First Trust
Monday Morning OUTLOOK
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Don't Bet On A Correction

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The US stock market has defied all but its most bullish friends. Last Friday, the S&P 500 closed at a 1365, its highest close since May 2008. It's up 8.6% so far in 2012 and 24% from its low of 1099 on October 3, 2011. The NASDAQ Composite Index has performed even better – up 13.8% so far this year and 26% from the October lows.

None of this has deterred those involved in the three main branches of bearishness. The first branch is the long-term bears, who still believe that the 2008 financial crisis changed everything. It signaled a new normal of slower economic growth, deleveraging and reduced expectations.

These long-term bears think that problems in Greece, and Europe, are just the continuation of the 2008 financial crisis. Some even blame the US for causing Europe's problems.

The long-term bears think economic problems have been papered over by government stimulus, Federal Reserve accommodation and the European bail-out. They fret that all of these economic mistakes cannot and will not cover up the crisis for much longer and that a relapse into crisis could occur.

The second branch of bearishness is a medium-term series of fears about a double-dip. These bears fret about high oil prices, inflation, deflation, weak consumer confidence, foreclosures, uncertainty about Obamacare, Dodd-Frank, the expiration of the Bush tax cuts, low interest rates, the labor force participation rate, and the list goes on and on. These bears think the economy is vulnerable to a relapse of weakness caused by just about anything.

The third branch is all about short-term trading. Many traders think the market has overdone it. They follow technical measures – valuation tools based on how far, how fast, how lopsided, how volatile a market has been. Many traders think the market is over-valued.

What is interesting is that these technically-driven traders will often argue their points by borrowing from the other branches of bearishness. For example, traders will say that the market is over-valued and high oil prices will be the catalyst to knock the economy and markets back down. They are trying to back up their technical analysis with some fundamental fear.

Nonetheless, with so many clamoring for a correction, should investors expect one? And, if so, should they trade it?

Our advice to investors is that they should ignore all this talk about a correction. Last August and September is the perfect example. The stock market was getting slammed. All three branches of the bears were standing on their hind legs, growling loudly and beating their chests. Short-sellers made tremendous profits.

But then the stock market turned around on a dime when no one expected it to. Even though the bears have remained bears, the market had a huge October and then continued on its merry way to new post-crisis highs. Investors who sold in August or September have paid a huge price.

There may be a trader who can capture all of this, but in the end, the history of America is clear. Bears make money every once in a while, but it's the long-term bulls, who believe in the steady progress of technology and wealth creation, that make money most consistently. Don't bet on a correction.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-28 / 7:30 am	Durable Goods - Jan	-1.0%	**-1.3%**		+3.0%
7:30 am	Durable Goods (Ex-Trans) - Jan	+0.0%	**+1.4%**		+2.2%
9:00 am	Consumer Confidence - Feb	63.0	**63.5**		61.1
2-29 / 7:30 am	Q4 GDP Second Report	2.8%	**2.7%**		2.8%
7:30 am	Q4 GDP Chain Price Index	0.4%	**0.4%**		0.4%
8:45 am	Chicago PMI - Feb	61.8	**61.8**		60.2
3-1 / 7:30 am	Personal Income - Jan	+0.4%	**+0.8%**		+0.5%
7:30 am	Personal Spending - Jan	+0.4%	**+0.4%**		+0.0%
7:30 am	Initial Claims - Feb 25	355K	**355K**		351K
9:00 am	ISM Index - Feb	55.0	**54.6**		54.1
9:00 am	Construction Spending - Jan	+0.8%	**+1.3%**		+1.5%
sometime	Domestic Auto Sales - Feb	5.2 Mil	**5.3 Mil**		5.2 Mil
during the day	Domestic Truck Sales - Feb	5.7 Mil	**5.7 Mil**		5.7 Mil