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Market's rally keeps watchers guessing

Experts divided about whether it's real or hype

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Depending on who you talk to, the Wall Street rally that has sent stocks soaring this summer is either a harbinger of economic recovery or a burst of unjustified optimism that the worst recession in more than half a century is winding down.

Over the last two weeks, the market's major indicators have risen almost 11 percent, as many companies report better-than-expected earnings and wary investors stream back into stock and bond funds.

Yet money managers and financial services professionals are divided on whether the market advance, which pushed the Dow Jones industrial average back over 9,000 last week for the first time since January, is real or an illusion.

"I would call this a true summer rally," said Virginia Dawson, co-manager of Industry Leaders Fund, a four-star rated mutual fund based in Summit. "The markets will continue to go forward."

But Joseph Saluzzi, co-founder of Themis Trading, a money manager in Chatham, is less convinced. He said investors are merely buying into a dream that won't come true — at least this year.

"All you see is rising unemployment with no end in sight, toxic loans and a

[See **MARKET**, Page 6]

housing market that hasn't been fixed. The rally is overdone," said Saluzzi, who expects the Standard & Poor's 500 — which closed Friday at 979.26 — to fall to 650 this year.

Cheap mortgage rates, declining housing inventory and increasing confidence by consumers have convinced investors to buy stocks in advance of an eventual turnaround in the economy, investment professionals said.

Although the buying streak paused in June and early this month, investors have shaken off their worst fears about financial collapse and a potential depression, said Milton Ezrati, senior economist and market strategist for Lord Abbett in Jersey City.

"Strong growth in residential real estate will no doubt wait for years, but the end of a free fall will have positive repercussions throughout the economy," Ezrati said. "Second, the American consumer, after remarkably sharp cutbacks during the second half of 2008, began to moderate his and her panic as 2009 unfolded and now shows a willingness to increase spending, albeit modestly."

WHAT HISTORY SAYS

Any recovery, however, will be subpar "compared to recoveries of the past 20 years," said David Daglio, a senior vice president for The Boston Co. Asset Management.

Many financial services professionals expect a jobless recovery, according to Bill Houck, a certified financial planner with Modera Wealth Management in Old Tappan.

"But if history holds true, unemployment could peak close to the technical end of the recession," he said.

Others say the market rally will continue through the fall because corporate earnings for the second quarter have been better than expected.

"Long term, the rally still has legs to it because we are still 35 percent below the all-time high of October 2007," said David Dietze, chief investment strategist for Point View Financial Services in Summit.

Dietze likes global health care stocks such as Merck, Eli Lilly and Pfizer because they pay large dividends.

Brian Kazanchy, wealth manager for RegentAtlantic Capital in Morristown, is putting clients into large-capitalization stocks and emerging markets such as China, India and Latin America.

"A lot of the emerging markets have budget surpluses and younger populations, so they are poised to grow," he said.

Brent Wilsey, head of Wilsey Asset Management, a California money manager, has bought Allstate for clients because the insurance company "will have a good run over the next 12 months," and Valero, a refiner that "pays a good dividend and is investing so it can refine more sweet crude."

Also on his shopping list are retailers such as Wal-Mart, because "it continues to grow earnings," and American Eagle, which has "no debt and good cash flow."

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