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Another Brick in the Wall

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Vice President

Bit by bit, the recovery from the traumatic stock market slump in 2008 and 2009 continues. Although broad-market indices in the U.S. have yet to regain their previous peaks, the gap is narrowing as some industries and companies regain strength more quickly than others. The S&P 500 Index and Dow Jones Industrial Average remain below their all-time highs by 13.4% and 10.4%, respectively, but a growing list of stocks are not only recovering but setting all-time record highs, including widely held firms such as Costco Wholesale, Cummins, Honeywell, IBM, Union Pacific and W.W. Grainger in yesterday's trading alone [April 27th]. For small company stocks, the comeback is complete: the Russell 2000 Index established an all-time record high of 858.31 on April 27th, eclipsing its previous peak of 855.77 set on July 13, 2007. Through April 27, the index is up 150% from the darkest days of March 2009, and total return from March 2009 through February 2011 was 117.4%, the strongest 24-month period since inception of the index over thirty years ago.

We don't know if the current strength in stock prices is an indication of even higher prices in the near future. But if recent performance reflects a so-called "new normal" pattern for the economy and the equity markets, it looks to us a lot like the "old normal"—dramatic changes in prices that confound most investors in their efforts to predict them.
