

## 10 Reasons to Stay Bullish -- Part 3

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Over the next several quarters, you're going to witness the best earnings cycle you've ever seen. It's the antithesis of the perfect storm that slammed the credit markets in 2008 -- this time all of the critical variables are turning positive. The equation goes something like this: Apply lean-to-the-bone operating structures to an economic upturn, then factor in reduced supply, and the net result will be a knock-your-socks-off earnings explosion.

One caveat, however: Over the next couple of years, many companies will post profit margins that constitute a potential trap for investors. How can profit margins be too high? Of course, it's hard to argue that there's such a thing as too much profit. The danger isn't in the profit itself, rather, it's in assuming that such profit margins are sustainable. They're not. It's a subject for another column, and I'll address it in due course, but for now, there's a pile of money to be made in stocks.

In that spirit, here are the final four of my 10 reasons to be bullish, to go along with the reasons I discussed in [Part 1](#) and [Part 2](#) of this series of columns.

### **No. 7: Technology advancements favor stocks.**

In case you haven't noticed, you're sitting smack dab in the middle of a multi-decade technological revolution. Just-in-time inventory management, tracking, supplying and capital management are advancing by leaps and bounds, each facilitated by technological advances. It doesn't take a genius to figure out that business will benefit - as will the owners of those businesses, namely shareholders. As any economist will tell you, wealth increases coincident with increases in productivity and efficiency.

The evidence of efficiency gains is obvious when you compare financial data with that of a generation ago. While every business has been a beneficiary, you can see this easily enough by parsing the data of carriers of goods, such as **FedEx (FDX)**, **United Parcel Service (UPS)**, Norfolk Southern and **Union Pacific (UNP)**.

Retailers, too, benefit in a material way from technology -- compare data from **Wal-Mart (WMT)** from 15 years ago through today, and you see dramatically improved inventory management, which, in turn, dramatically increases capital efficiency.

### **8. History is screaming, 'Buy!'**

When approaching the stock market, simply think in terms of cycles, and you've already got a leg up on the vast majority of investors. The market has lost money for a rolling 10-year period 14 times since 1800 -- the last 10 years were the 14th. In each one of the previous 13 cases, the market dramatically outperformed over the ensuing 10 years, averaging 15% annually. Combine cyclicity with the twin secular tailwinds of a technological revolution and the opening of the world for business, and you're looking at a very high probability that the market will post healthy returns for the coming 10 years.

There are other historical precedents that justify a bullish posture. For example, most of the time the market is up -- business is profitable, after all, and the accumulation of profits necessitates an upward-sloping price trend for stocks. After every protracted, dramatic bear market over the last 200 years, the bull market that follows is just as dramatic in magnitude and duration.

### **9. Corporations are flush with cash and operating at maximum efficiency.**

It's a great time to buy stocks, because every dollar of capital in every company is carefully managed today. That's in stark contrast to what you see at the top of a cycle, when companies get sloppy -- after several years of profits and success, they inevitably overreach and overspend and, unfortunately, they get overly aggressive.

I'm sure you can recall the extravagance of a decade ago, when Time Warner gave away 55% of its stock to buy a massively overvalued AOL. Today, the risk that a CEO will rush out and do something stupid (like the AOL acquisition) is very low.

Not only are management teams of publicly traded companies meticulous and careful with capital, but corporate coffers are flush with record amounts of cash. At the end of 2009, over 11% of assets of **S&P 500** companies were in cash, a marked increase from 20 years ago, when cash levels approached 4%.

CEOs and CFOs are not oblivious to the fact that current cash yields just enough to buy a cup of coffee. And so they're already putting the cash hoard to work, and it's just getting started. You'll see it in increased capex and inventories, and via merger-and-acquisition activity too. Don't be surprised to see an M&A wave over the next year or so that rivals many of the best in history.

Now, let's turn to the 10th and final reason to be bullish on stocks. It's the most important reason, the one that's near and dear to the heart of every investor.

## **10. You should be bullish because there's money to be made!**

It sounds trite, but it's true: The overarching reason to get bullish on the market is that the profit to be had is substantial. The bond market is already in a downward tailspin, and cash offers tic-tac-sized yields. We haven't seen a cycle like this since the post-1974 bull market, when stocks were the only game in town. There are plenty of powerful ideas to pick from, including many posted here, by columnists for *RealMoney*.

I still recommend all of my [Top 10 ideas](#) for 2010, a list of stocks that is currently up 29% vs. an S&P gain for the same time period of 7%. And I recently pounded the table on **Brink's** (BCO), **Textron** (TXT) and **Mueller Water** (MWA), three ideas still worth buying from my [Top 10 list for 2009](#), a list that's currently up 134%, vs. an S&P gain of 36%.

It's a testament to the magnitude of this bull market that after the gains mentioned above, we're only just getting started. The economy is beginning to improve, earnings comparisons are embarrassingly easy, and the majority of pundits are worrying and fretting over the calamities to come. If there ever was a perfect storm that's chock-full of positive variables, this is it. And it's as simple as this: Buy stocks now.

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*At time of publication, Alsin and/or ACM was long BCO and MWA, although holdings can change at any time. Arne Alsin is the founder and principal of Alsin Capital Management, a California-based investment adviser. Under no circumstances does the information in this column represent a recommendation to buy or sell stocks.*

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