

## Why Stocks Go Up

Yes, it can happen. Stocks can, will, and do make money for investors.

Is it possible that stocks actually make money over the long-term? In this day and age, it's tough to believe that the stock market is a good investment. You look to the past, and there hasn't been much wealth creation in the equity markets for almost the past 10 years. We've all seen the photos of seasoned stock traders, pictures on websites, putting their heads in their hands or their hands on their faces. It's the look of anguish.

Stocks, however, really don't care about what we think. They go down for lots of reasons, but only go up for one: future profits. In this market, is it reasonable to assume that we've run our course from a profitability standpoint? No. It's easy to fall into a classic trap. One that makes you feel safe and secure in your bank account while earning a 3 percent rate of return. There is safety, but at what cost? Is it at the cost of your long-term wealth creation? Is the cost the lost returns you won't realize since you've opted to leave your cash in the bank?

The markets aren't for the faint of heart. They rally fiercely, and cause people to question their validity the very next day. With profits getting skinnier, it's tough to believe that things can improve, and it's even tougher to see a light at the end of the tunnel without thinking about the next crisis.

What we have is a normal market cycle. Granted, with the latest pullback in stocks due to the financial crisis, it could be counted as the second '100 year' flood we've seen in the past 8 years. The years 2000 to 2002 were bad enough. Since stocks are forward-looking mechanisms, it's important to note that the

markets recover before the economy does. The market looks forward 9 to 18 months, and if the climate looks like it will be improving, the market will take action. It's tough to predict when markets move, but rest assured, it will happen.

As markets move lower, or sideways, there are companies that are making money. Profits exist for American businesses such as Merck, General Electric, Procter and Gamble, and Wells Fargo. They grow their profits, and have grown them over time. As their stocks tend to trade lower, it's similar to the stretch in a rubber band eventually snapping back. As we are aware, performance comes in one year, or multi-year rallies, no two years providing identical performance. Stock prices are correlated, over time, with the performance of their underlying businesses. As profits grow, stock prices will eventually re-connect with their profitability trends. American businesses have an eye toward profitability, and it's a fool's wager to bet against the market over the long-term.

With stocks hitting fresh lows, and very few making any new highs, it could signal a turning point. In the market's history, investors have never found short-term comfort in buying stocks at their lows. Issues of the day, no matter what market period we refer to, were monumentally more significant during the times they occurred, or so it felt. There will never be an 'all clear' signal in the Wall Street Journal telling you the market has hit a bottom and you need to take the bargains when they occur.

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