaya, a global markets strategist at JPMorgan Funds who happens to think the current stock market rally has a ways to go, blames investor complacency. The bond market has been in a bull market for three decades, and investors scared off by the volatility of stocks, he said, found comfort in the solid and competitive performance of bonds vs. stocks, especially the big outperformance during and after the 2008 financial crisis.

Another big factor is that investors have been unable to shake the bad memories of past market plunges, said Doug Sandler, chief equity officer at RiverFront Investment Group.

"We have been conditioned over the past 12 years into thinking that buying stocks is a bad decision, because they always get beat up at some point," Sandler said.

Central bank-driven

The fact that the rally since 2009 has been driven largely by policies of lawmakers and central bankers, such as the Federal Reserve and European Central Bank, has also given investors pause. Some Wall Street bears argue that the gains have been artificially inflated, and that the unprecedented stimulus measures used by central bankers to reignite the economy and boost confidence are akin to "steroids" or a "sugar high."

Having politicians and bankers determine the fate of markets makes it hard to handicap the future. Said Sandler: "I can't tell you what (ECB head) Mario Draghi is thinking right now. We can guess. But it is different than trying to figure out how Apple's iPhone is selling. That scares people."

But that doesn't mean that there is not a case to be made for stocks.

While the irrational exuberance of the go-go 1990s, or even the heady days of the real estate boom in the mid-2000s, is long gone, the market, at least by common methods used to measure its vital signs, is in far better shape today, Sandler argues. In early 2000, when tech stocks were king and nearing a pre-crash peak, the S&P 500 was trading at more than 30 times its estimated earnings. Today the market is trading at just 13 times estimated profits for 2013, which is below the long-term average of 15 times earnings.

Corporate earnings, which slowed sharply in the second half of 2012, are expected to re-accelerate and grow roughly 10.6 percent this year, according to analyst estimates tracked by Thomson Reuters.

"Are we bumping up against super-high valuations? The answer is no," said Sandler.

Still a good value

Stocks also look attractive relative to bonds, which are trading at, or near, record-high prices and sporting historically low yields that make it tough for investors to grow their money and build enough wealth to meet their long-term goals, said Garcia-Amaya.

"Relative to fixed-income, stocks look favorable," said Garcia-Amaya.

The broader economy is also performing better, albeit at a sub-par pace. The real estate recovery is also gaining speed. And, despite a still-high unemployment rate of 7.8 percent, the job market seems to be firming up. All of these developments are supportive of stocks.

Still, there is no shortage of things for jittery investors to worry about. While the nation narrowly missed falling off the fiscal cliff, investors are now confronted with another fight in Washington over raising the debt ceiling and ways to cut the deficit.

Fresh money arrives

Still, there are signs that individual investors' distaste for stocks might be waning. Lipper reported that stock funds, including mutual funds and exchange traded funds that invest in both U.S. and foreign shares, took in $18.3 billion in the week ended Jan. 9, the fourth-largest weekly inflow since it began tracking them in January 1992. The combined flows rose just $286 million in the latest week.

"Investors," Needles said, "are finally coming to the realization that the conservative investments they have been in have returned little to nothing."

While some pundits warn that Main Street investors returning to stocks in year four of the bull is a sign of a market top, many other Wall Street pros say it is a bullish signal, as it shows that there is fresh money coming in from the sidelines. It also suggests that investor confidence is rising.

"Net net, it's certainly a bullish backdrop for the market," said Bespoke's Hickey.