

Bull Looks Long in the Tooth

After 64% Runup, Biggest Gains Are Likely Past; What History Has to Say

By E.S. BROWNING

WALL STREET has a cliché for times like these: The easy money has been made.

After a 64% gain for the Dow Jones Industrial Average between mid-March and Jan. 19, thanks to an unprecedented wave of government stimulus, no one expects the market to maintain its breakneck pace.

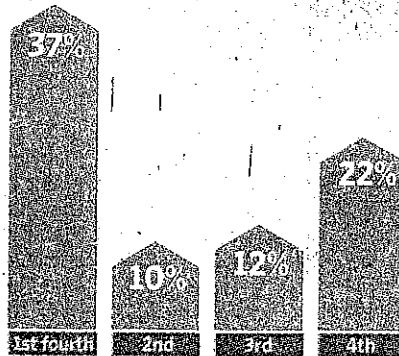
Although stocks are down 6% from that high, few analysts believe the bull market has ended. But a number of analysts and investors are concerned the market could be in for a period of ragged, possibly disappointing, stock behavior.

Instead of pushing stocks higher on good news and betting on the future, investors lately have been using temporary stock gains as an opportunity to cash in profits, a change from their behavior of the past 10 months. On Friday, the Dow finished at

Less Juice

The biggest gains usually come when a bull market is starting. Dividing the past nine bull markets into fourths, chart shows average gain for each quarter. Data since 1962. Based on Standard & Poor's 500-stock index.

Source: Birinyi Associates



10067.33, startlingly close to the 10000 level it hadn't seen since early November.

"The 'sweet spot' for financial-market performance seems now at an end," warned Neal Soss, chief U.S. economist at Credit Suisse, in a recent commentary.

He was one of the rare analysts who saw the big gains coming last year. Stocks won't necessarily fall with a thud now, but the "directional 'buy-it-cause-it's-going-up' phase of the last nine months looks to be

over," Dr. Soss said.

He said investors are turning away from joy that the economy has rebounded and toward the reality that the level of economic activity seems likely to remain sub-par for a long time to come.

If the market indeed is in for a period of ups and downs, that would be a disappointment but hardly surprising. Researchers who have looked at past bull markets find that the strongest gains typically come in the initial months, usually followed by choppy performance once the

bull market matures.

Birinyi Associates in Westport, Conn., studied nine bull markets since 1962 by breaking them into fourths and calculating the average performance for each fourth. It found an average gain of 37% in the first fourth, followed by 10% in the next fourth, 12% in the third and 22% in the fourth. The stock-market research firm concluded that the rampaging gains of the past 10 months are unlikely to repeat themselves.

That doesn't mean the bull market is over, Birinyi said. The firm looked at what normally follows a market drop of more than 5%, finding that the total decline was 9% on average. In less than 10% of cases did a 5% decline lead to a drop of 20% or more, signaling the end of the bull market. Only one-fourth of the time did it lead to a drop of more than 10%.

Birinyi also looked at the bull market that began in 1982, which started with a huge gain similar to the one stocks have

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PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. THE RISK OF LOSS EXISTS IN FUTURES TRADING.

MONEY & INVESTING

Bull Market Showing Its Age After a 64% Runup in the Dow

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just turned in. The big initial 1982 gain was followed by a 9% decline over the next 12 months, after which the bull market picked up steam again.

Birinyi used data on the Standard & Poor's 500-stock index, and its research suggests that

ABREAST OF THE MARKET

the average bull market lasts four years.

Although there have been wide variations in bull market durations and the recent rebound has been particularly unusual, Birinyi's opinion is this bull market has longer to run.

Ned Davis Research has done its own work, using the Dow and going back to the beginning of the 20th century. The Venice, Fla., firm came to a less-bullish conclusion, though it also argues that the bull market likely isn't over yet.

The research firm, like Birinyi, found that the biggest gains come at a bull market's beginning. But Ned Davis's work suggests that bull markets average only two years in duration, partly because their research includes pre-1960s data. The current bull market could be shorter than average, the firm believes.

Many analysts think stocks since 2000 have been in what they call a secular bear market, a long-running period of stock weakness similar to the 1970s and 1930s. During such periods of weakness, bull markets average only 16 months long.

So while this bull market has longer to run, since it began in March, the ride might not last much longer. "We could be getting into the last third of the bull market," said Ed Clissold, senior global analyst at Ned Davis Research.

The firm doesn't see January's decline as a sign of an imminent end to the bull market, partly because it hasn't seen excesses of investor optimism or narrowing of broad market gains that usually precede a bull market's end. But the firm is warning of a more-serious setback—and possibly the end of the bull market—some time in the spring or summer. It recently

published a study showing that market declines of more than 10% are common in the six to 18 months following a recession's end.

One sign to watch for is what analysts call a rotation away from lower-quality stocks. Those are small stocks and battered companies, such as banks that have led the recent gains. As a bull market matures, investors look for bigger, safer-seeming stocks with steadier earnings.

In January, the Nasdaq Composite Index, packed with volatile technology stocks that have been among the market's leaders, fell 5.4%; the Dow dropped 3.5%.

Small stocks, which historically do better than large stocks in the first month of the year, have done about the same as big stocks this January, a sign that they may be about to fade.

If investors see signs that small stocks and more-volatile stocks are beginning to lag, they might begin to shift away from such shares, another sign that the bull market is aging.

A big part of the problem in January was that global economic news wasn't strong enough to keep investors buying stocks.

U.S. unemployment has been worse than expected, while housing demand was disappointingly weak. Even news that the U.S. economy grew at a 5.7% annual rate in the fourth quarter wasn't enough to push stocks higher, as economists warned the rate isn't sustainable.

With stocks still up well over 50% from their lows, investor expectations have risen and the market has entered a "show-me" phase. To justify continued gains, analysts said, investors need to be favorably surprised by economic and corporate news. In January, expectations were too high for the news to satisfy them.

The stock market's endurance could depend heavily on whether economic and corporate news remains uncertain, or begins indicating that the economy truly is out of the woods.

At least for now in this show-me market, investors are turning skeptical.