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Boom or bust for Wall St.?

Stock watchers as divided as Duke, UNC fans

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Predicting what will happen this year to the stock market divides local stock watchers the way a Duke-UNC basketball game splits ACC sports fans — decisively.

Some stock watchers firmly believe the market will see continued record-setting gains. One analyst, Kenyon Allman, a local branch manager with Wheat First Securities, boldly predicted that the market will close the 1994 session between 4000 and 4200.

But others wager that a dip is just around the corner.

James F. Smith, a finance professor at the University of North Carolina at Chapel Hill, argued that last year's soaring stock prices are central to predicting the market's not-too-distant future. The impressive gains of the recent past are a sure indication that the market is cruising toward a correction, he added.

"If you missed out last year, you may have to wait a while for another one like it," Smith said. "One would anticipate that sometime this year, there would be a significant decline in stock prices."

Gary Jarman, an investment representative with Edward D. Jones, understands that logic, but disagreed. He argues that doom-and-gloom predictions shouldn't dissuade investors from putting money in stocks.

"Any time you have the market get high, you have people who get scared," Jarman said. "When I hear people on CNBC night after night talk about the coming crash, I think 'Now is the time to buy.' When I hear folks coming in here and say, 'I had a CD to mature and want to get into the stock market,' it's time to get scared."

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Get a boost?

If the economy heats up as much as some analysts expect, stock prices will receive an even bigger boost. Campbell Harvey, a finance professor at Duke University's Fuqua School of Business, said he expected continued growth.

Harvey said he believes companies that downsized and cut back during the recent recession likely will reap huge cash flows as the economy gains steam.

Fueled by a record-setting Dow Jones Industrial Average, mutual funds and initial stock offerings, last year's stock prices scored impressive gains. The Dow, which tracks the average price of stock in 30 huge conglomerates, reached a record high of 3794.33 in 1993. Although it closed slightly lower at 3754.09, the Dow's final tally was up 13.7 percent from the year before.

Standard & Poor's 500, a broader market gauge, saw more modest gains, closing at 466.45, up 7.1 percent. The Nasdaq Composite Index, formerly known as the over-the-counter market, closed at 776.80, up 14.75 percent.

While analysts disagreed on what will happen in the market this year, they agreed one key factor helped fuel recent gains in stock prices.

Interest rates

"The one reason we think it's high right now is interest rates," said Chris Wilson, president of the local chapter of the National Association of Investors Corporation. "There's simply no other place to put [your money]."

Jarman agreed.

"Basically, what happened last year was low CD rates," he explained. "People with money to invest considered the stock market for the first time."

Harvey said this year's stock market will continue to climb. But he conceded predicting what's in store for stock prices is far from simple.

"It's a complicated question that doesn't have an easy answer," said Harvey, who described market forecasting as "controversial."

Schools of thought

Harvey identified two schools of thought among stock analysts — those who predict a coming downturn and those who argue that the price of many stocks has grown too high and are telling investors to get out of the market or transfer their money to stocks with low price/earnings ratios.

Harvey adheres to the other view. He argued that the performance of this year's market will be significantly better than last year's.

Consider 3 factors

When analyzing the market, Harvey said he considered at three key factors:

- Interest rates, which gave a high-octane boost to last year's market gains. Harvey predicted that in the coming months short-term interest rates will climb slightly, but not enough to depress stock prices.
- Risk. People are more likely to invest in stocks if they perceive the risk is slight. As the economy grows, people will gain confidence and invest in the market.
- Profit expectations for individual companies, a factor closely linked to the performance of the overall economy. Last year's stock gains had little to do with perceptions of the nation's economy, which had climbed out of the earlier recession but grew at a snail's pace during the first two quarters.

Harvey predicted growth this year will be much stronger than expected, at least during the first three quarters. The strength of the economy will more than offset any impact rising interest rates will have on stock prices, he added.