A 2015, midsummer update — the doldrums continue

David Vomund
Market Pulse

In our early June article, "summer doldrums," we said that we expected a flat market this summer. History was on our side.

If, starting in 1965, you invested $1,000 in the Dow only during June, July, and August your account would now be $982, excluding dividends. We weren't alone in our flat forecast.

Goldman Sachs expects the S&P 500 to end the year at 2,100. That's not far from where the market sits now.

In fact, the market is little changed for the last seven months. Why the lack of movement? Look to the economy. The Fed recently lowered its GDP forecast for 2015. Now they see growth of 1.8 to 2 percent.

Through the recovery since 2009 the Fed has consistently predicted much faster growth only to be disappointed again and again. They are not very good at economic forecasting, to put it kindly.

They entirely missed the first-quarter's decline then overestimated the snap back. In circular fashion, the Fed cites slow GDP growth as the reason to continue the low-rate, market-distorting policies that create it.

Some say get on with a rate boost from virtually zero to some still rock-bottom rate. Removing the uncertainty and media hype about a lift-off date might trigger more capital investment. It just might.

In Goldman's long-term forecast they noted that half of the market's return would come in the form of dividends. In this low-rate environment owning large-company stocks with a good yield and a history of dividend growth will treat investors well.

I like Pfizer, General Electric, AT&T, Verizon and others. Or you can own the ProShares S&P 500 Aristocrats ETF (NOBL).

I also like owning the leading market segments. Healthcare is a leading sector and small-cap indexes are performing better than others.

Right now some investors are focused on Greece and Puerto Rico's debts while others worry about the timing of a Fed rate boost.

Everyone should consider the earnings outlook (flat) and valuations that are on the high end of historical levels. For those reasons the stock market's upside will be limited for now.

Given the unattractive alternatives (bonds, cash, CDs, etc.) the downside is also limited. That means dividends and owning some of the leading sectors will be more important than ever. Patience, too.

David Vomund is an Incline Village-based fee-only money manager. Information is found at www.VomundInvestments.com or by calling 775-832-8555. Clients hold the positions mentioned in this article. Past performance does not guarantee future results. Consult your financial adviser before purchasing any