BUSINESS

Why the 17,000 Dow is bound to crash

By John Aidan Byrne
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Photo: UPI

As the Dow Jones industrial average broke through the 17,000 barrier to an all-time high on Thursday, many market participants believe this bull (market) may be about to be gored.

Many market skeptics point to one or more reasons for their bearish outlook, citing both macro- and microeconomic concerns.

Here are the the top three reasons this high can't last.

1. American shoppers are tapped out with this bull market.

They're not spending enough at the malls to sustain the long run-up in stock prices, analysts say.

That's a clear signal, these analysts warn, that a full-blown bear market is coming soon.

As the S&P 500 and Dow Jones danced last week with new highs, American consumers — who account for more than two-thirds of US economic activity — are dangerously "bearish."

More proof: The widely watched Consumer Confidence Index, at 85.2, is a long way from its historic highs. At the top of the dot-com bubble in 2000, the index soared to 144.7. "The US middle class and low-income workers are broke," Chadwick Financial Advisors CEO Mike Chadwick said. "They are leveraged up to the hilt."

2. Corporations have spent the last six quarters performing every conceivable accounting maneuver to grow the bottom line.

From layoffs to outsourcing, stock buybacks and debt offerings, these Fortune 500 firms have reached the limit in their ability to show quarter-over-quarter growth. Those financial acrobatics are propelling stocks to record highs — but this ax can only chop so much, analysts warn.

"Corporations have driven earnings by cutting costs to the bone — and that includes earnings that have been stagnant for years," Chadwick said.

And after rounds of corporate firings and layoffs with mass outsourcing — and already taking full advantage of low-interest rate conducive to cheap refinancing — these firms have little room to maneuver to keep the faux growth coming, he added.

"This has been the toughest time I have ever seen in the last 20 years," Chadwick said.

3. So why all the corporate contortions on the financials?

"What is not up is sales…and that is the concern today," said Howard Silverblatt, senior index analyst at S&P Capital IQ.

"Corporations are squeezing more out of workers, outsourcing jobs, whatever they can do — everything except generating additional sales." Silverblatt said sales at S&P 500 companies are weak. "We need more sales," he said.

Per Silverblatt, aggregate sales per share in the S&P 500 are in their own bear territory: $2.49 billion in the first quarter of 2014, versus $2.65 billion per share in the first quarter of 2008, as the Great Recession raged.

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