Four Reasons We've Entered a New Super-Bull Market

During this latest market correction, it was shocking to see it drop so quickly. Then it suddenly hit me and I realized, "We're actually at the beginning of a new super-bull market!"

In 14 years, I've never been optimistic about the stock markets. It's been bubble after bubble propelling and distorting prices. Below are my reasons for thinking we're in a new, long-term bull market.

1. HITTING NEW HIGHS

It was reassuring when we recently approached new Dow Jones Industrial Average highs, made in 2007. Now, we're in the midst of hitting brand new highs.

Why is that important? For investors in a DJIA index, they're generating new wealth.

We've had a total of 14 new record closes this year. The Dow has rocketed since March, when it reached 14,253. The latest record was the first day of August, closing at 15,625. New highs equal new wealth.

2. "REVERTING TO THE MEAN"

That simply means a return to normal. From 1999 to 2009, the latest complete decade, an investor in the S&P 500 lost money. The historic "lost decade".

Typically, the markets average 8-12 percent gains annually. To really get back to normal, the market would have to out-perform to make up for lost time. That would be true "reverting to the mean."

We've seen that, a little bit. For the first half of 2013, the Dow is up 13.78 percent.

3. MODERATE PRICE-TO-EARNINGS

Since 1925, the market's P/E ratio has averaged 15.6. Anything above this could be considered over-valued.

After hitting these new highs, we're near, and slightly over, this average. Yet that's not the whole picture. The stock market is considered a leading indicator. So it's useful to look at the projected price-to-earnings ratio.

According to FactSet.com, "the forward 12-month P/E ratio for the S&P 500 now stands at 14.4." Well below the average. Lower is cheaper and a sign of a healthy, rather than an exuberant, market.

4. MINOR STOCK-RELATED BUBBLES

We're seeing moderation everywhere. That's a good sign. Instead of overheating and bubbling over, this market has a solid foundation.

Arguably, there's a colossal bubble in government debt. Although, historically speaking, we're near World War II levels and can work our way out again. Also, the government is collecting more revenue, higher energy production is kicking in and we have debt limits in place. These actions could help the debt picture.

WHAT IF…

What would a super-bull market look like further down the road?

Most of these cycles run for 15-20 years. If we had even ten years of below-average appreciation the market would be much higher. For example, starting at 15,000, growing for ten years at 5% would ring in at 24,433. That's low growth.

Higher growth of only 7% would get the Dow to 29,507 by the end of 2023.

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"I never think of the future—it comes soon enough."

--Albert Einstein--

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