

Why Do Stocks Keep Rising?

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

So far this year, the S&P 500, including dividends, has returned 10.1% to investors. The NASDAQ, including dividends, is up 10.7%.

This has happened even though the Federal Reserve has tapered bond purchases from \$85 billion per month, to the current \$25 billion. And everyone knows, QE will fall to \$15 billion after September 17th and zero after the Fed's meeting in late October.

The market is up in spite of Vladimir Putin invading Ukraine, the rise and rapid spread of ISIS in Iraq and Syria, and even volcanoes in Iceland. It's up even though Ebola is spreading in Africa, there are upcoming Congressional elections in the US, and some members of the Fed are publicly speaking about the need to raise interest rates sooner than next year.

The stock market is up even though some previously bullish analysts have turned skeptical or even bearish. It's up even though it had a little hiccup back in July and even though the 5-year Treasury yield is up 100 basis points since early 2013.

This continues a trend that started sixty-six months ago on March 9, 2009. Since then, the S&P 500 is up at annualized average of 24% (including dividends). And the things the market has worried about in the past year don't hold a candle to the fears stirred up over those previous five years.

During those five years, pundits on many business TV shows, after hearing that we thought stocks could go even higher and that the economy would keep growing, always asked "yeah, but what about _____"?

You can fill in the blank with a hundred things...they certainly did...the Sequester, Greece, Dubai, Cypress, the Fiscal Cliff (twice), part-time jobs, and on and on. This incessant pessimism, the constant belief that things were bound to go wrong seems almost surreal. How can somebody stay negative for so long, but convince themselves that they are always right?

Maybe this is why CNBC viewership is falling. According to Zap2it.com, it's fallen to a 2-year low (click [here](#)).

It's important to remember that many people watch business TV at work and ratings services do not do a good job of capturing this viewership. Nonetheless, if these data capture any type of decline at all, it's a real shame.

The 21st century is an amazing period of entrepreneurial activity. Fracking, 3-D printing, robotics, biotech advances, the Cloud, wireless communication technologies, smartphones, tablets, and apps are just a few of the areas of massive advancement.

The business world is vibrant, productive and massively efficient. One broad measure of profits has grown 20% at an annual average rate between Q4-2008 and Q2-2014. How come TV can't capture that vibrancy in a way that attracts more viewers?

The good news is that TV does not drive stock prices, profits do. Rising profits prove that resources are being utilized more efficiently and when resources are used more efficiently, they become more valuable.

One problem the pessimists have is that they look back at 2008 and see a failure of markets and the success of government. But TARP and QE never saved the economy. Stock markets fell an additional 40% after TARP was passed.

But once mark-to-market accounting rules were changed in March/April 2009, the crisis ended and a recovery began. That recovery has been real, not a "sugar high," built on government action.

It may not have been the strongest recovery ever, but in those areas driven by, or that utilize, new technology, it has certainly been profitable.

That's why stocks keep rising in spite of all the negative news that circulates. Understanding profits is the key to understanding why stocks keep rising.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-8 / 2:00 pm	Consumer Credit– Jul	\$17.0 Bil	\$17.4 Bil		\$17.3 Bil
9-11 / 7:30 am	Initial Claims – Sep 6	300K	301K		302K
9-12 / 7:30 am	Retail Sales – Aug	+0.6%	+0.6%		0.0%
7:30 am	Retail Sales Ex-Auto – Aug	+0.2%	+0.2%		+0.1%
7:30 am	Import Prices – Aug	-1.0%	-1.1%		-0.2%
7:30 am	Export Prices – Aug	-0.1%	-0.2%		0.0%
8:55 am	U. Mich Consumer Sentiment- Sep	83.5	83.0		82.5
9:00 am	Business Inventories – Jul	+0.5%	+0.3%		+0.4%