

Business

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Interest rates: low for longer

Predictions for the economy vary wildly. The Fed believes the economy will pick up steam and interest rate hikes will be necessary. Others predict a recession before the end of the year. What's the market saying? Continued slow growth and low interest rates.

The fourth quarter GDP was revised higher to a growth rate of one percent. That rules out any recession starting in 2015. There might be a "profits recession," however, as fourth



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quarter earnings for S&P 500 companies are expected to have fallen 4.9 percent following a 0.8 percent decline in the third

quarter.

Since stock prices reflect the outlook for earnings growth and interest rates, it's easy to see why most stocks are either going sideways or down.

Here's some perspective on GDP. From 1950 to 2000 GDP growth averaged 3.5 percent. Since then growth has slowed to 2 percent. This anemic growth explains why the middle class is being left behind.

Two percent growth is not enough to raise their standard of living. Economic growth (or lack thereof) is a big problem, one that the presidential candidates aren't addressing.

The markets expect slow growth will continue. Utilities and telecom stocks have been the strongest areas this year. No wonder. They are the least sensitive to the economy and they have the highest yields, which are increasingly attractive while rates stay low.

Exchange-traded funds like Schwab Dividend Equity (SCHD), ProShares Dividend Aristocrats (NOBL), and Vanguard Dividend Appreciation (VIG) are about unchanged this year, which is far better than the four percent loss seen in most market averages.

Better still are preferred stocks. The more secure ones are moving higher as investors realize that rates will remain lower for longer.

Most of those that I've written about have seen price appreciation in addition to the dividend payments. Higher prices mean a lower yield. It is getting harder to find 6 percent in a preferred stock that pays qualified dividends.

This brings me to my final point of why any stock selling will continue to be brief: there are few alternatives. Yields on Treasuries, corporate bonds, CDs and money-market funds pay almost nothing. Junk bonds have higher yields, but given their risk no investment firm would recommend more than a modest exposure.

That leaves commodities, which are unworkable for all but a handful of investors. The lack of alternatives will continue to support stocks, especially the dividend payers.

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