

Food for Thought on Thanksgiving Eve

Do trees grow to the sky forever? It would seem so. The Dow has now gone over 900-plus trading days without a 10% correction. This current advance is among the five longest uncorrected advances on record. The following table* indicates all prior instances where the Dow advanced more than 600 trading days without a 10% correction, along with the price/peak earnings ratio of the S&P 500 and the extent of the ensuing decline. The decline listed does not necessarily represent bear markets, but only the extent of the Dow losses before the next 10% advance (which in many cases was followed by yet another plunge.) Seems to be not a question of if, but when.

<u>Date</u>	<u>Trading Days</u>	<u>P/E High</u>	<u>Decline</u>
5/29/46	1020	16.2	-23.2%
7/12/57	960	13	-19.4%
2/9/66	912	17.6	-25.2%
2/6/97	1723	23.7	-10.6%
11/20/06	932	18.3	?

Are higher latte prices in the cards? Maybe. Starbucks announced that 2007 profit margins would be flat because of higher labor costs. That doesn't mean they won't make money, it just means that their earnings growth will be stalled. If the world famous sellers of \$4 lattes can't raise prices enough to offset labor costs, how does this bode for the rest of corporate America, specifically appliances, housing, computers, televisions and apparel?

What's making gold run? Could it be political uncertainty, demand for physical gold, increase cash cost of mine production, producers de-hedging, or a weakening dollar. Maybe all of the above. Ditto for silver.

Could the breaking of the housing bubble hurt the average American more than the collapse in stock prices in 2000-2002? It could be so since 69% own their own abodes, compared with 50% who own stocks or mutual funds.

Speaking of housing, how long will it take to bring inventories of unsold houses into normal levels if current selling rates do no more than hold at today's pace? It might take the better part of a year, if sales don't go any lower. No one can guarantee that, especially if the Federal Reserve raises interest rates. (Unthinkable you say?)

As I chew on this food for thought, I continue to be perplexed by all the excitement. The last time I saw this much euphoria was November of 1999.

Seems to be not a question of if, but when.

Till next time,

Bill

P.S. – May you and yours enjoy all the blessings that this holiday season brings. From our family to your family, Happy Thanksgiving!

**John Mauldin – Outside the Box Newsletter 11/16/06*

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