First Trust
Monday Morning OUTLOOK

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Stocks Won

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Next Monday (October 9th) will be exactly ten years from the stock market peak before the Financial Panic of 2008.

Imagine that Doctor Doom, the perceived "best analyst in the business," told you on that night, when markets peaked, that financial authorities would allow mark-to-market accounting rules to burn the banking system to the ground, with many well-known financial firms failing or being taken over by the government. You knew the unemployment rate was going to soar to 10% and the economy would experience the deepest recession since the 1930s. You also knew the US would soon elect a president that would socialize much more of the health care system, raise top income tax rates, and push the Medicare tax for high income earners up by an additional 3.8%. Finally, you knew that ten years later all of those new taxes and expanded health care policies would still be in place.

Then imagine you knew the federal debt would be more than 100% of GDP, with massive annual deficits predicted as far as the eye could see.

Then, imagine you were allowed one investment choice, a choice you had to stick to for the next ten years, through thick and thin, no reallocation allowed. Put all your investable assets in the S&P 500, a 10-year Treasury Note, gold, oil, housing, or cash. Pick just one of these assets and let your investment ride.

Which asset would you have picked? Be honest! In that environment, with that kind of foresight, right at a stock market peak, it would have been awfully tough to pick stocks.

And yet, on the basis of total return, over the last ten years, that's the asset that did the best. Assuming no major shift in the next week, the S&P 500 has generated a total return (capital gains plus reinvested dividends) of 7.2% per year, essentially doubling in value in ten years.

Gold did well, but lagged stocks, increasing 5.7% per year. A 10-year Treasury Note purchased that night (now coming due), would have generated a yield of 4.7%. Oil was a laggard, down 4.3% per year. Home prices increased about 1% per year, on average, and "cash" averaged 0.4%, both trailing the 1.6% average gain in the consumer price index.

You might have slept better by investing in 4.7% Treasury Notes. Certainly the volatility of stocks, and the cascade of financial news headlines predicting doom and gloom over the past ten years, wouldn't have bothered you as much. But you'd have fewer total assets today than if you would have kept the faith and stayed long stocks. And if you wanted to reinvest, now, for the next ten years, your rate would be roughly 2.3%.

If you knew exactly when to buy and sell each of these investments over the years, you could have done better, but no one did that and no one knew how to do that.

So, what's our point? You would have been better off by ignoring all those pessimists who became famous in 2008-09. Investing in companies, and allowing world class business managers to use your money to build wealth, was once again the best investment strategy. Ten years on, we still think that's true.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-2 / 9:00 am	ISM Index – Sep	58.1	**58.5**	60.8	58.8
9:00 am	Construction Spending – Aug	+0.4%	**+0.5%**	+0.5%	-0.6%
10-3 / *afternoon*	Total Car/Truck Sales – Sep	17.1 Mil	**17.4 Mil**		16.0 Mil
afternoon	Domestic Car/Truck Sales – Sep	13.0 Mil	**13.6 Mil**		12.5 Mil
10-4 / 9:00 am	ISM Non Mfg Index – Sep	55.5	**55.5**		55.3
10-5 / 7:30 am	Initial Claims – Sep 30	265K	**265K**		272K
7:30 am	Int'l Trade Balance – Aug	-$42.7 Bil	**-$41.5 Bil**		-$43.7 Bil
9:00 am	Factory Orders – Sep	+1.0%	**+1.1%**		-3.3%
10-6 / 7:30 am	Non-Farm Payrolls – Sep	80K	**69K**		156K
7:30 am	Private Payrolls – Sep	74K	**74K**		165K
7:30 am	Manufacturing Payrolls – Sep	10K	**10K**		36K
7:30 am	Unemployment Rate – Sep	4.4%	**4.4%**		4.4%
7:30 am	Average Hourly Earnings – Sep	+0.3%	**+0.2%**		+0.1%
7:30 am	Average Weekly Hours – Sep	34.4	**34.4**		34.4
2:00 pm	Consumer Credit– Aug	$15.6 Bil	**$14.1 Bil**		$18.5 Bil