

# Business

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## Enduring the summer doldrums

**T**he recent news about the economy and corporate profits showed that GDP shrank by 0.7 percent in the first quarter and profits fell by 5.7 percent.

Profits also fell in last year's fourth quarter. Profit growth is the mother's milk of bull markets, so some on Wall Street see little upside for stocks.

The market strategists at Goldman Sachs expect stocks to return only 5 percent annually for the



**David Vomund**  
Market  
Pulse

next decade with dividends (and dividend growth) accounting for half of that, which means profits will grow barely 2 percent. For a decade? Why so gloomy? A few reasons.

For six years GDP growth has averaged less than 2 percent despite massive and unprecedented Federal Reserve efforts to stimulate the economy, the rebound in housing, soaring energy production, the bull markets for stocks and bonds, near zero rates, etc.

Goldman doesn't see a catalyst for faster growth. Consumer spending accounts for 68 percent of GDP, more than the historical 65 percent, so an increase would be most unlikely and the opposite may occur as rates tick up.

The difference between spending 65 and 68 percent might seem small, but in an \$18 trillion economy that represents about \$540 billion of GDP. In the rest of the GDP pie that leaves government spending, capital investment and net exports.

Investment — by corporations, especially small businesses — holds the key to long-term GDP, employment and profit growth. We can always hope.

Goldman Sachs will regret setting the bar so low for so long. No one should be confident about economic conditions a year or two out, and certainly not those a decade from now.

Things can change ... and they will. Regulations, taxes, monetary and fiscal policies, etc. I'm an optimist and history shows that through thick and thin it pays to be a bull.

Of course, over several months or a year anything can happen. I suspect we're in for an extended period in which stocks will move little either way.

If, starting in 1965, you invested \$1,000 in the Dow only during June, July, and August your account would now be \$982. Historically, the summer months represent dead money. This summer looks no different.

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*David Vomund is an Incline Village-based fee-only money manager. Information is found at [www.VomundInvestments.com](http://www.VomundInvestments.com) or by calling 775-832-8555. Clients hold the positions mentioned in this article. Past performance does not guarantee future results. Consult your financial adviser before purchasing any security.*

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