

Business

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Market outlook is tepid

Though trading is volatile day after day, investors are taking everything in stride. Stocks are flat year-to-date, which validates the 6-12 month outlook at Goldman Sachs that sees virtually no return at all other than from dividends.

Marc Faber (aka. Dr. Doom) says stocks can fall 40 percent from here. He's said that many times before. On the other side, Piper Jaffray expects much higher prices by year-end.

That's what makes a market. Bernard Baruch, among history's best investors, reportedly once said, "No one knows if stocks are overvalued or undervalued. That's why



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we open the market every day." Indeed.

The S&P 500 is only 1.5 percent off its recent high. That's overstating

the strength of most stocks, however. Half of the S&P 500 stocks lost 10 percent or more off their highs. Many are off 20 percent.

An important factor behind the market's sluggishness is the impact of China's slowing economy. Slowing growth in the world's second largest economy has implications for global growth and the prices of commodities China imports (copper, oil, etc.).

Commodity exporting nations — Australia, Indonesia, Brazil, Russia and Canada, for example — are suffering. Look at their currencies, now at levels not seen in years.

Stock prices are always tied to expectations for interest rates and profits. The outlook for the former is fine. Rates will be low for years. The profit picture is a different matter. S&P profits this year will be flat with 2014 due in good part to the energy companies.

Next year the latter will have better profits compared to this year and give the S&P a boost. Prices won't rise or fall significantly unless the current earnings outlook changes. I don't see a bullish or bearish catalyst for that.

All that said, investors have little choice but to buy and own stocks given the yields on alternatives today and for the foreseeable future. But given the rising risks and growing debt levels one needs to focus on quality stocks with good yields and dividend growth.

Yields for Spectra Energy, GE, AT&T, Pfizer and others are rising as prices slip a bit. Someday just the opposite will be true and yields will fall as prices rise. Someday soon would be nice.

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