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# Glad tidings for market

## Positive economic reports buoy spirits on Wall Street

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Wall Street is likely to get a special present any day now.

The Dow Jones industrial average, the most widely recognized indicator of the stock market's condition, is within spitting distance of closing above 11,000, a level it hasn't reached since June 2001.

On Thursday, the Dow had a triple-digit gain, closing at 10,912.57, up 106.70, or 1 percent. Just 0.8 percent more would send it into heady territory above 11,000. December's stock market typically benefits from a so-called Santa Claus rally, so many experts say the Dow will crack the 11,000 mark this month.

The milestone is largely symbolic. But even symbolic breakthroughs can have a powerful influence on people's behavior.

"The Dow breaking above 11,000 might be a nice holiday present for the U.S. economy in that it should boost the confidence of both consumers and businesses and lay the basis for a livelier-than-expected 2006," said John Lonski, chief economist at Moody's Investors Service in New York.

"It's possible that if businesses feel more confident about the future, given that the Dow has broken above 11,000, they might be more inclined to step up capital spending, undertake more in terms of product development, including R&D, all of which would add to employment," Lonski said.

Similarly, a Dow high could spur spending at the consumer level, and the breakthrough apparently will come during the critical holiday shopping season. Consumer confidence has already swung upward, boosted by the recent drop in gasoline prices. Higher equity prices that make people feel a little bit wealthier could have a similar effect.

Stocks have climbed in recent weeks thanks to an array of relatively good economic indicators. Increases in orders for durable goods, record new-home sales, as well as the consumer confidence increases and a gasoline price drop all seemed to heighten investors' good cheer.

"Energy prices are declining, economic data (are) showing a lot of broad-based strength, even housing, while expected to cool, the numbers and interest rates suggest an orderly adjustment, not a collapse in prices," said Gary Schlossberg, senior economist with Wells Capital Management in San Francisco. The economy "is firing virtually on all cylinders. We're seeing a lot of optimism."

The Dow, a price-weighted average of 30 blue-chip stocks selected by the editors of the Wall Street Journal, is the most narrow of the indexes that track market performance, but it is also the most familiar to the average person.

"We can talk about GDP, but what does that mean to most people?" Lonski said. "The everyday American has a better handle on where the Dow is today, where it was not long ago and where it was at its peak."

The one group least likely to be impressed about the Dow hitting 11,000 is professional investors.

"It's not going to have much significance for most market participants," said Russ Koesterich, senior portfolio manager at Barclays Global Investors in San Francisco. "Institutional investors tend to focus more on the S&P 500 and some of the other indexes." That's because the Standard & Poor's 500 index, as its name implies, includes 500 stocks, while the Nasdaq includes more than 3,000 stocks, so by their nature those indexes are much broader.

Unlike the Dow, both the S&P 500 and the Nasdaq are far short of their historic high marks, although both reached four-year highs this month.

The Nasdaq's 2,267.17 close on Thursday is less than half of its record high of 5,048.62 in March 2000. The S&P, now at 1,264.67, is 17 percent short of its 1,527 top, also reached in March 2000.

"The market in general is not anywhere near the peaks it hit during the end of the bubble," Koesterich said.

Likewise, the overall stock market, as measured by the Wilshire 5000 index of market value, which encompasses about 6,700 stocks, is still 14 percent short of its March 2000 peak, Lonski said.

"We're making progress at regaining what was lost since March of 2000, yet we're not all the way back to where we last peaked," he said.

It's a far different stock market today from the first time the Dow hit 11,000 in 1999 — and experts said that's all to the better.

Price/earnings ratios, an important barometer of how expensive stocks are, **"are much more modest and less speculative today," said Richard Welty, head of Welty Capital Management in Lafayette.** In May 1999, when the Dow first broke through 11,000, stocks traded at an average of 26 times their past earnings. Now, the ratio is around 19.

"Once you're over (a price/earnings ratio of) 20, you start to get into what a lot of people would consider overvalued territory," said Brad Sorensen, senior sector analyst with Charles Schwab and Co. in San Francisco.

Most companies have reported strong financials for the past two years.

**"Earnings growth has been phenomenal," Welty said. "As of October, earnings grew at 14 to 16 percent. Cash flow for corporate America is the best it's ever been. Many companies have $10 billion to $25 billion sitting in cash. They're increasing dividends, doing stock buybacks. Capital spending should be picking up."**

In 1999, the Dow zoomed from 10,000 to 11,000 in 24 days, breaking the record for fastest rise between 1,000-point milestones.

This time around, it has been more tortoise than hare. Since the beginning of 2003, the Dow has been on a slow march upward — with plenty of setbacks along the way.

The index flirted with the 11,000 mark in March, but instead slumped back to slightly more than 10,000 in May. It has been only in recent weeks that it enjoyed a strong rally, fed by rosier economic news.

That may take awhile — and it probably should, Sorensen said.

"Some people would be concerned we'd gone too far, too fast, if it were to happen relatively soon," he said.

"If we got there in an orderly fashion, it would definitely ignite some interest. It would definitely increase confidence in the market and the economy.

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