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Investment outlook mixed for the rest of the year



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**PERSONAL
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The outlook for the capital markets for the balance of the year is mixed. There's no doubt the economy is slowing. Fourth-quarter GDP growth was disappointing at 1.6 percent after 10 consecutive quarters of 3.0-plus percent annualized growth.

Despite solid and consistent growth, job creation has been light, albeit significantly better than most of the developed regions of Europe and Asia.

Our dollar strengthened by 15 percent in 2005, catching most prognosticators by surprise, which offset a significant portion of the robust returns reflected in Japan and Asia dollars.

The real estate market is one problem area for the economy and stock market. Not only have new home sales declined, but the supply of homes on the market is at a 10-year high, according to Rick Pederson of Foundation Properties Inc. and David Jones, CEO of DMJ Advisors, who recently spoke at the Citywide Banks Economic Forum. Also, Pederson believes the real estate bubble is beginning to burst, particularly in California and South Florida.

In other words, we've just experienced the classic market top, and those left holding the bag are the ones who least can afford it.

While the real estate bubble may be more regional and not a national crisis, California and Florida have large populations. Any significant slowdown in their spending will be dire for the national economy.

Consumers aren't in great shape today and with consumer spending accounting for about two-thirds of economic growth, a regional decline could spell "recession" for the entire nation and perhaps globally.

A bright spot can be found in corporate America.

Excellent productivity gains have helped secure a long winning streak of impressive earnings results.

The S&P 500 (large companies) experienced a 13 percent earnings gain in the fourth quarter from a year ago, and marks the 10th straight quarter of double-digit yearly gains – an accomplishment experienced only twice before in the last 50 years.

Perhaps lessons were learned in the late 1990s, as corporations haven't been as compelled to build up inventories, make significant business investments or hire workers in great numbers. They realized the crash of tech stocks ruined the party and investments were wasted.

Therefore today, companies have banked their cash and perhaps they're getting ready to cautiously spend – taking the baton from the consumer. Inventories are at low levels, and according to Morgan Stanley, 54 percent of companies plan to increase capital spending and 75% percent have acquisition plans.

Cash on hand is at near-record levels, and the labor market is still positive.

The good news is that corporations mostly are on solid footing; typically they're not at the end of a cycle. Further stock market valuations are reasonable, as the S&P 500 is priced at 15 times earnings, less than average in the last 15 years.

It may come down to new Federal Reserve chairman Ben Bernanke's ability to maneuver around a tenuous real estate market and tired consumers. Alan Greenspan was street-savvy and well -tested. Bernanke's ability to softly land the real estate market, as a life long academic, may be the wild card.

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