

## **John Stancavage: More signs pointing to artificial recovery**

**JOHN STANCAVAGE World Business Columnist | Posted: Saturday, September 21, 2013 12:00 am**

The financial markets hit new highs earlier this week, but you would have had a hard time guessing that by just reading investor comments and analyst thoughts on the economy.

Indeed, the amount of hand-wringing going on up and down Wall Street would seem more common for a recession.

It appears to be time to wonder aloud if we are living in another artificial recovery - one that's supported more by wishful thinking and federal tinkering than real fundamentals.

A recovery is a recovery, some might retort - why be "Debbie Downer"?

Why? Because flimsy recoveries often lead to deep downturns. Remember the post-9/11 "rebound" that turned out to be built on easy credit and a home-loan fever that was unrealistic and unsustainable? That was followed by the worst recession since the Great Depression.

This time, we have soaring profits at many U.S. corporations, but that executive-suite prosperity is coming at the expense of average Americans who either can't get hired at those companies or, if they do have a job, can't get a raise.

Instead of the illusion of economic growth being fueled by shaky mortgage lending, we now have the Federal Reserve acting as the enabler with its stimulus program.

Usually, a doctor prescribes a short-term treatment of antibiotics to cure a sick patient. If the patient doesn't get better in a few weeks, the doctor looks again to see if he misdiagnosed the malady.

In the current environment, if the U.S. were a patient, it would have been receiving its antibiotics for about four years.

In most recoveries that lead to truly healthy economies, hiring surges, consumer spending soars and things get so hot you have to start worrying about inflation. Right now, none of those boxes is getting checked.

Average workers who are waiting for some relief may find things getting worse.

"There's a coldness and ruthlessness in the corporate world now that's unprecedented," Tulsa money manager Fred Russell told me in a telephone interview.

"For example, Walgreens just announced it was moving its workers to private health exchanges and Home Depot is dropping medical coverage for 20,000 of its part-timers," he said.

Meanwhile, domestic companies are doing more expansion in China, Mexico and Vietnam than they are here, said the veteran analyst and principal of Fredric E. Russell Investment Management Co.

The Fed seems to be waking up to the corrosive nature of this recovery. After signaling to investors over the summer that it was ready to wind down its \$85 billion-a-month bond purchase program and allow interest rates to rise, it suddenly backtracked this week and said it would continue propping up the economy.

While the Dow Jones industrial average and Standard & Poor's 500 hit records after the announcement, some analysts began scratching their heads after taking a few minutes to ponder what the decision really meant.

"We want to see stock prices go up for the right reasons. It's a little perverse," Jeffrey Cleveland, a senior economist at Payden & Rygel, told the Los Angeles Times.

So, if investors are so jittery, why are they putting so much money in the market?

"I call it the 'no-choice rally,'" author and former investment banker William Cohan told me earlier this week. "With the Fed keeping interest rates down artificially and companies having low labor costs and high profits, investors literally have no other choice but stocks if they want to get a good return."

Cohan is warning of another collapse on Wall Street - perhaps in as little as three years - because he thinks regulators haven't done enough to fix problems exposed by the systemwide meltdown in 2008.

Russell isn't predicting a deep recession yet, but he said growth could be slow in 2014 and 2015.

Investors seemed to be taking some of these sober observations into consideration. After the Dow hit a record of 15,676.94 on Wednesday following the Fed's statement, it fell a combined 255 points Thursday and Friday.

Despite the lack of clarity from the Fed and the nation's tenuous financial situation, Russell said his advice for investors is the same as it has been for years.

"You should stay in the market if you can tolerate the risk," he said.

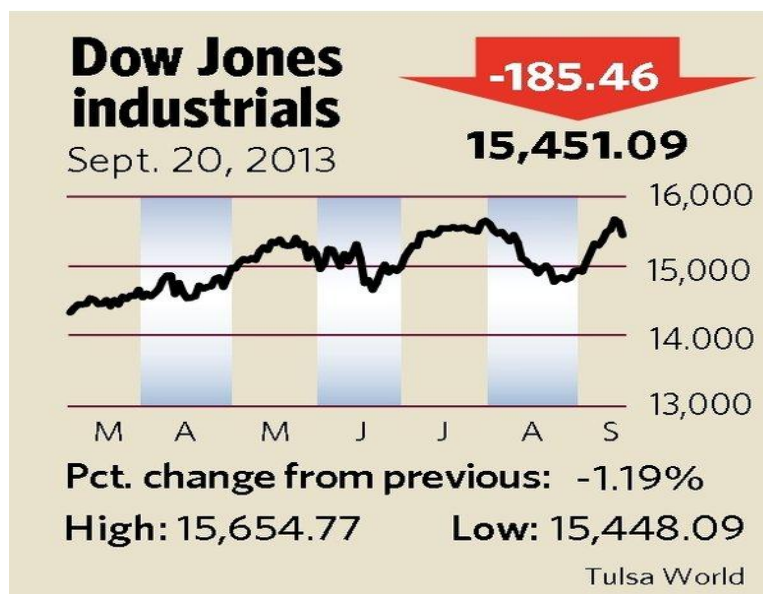
The rest of this year could continue to be bumpy, he warned. Most of the "easy money" in severely undervalued stocks already has been made. "Those opportunities are rare now," he said.

And, there's still the troubling matter of trying to figure out what's really going on in the economy.

"Right now, it's like having a sweet dessert and taking an unpleasant pill at the same time," Russell said.

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