

Analyzing The DJIA

eResearch Corporation is pleased to provide an article written by Tony Hayes CFA, of Ashton Consultancy Inc., and entitled “**Enough Pessimism Already! ...**”.



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Enough Pessimism Already! DJIA 30,000 Probable By Year End 2018

The DJIA price started October at an all-time high of 26,818 and promptly retreated 9%, despite a plethora of good news. On October 31, 2018 the DJIA closed at 25,116.

The U.S. economy remains strong. DJIA earnings and dividends are rising and should continue into Q4 and beyond.

The Fed value of the DJIA is above 43,000.

The dividend discount value of the DJIA is expected to rise above 50,000 as dividends begin to follow earnings.

The concerns about the mid-term elections will soon be behind us, so use the present weakness in the DJIA to buy and enjoy the ride through 30,000 as soon as the end of the year.

The term “Dismal Science” was coined by my fellow Scot, Thomas Carlyle, to describe the discipline of economics. The term was inspired by T. R. Malthus' gloomy prediction that population would always grow faster than food, dooming mankind to unending poverty and hardship. A similar gloomy outlook was proffered about the streets of London being swamped by horse manure. Both predictions resulted from man's amazing propensity for projecting the most recent trend ad-indefinitum. The same holds true of the stock market but the fundamentals tell a more enlightened story.

Helter-skelter October saw rising interest rates that triggered Algo traders, who were followed by momentum players who, in turn, were followed by portfolio managers trying to lock in year-end profits in the FANGs, followed by margin calls, and concern ahead of the mid-term elections.

How much worse could things get?



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October's 9% correction of the DJIA has given rise to a plethora of gloomy predictions about both the economy and the stock market. Since the Lehman crisis, forecasts of the economy and the DJIA have been less than stellar, with a pending disaster being seen around every corner. Finally, the Cassandras are feeling vindicated by October's misguided correction and are delighted that "the end of the world is nigh".

The only thing that has negatively changed from my previous forecast is that the yield of the 30-year T-bond has breached the upper level of my projected range of 2.75% to 3.25%, driven by a rising Funds rate.

However, not by much and its impact has been more than offset by substantial increases in earnings, and the expectation of a substantial jump in the aggregate DJIA dividend as we move into the first half of 2019.

Best regards,

Tony

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Tony Hayes is a CFA.
His expertise is focused on gold & precious metals, base metals, and dividend growth investing