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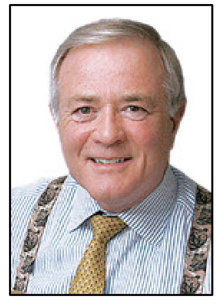

William Rutherford

Will a market correction follow the big gains?

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In 2013, the broad market gained 32.39 percent. A 20 percent market gain in a single year is considered the best of all market possibilities. All 10 S&P sectors scored double-digit gains on a total return basis for the year. It was a remarkable gain considering all the difficulties in the economy.

In addition, political maneuvering brought the government to a standstill; we came very close to exceeding our borrowing limits. The Federal Reserve hinted at tapering of its bond purchases, precipitating a sell-off, and later did reduce its buying.

We are in the midst of a Fed chairman transition, after President Obama unceremoniously showed Ben Bernanke the door. Bernanke’s sacking occurred despite his masterful handling of a very difficult economic situation with limited tools and an uncooperative Congress and executive.

In the words of Pope Francis we need to “argue less and accomplish more.”

Slow growth economic policies, hostile to business, have taken a toll. Even as the president complains about income disparity, his policies stoke that disparity. The Obama recovery is the weakest since the Great Depression. GDP growth has been far below the average recovery since World War II.

If the Obama recovery had been merely average, the economy would be 8 percent, or $1.3 trillion larger than it is today. Every American alive, working or not, child or adult, would be $4,100 better off if the recovery had been only normal. The anti-growth policies from Congress and the executive have stalled the U.S. growth machine.

While the reported numbers from the Bureau of Labor Statistics show declining unemployment, the total employment numbers show 1.3 million fewer jobs than in December of 2007. During that time the population of the U.S. grew by 13 million people.

The decline in unemployment came about because millions of workers have left the workforce. The labor force participation rate declined from 66 percent to 63 percent. The number of people who tell the government that they are not in the workforce has jumped by 10 million since the start of Obama’s term.

Approximately 91.5 million Americans are not working at all. The real jobless rate, as measured by the government in its U6 rate, is a startling 13.2 percent, when giving effect to those marginally or underemployed. These numbers are much higher than they have been in two decades.

Our long-term fiscal outlook is bad, with a ballooning national debt and the need for the government to find $50 trillion to $200 trillion over the next 75 years to pay for our promises. Federal spending will eventually equal 35 percent of all our economic output. Since federal revenues will not be able to keep pace, we will have a massive deficit of nearly 20 percent of GDP. At that level, all capital available will have to go the federal government to finance the deficit. As interest rates rise, just servicing the federal debt will be an issue.

And yet the market had a very good year. Is that sustainable? Since 1945, the S&P has gained more than 20 percent in a year 21 times. On average, stocks gained another 10 percent in the year following a 20 percent gain, ahead of the 8.7 percent average gain. There were exceptions, with the worst years following 20 percent gain years at a 6.2 percent loss and a 19.3 percent loss. That is why we say that past performance is no indicator of the future.

As the new year begins, a steady diet of economic news suggests that the economy is finally on the mend. Employers added more jobs than expected in October and November. Manufacturing activity grew in the final months of the year, and home prices accelerated. The economy is starting 2014 with upside momentum, having grown an estimated 3.4 percent in the last half of the year.

Employers will finally be forced to hire, having squeezed the last drop of productivity out of their workforce. Workers will finally be able to demand more wages and salaries. The recovery has been so anemic that merely solid growth will look refreshingly good.

Remain fully invested, diversified, and invest for the long term.

I am indebted to Investor’s Business Daily for much of the data in this column. Its able research team mined the data, and a very capable editorial staff published it.

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