



John Stancavage: No peace in the stock market

JOHN STANCAVAGE Business Columnist | Posted: Sunday, June 23, 2013 12:00 am

There's an old saying that the stock market "climbs a wall of worry."

What does that mean exactly? Perhaps Paul Goodwin, editor of the Cabot China & Emerging Markets Report, explained it best in a blog post.

"It's a bizarre image if you're new to the market, but there's some real meat in it if you think about it," he wrote.

"What the saying means is that a bull market isn't a peaceful place. When the good times are rolling, investors are constantly tense, wondering how long they will keep rolling, fretting about whether a correction in a particular stock is going to turn into a rout and agonizing over whether to take profits in a position or let it ride."

For the past seven months, investors have been climbing faster and faster and not looking down. Despite worries like high oil prices, Middle East tensions and a sluggish job market, they continued to pour cash into common stocks.

Those investors lost their hand-holds last week, however, and came tumbling down the wall as the Federal Reserve announced it was ready to support higher interest rates. On Wednesday and Thursday, the Dow Jones industrial average fell more than 550 points.

Market logic, if there is such a thing, can be hard to figure out - even for seasoned professionals. Still, interest rates are at ridiculously low levels - almost zero, effectively - and the economy continues to strengthen. Certainly there couldn't be anyone who expected this to go on forever.

Indeed, the Fed's statements should not have come as a surprise, Tulsa money manager Fred Russell told me in an interview. Investors, though, always want bad news to happen tomorrow, not today.

"It is disturbing to them," said the principal of Fredric E. Russell Investment Management Co. "It tests their view of reality."

Even if interest rates creep up a few points, they still will lag historical levels dramatically. Russell, who worked for a bank in the 1980s, remembers when lenders were charging 19 percent.

The key is whether the economy can grow fast enough so that the increase in consumer activity offsets the higher cost of doing business.

Russell is using the drop in the market to go bargain-hunting.

One business he likes is Precision Castparts. The Portland, Ore.-based company makes components for aircraft engines and gas turbines. Customers include Boeing, GE and Rolls-Royce.

"Those customers all are growing - they have a lot of optimism about the global economy," Russell said. "So a company like Precision Castparts should be able to withstand higher interest rates. That's the kind of stock I'm looking for."

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