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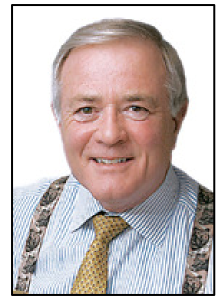
William Rutherford

Rodney Dangerfield market reaches new highs

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Since April 2009, the last market bottom, U.S. equity markets have marched upward, increasing 172 percent through Aug. 31. For over five years, the market has been hitting new highs, on average every 14 days. But throughout this time, bears have called the end of the market rise; forecasts of doom have come regularly.

The bears have been on the wrong side of the market. This bull market has been hated and untrusted all the way. Yet once again it arrived at new highs. In August the market was up 3.8 percent. It is the first time this year that the market has been up all four weeks in one month.

So, is this the top? Will the market fall 30 percent, as some people have predicted? And what about the headline issues of Syria, ISIS and Ukraine?

The markets have continued their upward trend because of the healing process that has taken place since the credit market crash. The crash did not occur because of "irrational exuberance." It occurred because of the work of financial miscreants who peddled mispriced financial paper to investors throughout the world.

The collapse occurred when "the music stopped playing" and there were no bigger suckers. It collapsed when the government refused to bail out Lehman Brothers, which was the linchpin, if not the culprit, in the whole scheme of things. With the collapse of Lehman Brothers came the collapse of the financial system and the credit markets (see my warnings about this during interviews on CNBC on the floor of the New York Stock Exchange in 2007 and 2008.)

After this collapse, the U.S. Federal Reserve found it necessary to backstop and then support the U.S. economy. The rest of the world had to follow suit.

As a result of the Fed efforts, the U.S. financial markets were restructured, and the economy gradually corrected itself. Europe and Japan, in the meantime, have not done so well. The markets saw this correction and began to recover. Institutional investors understood what was happening, but many retail investors did not; hence, they stayed on the sidelines to their detriment.

Gold bugs and bears bet against the U.S. economy and markets. However, it is wise to remember the saying "don't fight the Fed." That was certainly true in this case, as the economy and markets began their long recovery, now over five years old.

Five years is certainly a long bull market historically, so we must be near the end. But is the end imminent? At Rutherford Investment, we don't think so. However, we are probably closer to the end than the beginning.

We have been predicting that 2014 would be positive for the markets even after the approximate 30 percent rise for equity markets in 2013. The markets have done even better than we thought. And why wouldn't they, with a 4.2 percent GDP rise in the second quarter of this year? Such a strong showing supports a strong market.

Companies, which have wrung the most productivity possible from their physical plants and personnel, are starting to invest more. With capacity utilization at nearly 80 percent – usually a time that requires capital investment – companies are starting to invest their huge cash troves.

Furthermore, some of the plants are probably obsolete, so utilization might be even higher. Companies have started to hire. Temporary help firms, usually the first to signal hiring, are feeling the effect. Help wanted signs abound, even as the labor force participation rate has dropped.

Barron's seems to think that people have grown accustomed to not working and have figured out how to stay unemployed and survive. (See Barron's Sept. 1, 2014 issue). New hiring and scarcity of labor will push up hourly earnings, as companies have to bid more for workers. This will raise family incomes.

What about the correction? We think that September and October will be (slightly) down months. A correction of 5-7 percent could be in the offing, but should be viewed as a buying opportunity. After the elections in November, whichever party wins, we should see a sprint to the tape (end of the year) and even beyond. Use these opportunities wisely.

Of course, headline news could rattle markets, but the underlying economy is still in a recovery mode. President Putin knows that President Obama does not want to take any action that might increase the conflict in Ukraine before the election; so, at the moment Putin has Obama pinned to the mat. We'll see if Obama can escape from this hold, and gain a reversal, after November.

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