Chart of the Month

July 2014

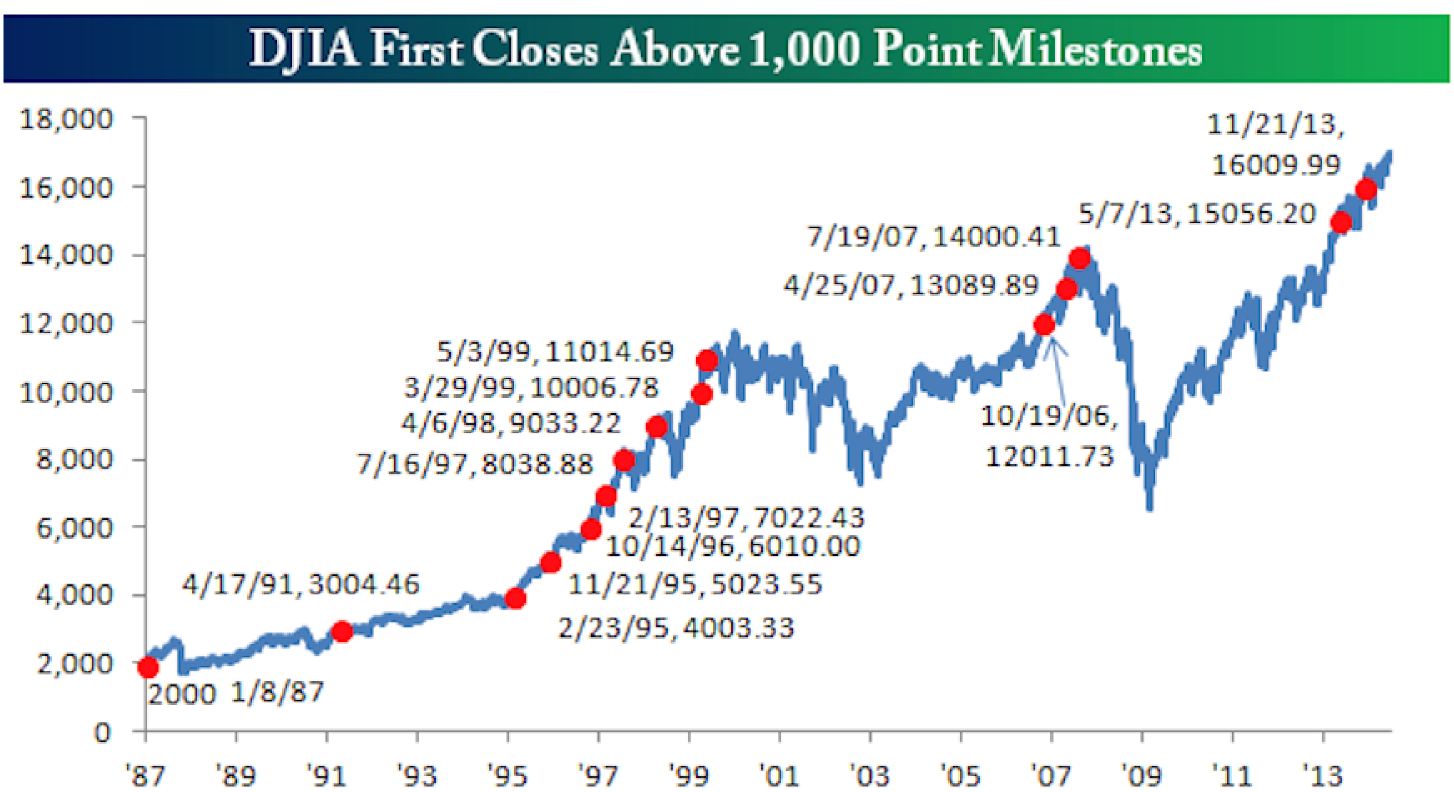
The Dow Jones Industrial Average closed above 17,000 for the first time on better-than-expected jobs data for June. Payrolls climbed 288,000 last month and the unemployment rate fell to 6.1 percent. Employment gains in April and May were also revised to show a total of 29,000 more jobs than previously reported.

As we stated in our Chart of the Month for June, “the pace of hiring is another indication that the domestic economy is strengthening. With central bank liquidity flowing into global markets, the investment environment remains positive for both stocks and bonds, especially here at home.”

The DJIA first crossed the 1,000 milestone in November 1972. It then took more than 14 years for the Dow to pierce the 2,000 level, which it did in January 1987. The index doubled again over the next eight years, passing the 4,000 mark in February 1995. The Dow doubled once again in a span of less than 2-1/2 years, topping 8,000 in July 1997. While the index blew through several more 1,000-point thresholds on the way to its next doubling in November 2013, it took over 16 years to accomplish this feat.

A 1,000-point move in the Dow is no longer the achievement it once was due to the law of large numbers. To illustrate, the road to 18,000 will require a gain of less than 6%. In the meantime, it should be noted that the S&P 500, which closed at an all-time record 1,985 in a holiday-shortened session today, is now within striking distance of the 2,000 milestone. Our target of 2,014 in 2014, which we forecasted in our Chart of the Month last December when making the case that stocks were in the “midst of perhaps the biggest stealth bull market ever,” is only 1.5% away.

While big, round numbers like 17,000 on the Dow or 2,000 on the S&P 500 should not be of great importance in and of themselves, they tend to generate news coverage, reminding investors (as well as those on the sidelines) that the market has been going up. Although it is almost never wise to chase performance, the reality is that the economy is growing, stocks are still reasonably valued, and the expectations are far from irrationally exuberant — a recipe that suggests further gains are more likely than not, albeit with the occasional minor corrections along the way.



Source: Bespoke Investment Group

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