

Dow 10,000: A Morale Boost, But Probably Not Much More

By: Jeff Cox
CNBC.com

The Dow Jones Industrial Average is chasing its next big benchmark—10,000—a signal to many investors that market has nearly recovered from last year's meltdown.

Though the Dow is now roughly 200 points short of the mark, few market pros are willing to predict just how soon the 10,000 level will be reached. And there's wide disagreement on where the market will head after that.

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If anything, most pros are reluctant to give Dow 10,000 much significance. There's even concern that average investors will make too much of the benchmark once it's reached.



"For the overall market, it would be a big group hug if we were able to get to Dow 10,000," says Charles Rotbult, senior market analyst at Zacks Equity Research. "In terms of what does it mean to individual investors, it doesn't seem to be a big line in the sand that should change anybody's investment strategy."

Dow 10,000 was a nightmare two years ago, a dream six months ago and a reality a year ago. Along the way, the market has seen both its worst financial crisis and one of its greatest rebounds ever.

From the dust of that ferocious battle emerges hope that the market can regain a semblance of its former self.

Most analysts agree that the 10,000 number itself does not represent a significant level from a technical or fundamental standpoint.

Rather, it is one of those psychological barriers—much like 1,000 was for the Standard & Poor's 500 or 2,000 for the Nasdaq—that makes individual investors more comfortable but doesn't change anything as far as market fundamentals go.

"That would be a positive headline event that not necessarily on its own would be able to propel the market higher," says Dave Lutz, managing director of trading for Stifel Nicolaus in Baltimore.

In fact, Lutz says, the market seems to be indicating a move down after surging more than 50 percent off its March lows.

Consecutive days of commodity drops—oil and gold were primary rally drivers—combined with a stronger bid in the dollar indicated to traders Thursday that the market may have run out of gas—10,000 or no 10,000.



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"While you might get an initial pop from the Dow getting through 10,000, it's more psychological than technical," Lutz said. "A lot of the metrics that have led the market are breaking down."

Of course, the last time the Dow broke 10,000 was on the down side.

It happened Oct. 6, 2008, during the darkest days of the financial crisis and just three weeks after Lehman Brothers failed, an event that many experts attribute to the acceleration of the financial system's collapse.

The Dow dropped 3.5 percent that day and would never visit five figures again.

As market psychology looks now to be boosted from the averages hitting benchmarks, the breaking downward below 10,000 may itself have marked a negative milestone.

Investment managers are hoping investors learned a lesson about being ruled by artificial market levels.

"One of the problems that we had last year was there were too many investors who had too heavy a weighting in equities given their risk tolerance," says Beth Larson, principal of Evermay Wealth Management in Washington, D.C. "Many of those individual investors probably swung the other way in the fourth quarter and the first part of the first quarter in 2009."



"Neither of those are the right thing to do. You need to set a long-term objective of what you're comfortable with having in equities and really try to ride through the ups and downs of the market."

But some still do worry that investors, particularly those who have missed the six-month rally, will look for an entry point in a market that already has surged beyond what many analysts imagined possible in such a short period of time.

"For the people who have been in the market and have made money, it may be an opportunity to take some profits if they haven't already done so," says David Twibell, president of Wealth Management for Colorado Capital Bank. "For other people who haven't already participated it may add some additional pressure and maybe make them invest more money at a time when it might not make a lot of sense."

Indeed, at Zack's clients are being steered away from aggressive long bets on the market.

In an analysis this week, Rotblut advised clients to buy the **ProShares Short Dow 30** ETF designed to reflect the opposite of the Dow bluechip index's performance.

Dow 10,000 "would be a sell opportunity," Rotblut says. "When you look at the potential chances for more upside versus the chance we could have a pullback, I think the risks are far more elevated right now."

At the same time, many market experts have been calling for a pullback for months, and still are with the Dow knocking on 10,000. That has market bulls believing more good news could be just over the next horizon.

"The market really enjoys climbing that wall of worry," says Curt Lyman, managing director at HighTower Advisors in Palm Beach, Fla. "There are an awful lot of investors who have not participated in this rally and there are an awful lot of money managers who haven't participated in this rally. I suspect they are very concerned about their performance."