



## News Headline Updates and Their Impact Stock Prices

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Our last newsletter, entitled “May News Events Impact Stock Prices” analyzed four major news events. Update summaries are presented below. Each news story produced a downdraft in stock market prices and updraft in stock market volatility.

### BP Oil Spill on April 29<sup>th</sup>

The BP underwater oil well exploded in the Gulf of Mexico causing the world’s largest oil spill. This week the oil spillage stopped, at least temporarily. Economic consequences will last for several more months. Ecological consequences will last for several more years.

### Flash Crash of May 6<sup>th</sup>

Within 10 minutes, the Dow Jones Industrial Average lost nearly 700 points. After several investigations, no one can determine the exact cause of the drop. Stock market “circuit breakers” were overhauled to prevent a recurrence.

### Financial Reform Bill debated by Congress

Tomorrow, President Obama will sign the Dodd-Frank Wall Street Reform and Consumer Protection Act. The bill is far-reaching and will create changes in how consumers are served by banks, investment advisors, broker-dealers, retirement plans, accountants, consumer lenders, credit card companies, mortgage lenders, credit rating agencies and insurance companies. The massive legislation touches all aspects of finance today. We are only beginning to understand the new law’s scope and impact.

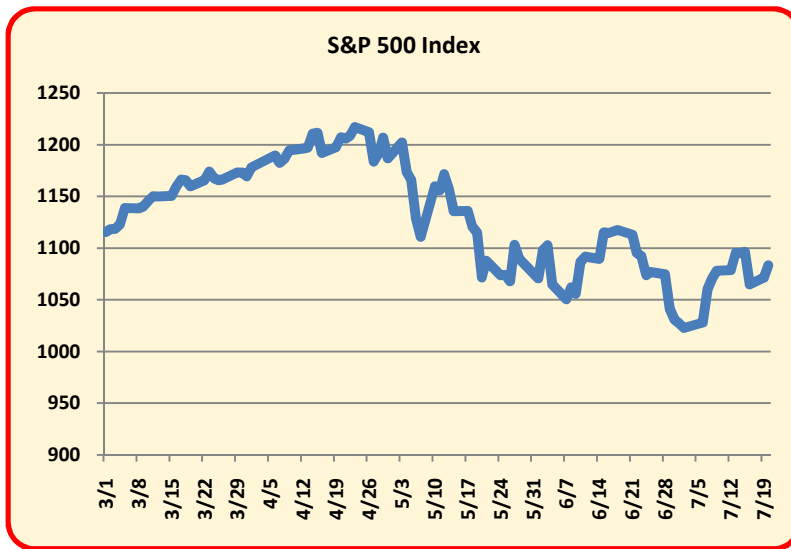
### Greek government debt crisis

A near-debt default was averted by the country enacting budget reductions and loans from a coalition of European countries and the World Bank. Also, Ireland, Poland, Italy and Spain endured similar debt near-defaults. All is now calm, at least temporarily.

These stories held our attention for several news cycles. Although still in the news, they have transcended from breaking stories to follow-up stories.

Have stock market prices improved with the passing crises? Yes, a little improvement is apparent. I think continued improvement will be delayed until the fall or winter of 2010.

Has the level of volatility dropped as a result? Yes, a little improvement is apparent. However, volatility continues. I think volatility will continue but gradually decline in the fall and winter of 2010.

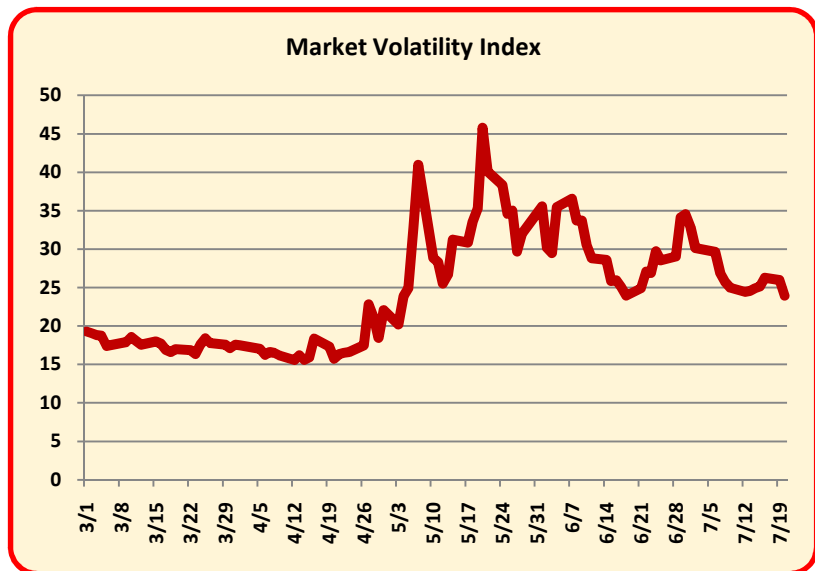


With so much market volatility, price trends are difficult to see. However, the first two weeks in July has seen a small uptick in prices.

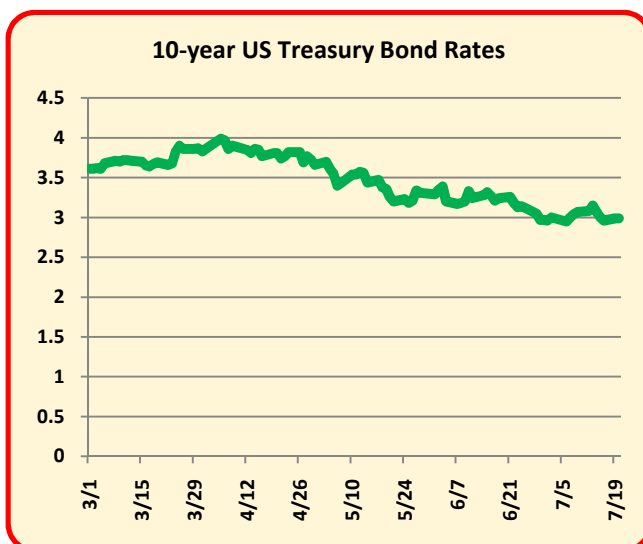
The S&P 500 is now at 1083. The average during June and July to date has been 1078.

I expect that July and August will continue July's pattern of volatility, but the trend will be sideways, not up or down.

From the end of May through today, market volatility has remained elevated, but has dropped somewhat below May's heightened levels. Pictured in the graph is the Chicago Board of Options Exchange's Market Volatility Index. It measures S&P 500 stock index option prices.



Today's volatility index is 23.93. The average index for June and July to date is 23.93.



Bond interest rates continue to drop. Today, the 10 year US Treasury bond is 2.99%. Historically, 10 year US Treasury bond prices have been in the 6% to 7% range.

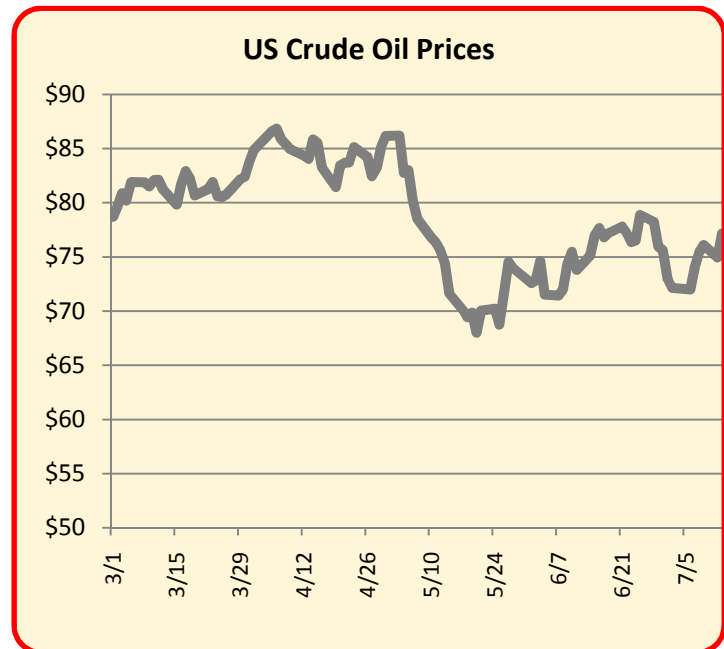
The low interest rates are a direct result of the Federal Reserve's interest rate policies. They are designed to help the country's economy recover from the Great Recession.

Existing bond prices increase as new bond prices drop. However, bond purchasers face a depressingly low rate of return.

Crude oil futures are used as an indicator of oil supply and demand. The chart at the right shows the New York Merchantile Exchange's Index of US Sweet Crude Oil Prices.

The index average during June and July to date is \$75.12. By contrast, the average index price was \$82.58 for the 45 days prior to the BP oil spill.

The drilling moratorium in the Gulf should put upward pressure on oil prices. However, lower demand caused by a weak economy is keeping oil prices lower.



Seemingly, 2010 does not appear to be a good year for investors. We might have to wait until next year for a market rebound. My reading indicates that the stock market is generally undervalued. Yes, there are short term problems. Yes, the economy appears to be recovering in **slow motion**. However, buying opportunities exist. And economic recovery will likely continue in the future.

Professor Jeremy Seigel of the Wharton School in a recent article described his assessment that “the market is about 25% and maybe even 30% undervalued by long-term trends.” He expects that the S&P 500 Index is currently priced at 13-times 2010 earnings and 11-times 2011 earnings. The historical norm has been more like 15-times earnings.

I continue to favor stocks, even in this volatile market environment. Certainly, the future for stocks seems brighter than for bonds. For bond purchasers, two unattractive situations exist: (1) today's low rate interest rates or (2) tomorrow's bond price declines as interest rates rise from today's historic lows.