The bull market — explained

The S&P and Nasdaq Composite are setting all-time highs, yet many financial commentators continue to wonder why.

After all, they say, first quarter GDP growth was close to zero and corporate profits undermined by the strong dollar are disappointing. What gives?

A slow-growth economy and falling earnings would normally send stocks lower. These are not normal times, however.

As I've reported many times, alternative investments (bonds, cash equivalents, CDs, etc.) yield next to nothing. That won't improve anytime soon. The financial futures market is pegging a fed funds rate in 2018 that is below two percent.

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Market Pulse

Even when the Fed raises rates, these alternatives will have very low and uncompetitive yields.

By keeping short-term rates near zero for six years, the Fed has distorted prices for financial assets of all kinds.

If their motivation was to boost stocks and trigger the wealth effect, and it appears that it was, they achieved at least half their goal.

Stocks have soared since March 2009 and bonds have done well, too. We can't know the degree to which the wealth effect was triggered or why people bought stocks or bonds, but surely it was a factor to some extent.

Here's why the media and some of Wall Street's strategists have it wrong: Are we to believe that investors would sell stocks now because of the still-low rates they expect in 2018?

Of course not. If they were concerned about rates rising they'd also be selling bonds, preferreds and better-yielding stocks. They are not. In fact, quite the opposite.

That doesn't mean there aren't risks. The major risk is not that interest rates will rise, it's that growth will slow or disappear.

Rising concerns about that periodically inhibit the market's advance as people move to the sidelines. But not for long.

So when the media question the market's strength and talk of selling stocks to raise cash, notice how they don't say what you should do with the money.

Sitting on the sidelines making nothing will not meet anyone's goals, not with today's rates on CDs, money-market funds and short-term bonds. Money will be put to work where it will be treated best.

Until alternatives become more attractive, that will be in stocks. An old story about to get even older.

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