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First Trust

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Monday Morning Outlook

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Bulls Versus Bears, Again

The big news last week was the execution of Osama bin Laden. It was both the end and the beginning of an era. It provides closure on at least some part of 9/11. However, terrorism is still with us, just with a different face.

The same is true for the economy and markets. Last week real GDP was released for the first quarter of 2011 and was up for the seventh consecutive quarter, hitting a new all-time high. Even though unemployment is elevated, US economic output has recovered from the Panic of 2008. Nonetheless, investors remain nervous, even bearish, about the economy and financial markets. There are still many analysts with dour outlooks.

A perfect example of this came courtesy of our good friend Doug Kass – a great guy, uncanny investor and a short-seller who has, amazingly, not become cynical. He penned what became a very popular piece last week. It rehashed the past few years from his point of view, mentioning us in the process.

He remembered that, back in 2007/2008 on CNBC, he and a handful of bears (who saw the crisis coming) "debated the uber bulls, Don Luskin, Dr. Bob, Brian Wesbury, Jim Paulsen and many others." Kass then says that "eventually, [he] and the others were proven correct" and "we were right for the right reasons." He then argues that the same thing is happening now and that it sure "feels like déjà vu all over again."

His recounting of history is absolutely correct. He was right about 2008 and we were wrong. We thought the government would change mark-to-market accounting rules in 2008. Instead, politicians over-reacted and spent trillions. The end result was the first true economic panic in a hundred years.

Where Kass sees a failure of capitalism, we see a failure of government. Doug Kass, Nouriel Roubini, Meredith Whitney and others did call the crash, but we believe they were right for the wrong reasons.

The proof of this, for us, is that when the market understood that Barney Frank would force the end of mark-to-market accounting on March 9, 2009 the stock market rally started. The bottom was a direct result of this change, not quantitative easing, TARP, stress tests, or any other government program.

Since that time, the bears have not given up. Most of them have been forecasting more economic problems, a double-dip, a stock market crash…something bad. Kass called a bottom in March 2009, but seems to have doubted the sustainability of the stock market increase, forecasting its end numerous times in the past two years.

In other words, it all depends when you start the clock and who you want to believe. The bulls were wrong in 2008, but right in 2009 and 2010. The bears were right in 2008, but wrong in 2009 and 2010. If you are looking for an infallible forecast…stop right now. There is no such thing.

There are always going to be bulls and bears, and they are always going to debate. The debate today is whether the bull market of the past two years will continue or not.

It seems to us that the bears never believed that the recovery was real. At the same time, most of the bulls (including us) thought that the problems of 2008 were not going to be permanent. As a result, the bears think that the market is over-valued and that the recovery is all based on government stimulus. The bulls see a more sustainable recovery driven by productivity, earnings, jobs and incomes.

In the next year or so, we'll find out whose déjà vu is right.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-10 / 7:30 am	Export Prices - Apr	+0.9%	**+0.9%**		+1.5%
7:30 am	Import Prices - Apr	+1.8%	**+1.8%**		+2.7%
5-11 / 7:30 am	Int'l Trade Balance - Mar	-$47.0 Bil	**-$44.3 Bil**		-$45.8 Bil
5-12 / 7:30 am	Retail Sales - Apr	+0.6%	**+1.2%**		+0.4%
7:30 am	Retail Sales Ex-Autos - Apr	+0.6%	**+1.5%**		+0.8%
7:30 am	PPI - Apr	+0.6%	**+0.7%**		+0.4%
7:30 am	"Core" PPI - Apr	+0.2%	**+0.2%**		+0.8%
7:30 am	Initial Claims - May 7	428K	**440K**		474K
7:30 am	Business Inventories - Mar	+0.8%	**+0.9%**		+0.6%
5-13 / 7:30 am	CPI - Apr	+0.4%	**+0.4%**		+0.5%
7:30 am	"Core" CPI - Apr	+0.2%	**+0.2%**		+0.1%
8:45 am	U. Mich. Consumer Sentiment	70.0	**70.0**		69.8