

## Why the Stock Market isn't going higher (6/5/02):

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### Why I wrote this article:

I am writing this brief article to refute stock market “gurus” who say the stock market is going to soar due to an impending economic recovery. On June 3<sup>rd</sup> 2002 I sat and watched, to my amazement, as CNBC was blaring comments from a Solomon Smith Barney economist or stock strategist who claimed the S&P500 could conceivably hit 1300 by the end of 2002. For the record, that same day the S&P 500 fell another 13 or so points to close around the 1050 level which would indicate his belief that the stock market could surge 20% + in the next six months if it were to hit the 1300 level.

I find the comments nothing short of CRIMINAL to the average American investor who has lost their shirts in the stock market due to these investment “gurus” over the last few years. Gurus such as Abby Joseph Cohen, along with numerous others, apparently believe that the stock market only goes up. They aren't analysts, strategists or economists anymore. Such individuals are nothing more than slick talking salespeople.

### **S&P 1300? ENOUGH ALREADY. GO STRAIGHT TO JAIL!**

**The conclusions below will be part of my longer investment report, which I hope to have completed by Mid-July to Early August. I recently finished gathering all the necessary data to complete such a project so the key will be the amount of time it takes to type the report in and get the graphs / illustrations prepared.**

### Summary of Conclusions:

As we enter the 21<sup>st</sup> century economic growth will not be as robust as we have experienced in the past 20 years. As a result, it is likely that stock market gains will be minimal at best during the next decade. The years of 10% - 20% stock market returns are gone folks. Recognize it and plan your financial dealings accordingly. Below is a chart of GDP growth over the last four decades.

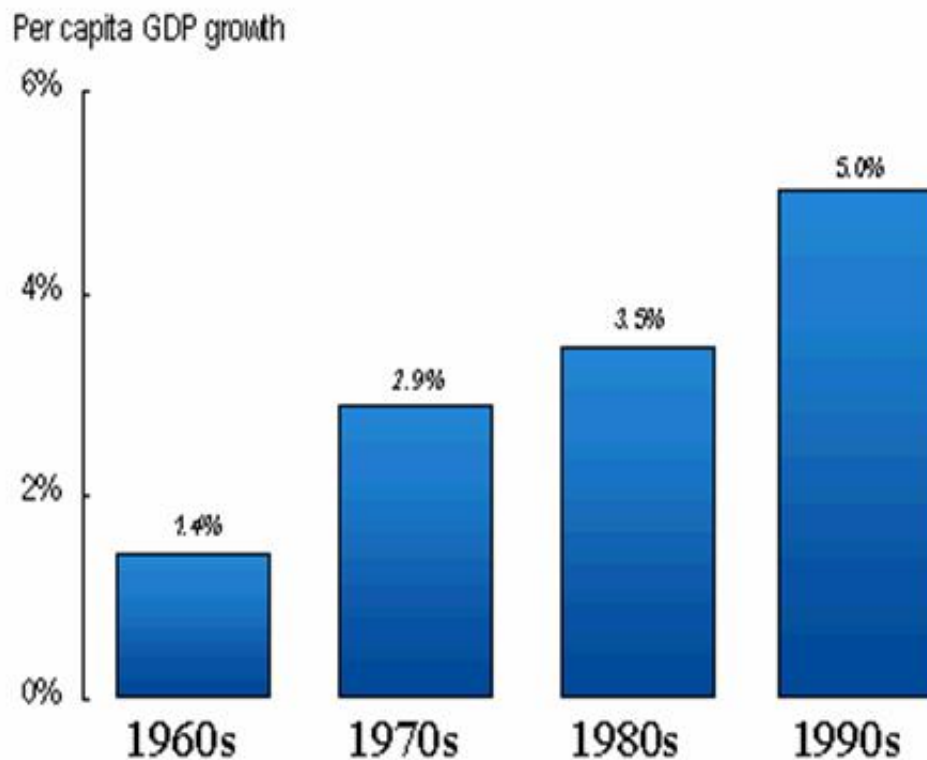
Looks good doesn't it?

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### Check out my favorite business books:

A timely investment related book to pick up some time. Deflation will become a more common word in the media in the next five years. Find out what it is and how it affect you before it is too late!



**Source: U.S. Commerce Department**

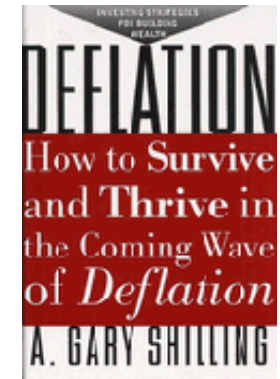
Why do I have such beliefs you ask?

DEBT!

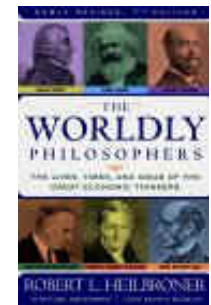
The U.S. economy and stock market returns have grown at above average rates in the last two decades due to the enormous debt levels that have been taken on at the consumer and government level.

Here are two good examples:

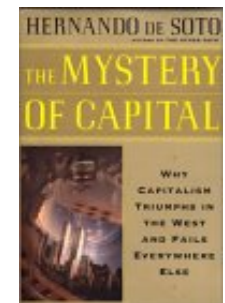
The 1980's was a decade of decadence sparked by government spending.



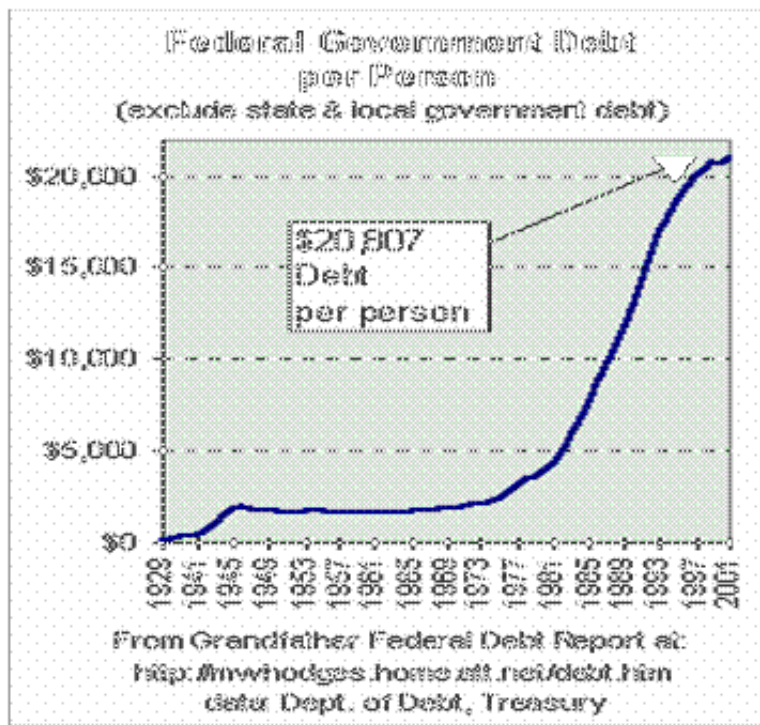
Learn about the times and lives of the world's most famous economic thinkers. Smith, Marx, Schumpeter, etc



Politicians and economists have been raving about this book since it was published in 2000.



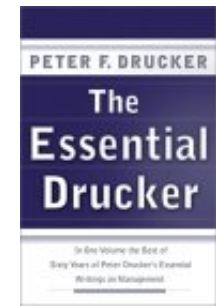
Peter Drucker is regarded as a founder of management as a discipline. This book is a summary of his best work,



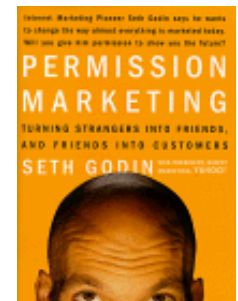
**Source: Grandfather Economic Report**

The 1990's was the age of the consumer and everyone's increase in overall levels of indebtedness.

which spans over 60 years!



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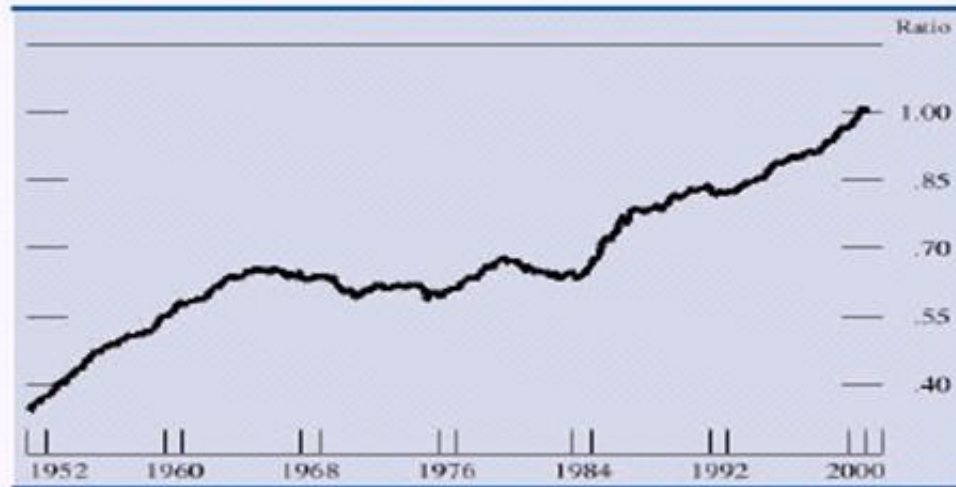
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## 1. Household sector debt relative to disposable personal income, 1952–2001:Q1



NOTE. Debt is debt outstanding at end of period, from the flow of funds accounts. Disposable personal income is after-tax income, from the national income and product accounts (Bureau of Economic Analysis, U.S. Department of Commerce).

Source: [Federal Reserve Bulletin July 2001](#).

While Corporate America restructures their balance sheet and also pays down debt accumulated during the last fifteen years they will find that the consumer cannot spend above and beyond what they earned like they did in the last decade as many consumers are “all tapped out.” Additionally, the federal, local and state governments cannot continue to grow their spending at rates experienced during the 1980’s.

So where will the top line growth come from?

We know that Wall Street Pundits are talking about 20% EPS growth rates next year or at least 15% but how will they attain that? From 1Q01 to 1Q02 S&P 500 profits grew at approximately 16%.

What many people fail to state is that these profits have grown due to cost reductions through closing factories, laying off workers and eliminating other discretionary costs (travel, entertainment, raises). None of the EPS growth is being derived from top-line growth, which is what caused P/E multiples to expand, the stock market to soar and corporations to get much larger in the past 20 years.

More information will be forthcoming.....If you want to get an idea of my economic thoughts check out my [U.S. Housing Report](#), which I wrote in at the end of April 2002. The file is quite large (2.8 Mb) and is in .pdf format so it might take awhile to download.

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