

## THE OTHER SIDE OF THE COIN

Over the past few months I have presented historical evidence to document metrics that can be used to evaluate the relative attractiveness of investing in the stock market. Using that data it appears the stock market, at today's prices, does not offer good value for long-term investors. But what if I am wrong? Could the stock market continue to rise, and if so, what reasons could cause this to happen? In this article we will take a look at the other side of the coin.

Here are my personal top six reasons (in declining importance) for why the broad stock market could continue to rise from current levels, regardless of valuation:

1. **Quantitative Easing** (AKA "printing money") – As long as the Federal Reserve continues to provide free credit to its owners – the member banks – the banks will continue to speculate on risky investments in attempt to earn returns as compared to loaning it out to borrowers who may not pay it back. In addition, the more money that's created by the Fed, the lower its value. Hence, anything denominated in the Fed's notes might continue to go higher (at least in the short term).
2. **Lack of alternatives** – In an interest rate environment that pays little-to-nothing on savings, what options does an investor have? *"To sit on cash, or not sit on cash?"* That is the question.
3. **Investor Impatience** – Investors afraid of "missing out" on further gains might continue to buy stocks, which could drive prices higher.
4. **Real Job Creation/Recovery** – If the broad economy shows serious improvement and workers receive increased spendable (discretionary) pay this could translate into more growth and higher stock prices.
5. **"Consumer" Emerging Economies** – Most emerging economies have lower standards of living compared to ourselves. In addition they have higher savings rates. Should their economies become consuming economies, like the U.S., growth could ensue which could lead to higher stock prices in select markets and companies.
6. **My "WALL-E" Theory** – Readers who have seen the 2008 movie "WALL-E" will be able to relate to this. In the movie everything was owned by one company - Buy-n-Large (BnL). Here in 2011 as we continue to witness company after company consolidate to achieve cost synergies and growth through acquisition we get closer and closer to sheer monopolies in every industry. Without price competition these companies could charge consumers whatever they want, earning higher profits, especially if there are no substitutes.

While this is not an exhaustive list it does provide food for thought about what could occur and in return helps keep my mind open to all possibilities.



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