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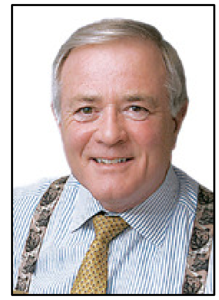

William Rutherford

Stock market melt-up continues

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The broad market ended the month of November just below record highs, having logged its longest streak of weekly gains in nearly a decade. The Dow's weekly gain was its eighth straight. It finished up 3.5 percent in November for its third consecutive monthly rise. The S&P 500 finished the month up 2.8 percent for its longest stretch of weekly gains since a nine-week run ending Jan 23, 2004. The Nasdaq added 3.6 percent in November to reach 4,049.89.

For the year to date the Dow is up 22.6 percent, the S&P 500 is up 26.8 percent and the Nasdaq is up 34.3 percent. Growth portfolios outperformed value portfolios; the largest gains came in small cap growth stocks, which are up 38.65 percent year to date.

J.J. Kinahan, chief strategist for TD Ameritrade says there is still room for the market to move higher. "Everyone wants to be the one to call a top, but many individual investors and funds remain underinvested," he said. "The only bubble is in the number of people calling a bubble."

The fact that so many people are worried about a bubble is a good sign because it puts a brake on overexuberance. There are numerous matters to be worried about. Perhaps the biggest is the U.S. government, which appears totally dysfunctional. Confidence in our government is plumbing new lows.

However, consumer sentiment improved in November, according to the Thomson-Reuters/University of Michigan sentiment index, as jobless claims fell for the sixth week in the past seven. But unemployment remained at a stubbornly high 7.3 percent.

In contrast, the Conference Board Consumer Confidence Index, a different measure, fell to its lowest reading since April. Inflation expectations fell to 2.9 percent, according to the Michigan survey. Capital expenditures by businesses showed weakness as companies hoarded cash rather than bet on the uncertainty caused by Washington.

The Institute for Supply Management's manufacturing supply index rose for the sixth straight month. The New York Times reports that despite economic headwinds, global manufacturing quickened in November – suggesting a broad global economic turnaround in 2014. Both Germany and China showed improvement too.

The yield on the 10-year Treasury notes rose from 2.739 percent to 2.754 percent late this past Wednesday, as upbeat data boosted bets that the Federal Reserve could pare its bond purchases soon.

Investors should follow the bond market and interest rates to determine the future course of the Fed and the economy. Interest rate increases will probably precede Fed action. Indeed, the market has been doing the Fed's work in raising interest rates.

Although the likely new Federal Reserve chairwoman, Janet Yellen shares the dovish view of Ben Bernanke, the market has begun anticipating the end of quantitative easing and is forecasting rate increases as the Fed "tapers" bond buying.

Oil prices dropped to about $93.00 per barrel as tensions eased in the Middle East and the prospect for Iranian oil supplies improved. In a monumental world shift in energy resources, the U.S. is set to become the leading producer of oil by 2015, surpassing even Saudi Arabia. The return of the U.S. to energy independence is a strong underpinning for the economy.

Europe offered encouraging eurozone labor and inflation data. The Stoxx Europe 600 closed at a 5½-year high. Unemployment in the eurozone fell to 12.1 percent in October from a record high of 12.2 percent in September, beating expectations of an unchanged reading. The number of people without jobs fell by 61,000, the largest amount since April 2011.

Consumer confidence rose in Germany, but fell in France as the largest economies in Europe took divergent paths. German gross domestic product grew at a 1.3 percent annualized rate in the third quarter while French GDP contracted 0.6 percent. Should French GDP fall again in this quarter, France would be back in the technical definition of recession commonly used by economists. France just emerged from a recession earlier this year, but is adopting political policies that are damaging its business sector and job creation.

The annual rate of inflation in the eurozone rose to 0.9 percent in November from October's 0.7 percent, helping ease some deflation concerns.

Asia has been generally growing, with China's GDP increasing 7.5 percent year on year – down from 9.5 percent. China is so important to the rest of Asia and to commodity markets, that this has been positive news for the markets as it had been feared that China would slow more. Nomura expects China's growth to slow even more as the government takes a more restrictive stance on credit. This policy may be good because it could head off any assets bubbles in China after years of expansionary policy.

Having risen almost straight up, we can expect a correction – perhaps of 10 percent or more. Investors should use any dip as a buying opportunity, and continue to be diversified and invested for the long term.

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