Sunny quarter may hide clouds



RICHARD DREW / The Associated Press

Trader Luke Dalton works on his handheld device Thursday on the floor of the New York Stock Exchange, where stocks fell to end a great September.

Will stock surge last?

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THE ASSOCIATED PRESS

When you open your quarterly statements in the next few weeks, you might be both pleased and puzzled.

Despite the economic doldrums, the stock market put together a sizzling 11 percent return over the past three months, with its best September since 1939.

But the gains are deceptive, analysts say. While news about the economy has improved, there's no reason to believe it's roaring back. And the big advance was driven by a relatively small number of traders with a lot of money.

"I think a lot of this is just misguided optimism," says Rob Arnott, chairman of Research Affiliates, an investment firm. "The headwinds we face are pretty daunting."

In other words, few are calling it the beginning of the next bull market — not with unemployment still near 10 percent and stocks bound in what market technicians call a trading range.

Still, the gains were impressive. In September alone, the Standard & Poor's 500 index rose 9 percent, the Dow almost 8 percent and the Nasdaq composite index more than 12 percent. Every sector was up.

September is usually the market's worst month. This time, it was the third-best month of any kind in 10 years.

The quarter got off to an inauspicious start but rebounded to finish July up 7 percent, then limped through August.

What first changed the tone of the market was the Sept. 1 release of figures that showed surprisingly strong growth in the U.S. and Chinese manufacturing sectors.

More news trickled in throughout September that, if not terrific, was at least not bad. Payrolls and orders for durable goods improved, and there was a flurry of corporate deals, plus the hints from the Fed about further help. The rally was on.

"It's a huge relief and it was absolutely unexpected," says financial adviser Jon Stein, CEO of an online brokerage called Betterment.com.

While the gains did a lot for millions of 401(k) accounts and other investment holdings, the rally was rather thin, and some market observers say that's a sign it won't last.