

## Where Are Stocks, Economy Headed? Even Pros Disagree

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If you find yourself unsure of where the stock market and economy are heading, take heart: You're not alone.

End-of-the-world doomsayers and brand-new-day optimists are locked in a heated debate over what's likely to happen in the coming year—a divergence of opinion that some market veterans say is the worst they've ever seen.

"You have Nobel Prize laureates on either side of the bull-bear equation with arguments that are as forceful and cogent on either side," says Quincy Krosby, general market strategist for Prudential Financial. "If you're a retail investor you listen to this and you wonder: Which way are we going?"



The market's 60 percent rally off its March lows, coupled with gradually improving economic data, has done little to settle the argument.



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In fact, questions over whether the positive signs are for real or merely the product of a cheap US dollar and government stimulus have only intensified the dogfight.

"They don't believe the perma-bulls or the perma-bears," Krosby says. "They pay attention to the economists who are pretty practical, who change their minds when the information changes."

"That said," she adds, "the divide between the bulls and bears on macroeconomic forecasts is intense. I haven't quite seen anything like it."

Indeed, the condition of the economy—not the stock market—could well be the more fractious of the debates.

The amount of money flowing into stock funds has consistently shown that investors don't buy completely into the rally, though the numbers seem to be swinging a bit.

Individual investors cut cash holdings to 19 percent of total assets in October, the lowest level since July 2007, according to the American Association of Individual Investors. Yet even with that trend, investors are putting more of their money into emerging market and commodity funds, with net outflow from US funds at \$8 billion in October.

Confusion over what to do is only natural considering that stocks lost more than half their value from October 2007 to March 2009.

"Usually when you've gone through a downturn, there's the getting-out-even mentality," says John Buckingham, chief investment officer at Al Frank Asset Management in Laguna Beach, Calif. "Most people aren't back to even. There's still a lot of concern, a lot of fear about what the future will bring."

Surveys show that investors are as divided about the future as the pros.

The most recent AAI Sentiment Survey, for the week ended Nov. 12, found bulls and bears equally divided at 38.6 percent, with 22.8 percent neutral. The previous week had bears at 55.6 percent and bulls at 22.2 percent, but previous weeks showed the divided considerably closer.

Market analysts usually view a high level of bearishness as a contrarian "buy" signal as that generally means when market indicators turn, it will force short-sellers into long positions and boost the market's value.

As such, should the pessimists start winning the sentiment war, that could be a good signal for the market.

"The data bear out the contrarians," Prudential's Crosby says. "If you're a contrarian you actually want to see more negative sentiment regarding the markets. The more bullish these surveys the more you've got to question the strength of the rally and the duration of the rally. For the market to move higher, you need new buyers."

Dealing with investors in such times requires a delicate calculus for advisors who must convince clients to stick with their investment strategies and not be misled by market noise.

**"There's a tremendous amount of angst about where the economy is going to be next year and whether or not this is a good opportunity to take some profits," says David Twibell, president of wealth management for Colorado Capital Bank in Denver. "There's more confusion among investors than I've probably ever seen."**

**"They don't understand why the market could be so horrible last year and so great this year," he adds. "They're very concerned about where we're going from an economic standpoint, and yet the market seems to trudge higher. Most people are at a loss to understand why."**

That puts them in a class with many people whose word is regarded as gospel in the markets.

This week alone, noted banking analyst Meredith Whitney said Monday on CNBC that [she hasn't been this bearish in more than a year](#)," while a day later experts at ING Investment Management said at a press briefing that ["consensus is too pessimistic" and the market is going higher](#).

So what's an investor to do?

"What you should focus on is your time horizon and your risk tolerance. Those are the things you should spend your time worrying about," Buckingham says. "If you have immediate cash needs, you shouldn't be gambling with that money."