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MARKET MATTERS: The Big 20,000: Not a real indicator of growth

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1 COMMENT

The breathless anticipation has been going on for weeks, with daily, hourly and sometimes even moment-by-moment, play-by-play broadcasts of the Dow Jones

Industrial Average roaring, sometimes edging, and finally topping the mythical 20,000 mark.

Before this week, just when hitting 20,000 appeared to be a fait accompli, the market reversed itself and headed “south,” as if a giant unseen hand had flipped a switch from “buy” to “sell” and poof, some of the gains are reversed in a heartbeat.

The fascination with the 20,000 level has been discussed, dissected, filleted, turned over, twisted and examined from every angle, and yet, when viewed from the standpoint of numerical comparisons and history, there still are questions as to whether it really is that big of a deal. And so far the answer remains elusive.

Despite all the hype, some analysts note that the benchmark only represents a small number (30 in total) of the thousands of stocks that comprise the broader equity markets. Moreover, moves in any one of the stocks that comprise the index, because the Dow is price weighted, can have a large impact on the average. For instance, due to the weighting, approximately one-third of the Dow’s nearly 1,000 point move since hitting 19,000 in November came from the financial sector, which hardly is indicative of broader market trends.

In fact, shares of financial and industrial companies have been among the biggest beneficiaries, helping lift the Dow to several fresh records since November 8. We also should take into account that a 1,000-point move for the Dow doesn’t reflect the same type of impact that it once had.

For instance, when the Dow doubled from 1,000 to 2,000 in 1987, the percentage of growth was 100 percent. But moving from 19,000 to 20,000 represents about a five percent increase, which calls into question the entire issue of highlighting this somewhat arbitrary milestone as a measurement of market viability.

Many analysts believe the market is in its current state of growth because investors are upbeat about the prospect of tax cuts, regulatory rollbacks and fiscal stimulus following eight years of markets guided in large part by the Fed and its historically low interest rates. Our new administration was elected on promises of a pro-business approach to governing, and as a result, there has been an across-the-board response in the markets.

Nonetheless, a measure of complacency also is possible as the government changes hands, and investors could overestimate the extent to which policy changes will impact earnings over the course of the next year.

Consider the December jobs numbers.

Non-farm payrolls rose a seasonally adjusted 156,000 in December, a slowdown from November, and the unemployment rate rose to 4.7 percent. Additionally, wages increased 2.9 percent in December from a year earlier, a figure that represents the best annual rate since 2009 and a contrast to rates around two percent earlier in the expansion. It is important to note, however, that wage growth still remains slow compared to a decade ago.

In total, the economy added nearly 2.2 million jobs in 2016. Although that figure represents the smallest gain for a calendar year since 2012, it was sufficiently healthy for

the Federal Reserve to gently nudge interest rates higher — in anticipation of continued overall economic improvements.

In short, while there has been plenty of optimism since the election, there also is a considerable amount of work to be done to truly return the economy to a position of strength and manageable, sustained growth. And as President Donald Trump begins his term of office, he inherits an economy on a steady but unremarkable path that will need constant attention regardless of where the Dow takes us.

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