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Are Stocks Headed For A Bear Market?

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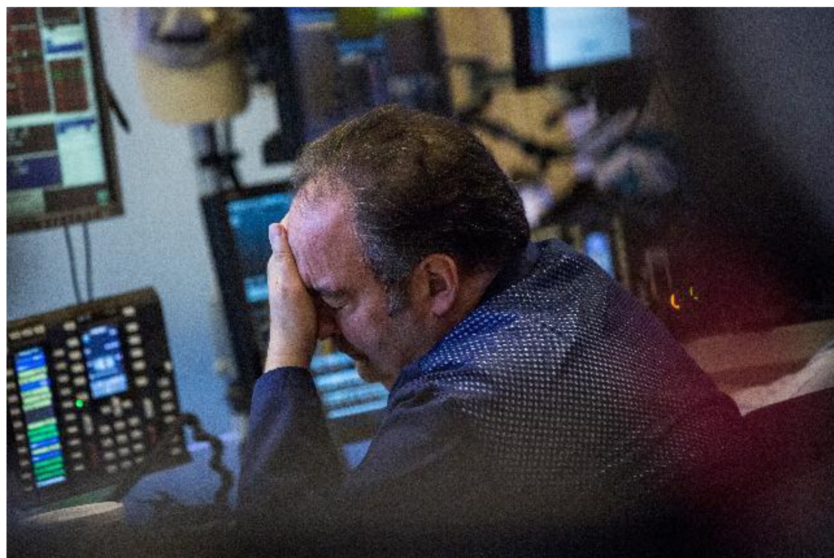

Daniel Beckerman, CFP®, ChFC®, President Beckerman Institutional in Oakhurst, N.J.:

I view the recent correction in the stock market as a temporary downturn within a long-term bull market that began in the first quarter of 2009. Since then, this is the fourth double-digit correction. We had one in 2010 coinciding with the “flash crash.” Another took place in 2011 as the European debt crisis played out. A third downturn took place in 2012 during the debt ceiling issues that we faced. This time around the primary areas of concern seems to be the slowdown in China as well as the crash in commodities prices.

Just to be clear, there are two sectors of the stock market that are already in a bear market: energy and materials. In the past year, the energy sector has plummeted more than thirty percent. You are certainly hurting if you are an investor focused on the energy sector. However, the news is not all gloomy in this regard. In fact, for most businesses and individuals, crashing energy prices act like a tax cut. Many businesses (particularly transportation companies) are enjoying the lower prices. If prices remain depressed, it also creates a tailwind effect not just for the average corporation, but for anyone who drives a car or heats their home.

Furthermore, there is not a very compelling case for a long-term bear market. Economic productivity does not seem to indicate a recession in the short term. It is also difficult to make the

case for any systemic banking system problems given that the banks have become far more conservative ever since the aftermath of the financial crisis.

Valuations for the stock market overall should be considered reasonable. They are not particularly cheap nor are they expensive. The forward price to earnings ratio for the S&P 500 stock market index is right at about its 15-year average. Investors are likely to be more apt to pay up for companies that can achieve strong organic growth. Many of these kinds of companies can be found in the technology sector.

The Federal Reserve's decision to hold off on raising rates indicates that (even though they are planning to begin moving rates up) they are leaning more toward an accommodative stance for the economy, which is generally a positive for the stock market. The traditional indicators that the Federal Reserve tends to focus on are the unemployment rate, the consumer price index, and some others. Our Federal Reserve Chair, Janet Yellen particularly likes to look at the "JOLTS" (Job Openings and Labor Turnover) survey. But it is clear that the Fed is also watching the broad macroeconomic environment as well as the stock market.

In their meeting this month, Janet Yellen explained the rationale for the Federal Reserve to leave rates unchanged. She cited economic concerns in the emerging markets and the volatility of financial markets. This recent focus on the markets illustrates that despite the desire to raise rates, greater still is the Fed's desire to maintain growth that should be viewed as a positive for the stock market.