

# CHART OF THE MONTH

DECEMBER 2013

In a recent [Pew Research Center News Quiz](#), respondents had more difficulty answering the question in the box below than any of the other dozen queries. In fact, only 21% of the 1,052 sampled adults got it correct. Given the fact that there were only four choices, one would expect *at least* 25% of those surveyed to have selected the accurate chart. Amazingly, nearly four times as many people identified Edward Snowden in a photo than the proper chart of the Dow Jones Industrial Average.

What does this poll tell us? We believe it confirms that stocks have been in the midst of perhaps the biggest stealth bull market ever. The public at large has been caught off guard by the simple truth that the DJIA and the S&P 500 have risen for five consecutive years. The cumulative return has been over 160% for the former and more than 175% for the latter since the lows in March 2009. The general perception is that the stock market has behaved more like multiple choice 3 (declining for several years before turning up a couple of years ago) or 4 (scraping along the bottom until just recently) than 1, which is the correct answer.

Lost in the skepticism is the fact that corporate profits and household wealth are at all-time highs. Corporate and household balance sheets are also strong with cash at record levels and long-term debt fixed at low rates. Banks have excess reserves. The federal deficit has been more than halved and now equals less than 4% of GDP vs. greater than 10% in 2009. Meanwhile, stocks are reasonably priced with the S&P 500 trading at approximately 15x the consensus earnings estimate for 2014 (or roughly in-line historically with the average multiple).

The detachment between reality and the public's cautious view of stocks suggests that there may be a lot of life left in this expansion as bull markets rarely, if ever, die of boredom. Going forward, while the market is unlikely to match its performance over the past five years, it is worth noting that the S&P 500 has generated an average total return of 14.2% with positive results 17 of the 21 times in the calendar year following 20%-plus gains since World War II. With the S&P 500 hovering around 1800, such a return would take the index north of 2000 for the first time ever.

Let's call it 2014 in 2014 or numbers that even the public may remember.

