

Dramatic market swings reflect economic uncertainty and slow recovery

By [Joe Taschler](#) of the *Milwaukee Journal Sentinel*, May 16, 2010

77% of large companies in the S&P 500 reported first-quarter earnings that exceeded analysts' expectations. They made 51% more on average than the same period last year.



Source: Bloomberg News, Journal Sentinel
[Click to enlarge](#)

Anxious about all the wild swings in the stock market lately?

Get used to it, economists and investment pros say. We could be stuck in this pattern for months, or even years, because the American economy is in choppy, uncharted waters.

While many big companies are on the rebound, small businesses still are searching for certainty - and unemployment remains stuck near an ugly 10%. Globally, the picture is just as murky.

As turnarounds go, this one isn't for the faint of heart.

"There's so many pieces of the puzzle," said Sara Walker, senior vice president and investment officer at Associated Wealth Management in Milwaukee. "It reads like a mystery novel. But it's frustrating. You're faced with these competing worlds and these competing viewpoints and competing situations where you've got one segment thinking everything's great and another one very, very worried."

On Friday, the Dow fell 162.79 points to 10,620.16, its 11th triple-digit move in the last 15 trading days. The main culprit this time: lingering worry about whether Europe's bailout of Greece and several other countries will threaten the global recovery.

In the United States, the implications of stock market volatility are huge. More than half of all American families have direct or indirect stock market investments in such things as 401(k) accounts and college savings funds, according to the Federal Reserve. The market's whiplash is certainly affecting the way they look at the economy and their spending.

"It is a sluggish, tentative recovery. It's not a broad-based recovery," said Brian Jacobsen, chief portfolio strategist at Wells Fargo Advantage Funds and associate professor of economics at Wisconsin Lutheran College. "Oftentimes you would think that a rising tide or a rising economy would lift all boats or all people's income, but that's not the way that it's working this time."

So while the phones are ringing again at [Helsan Development](#) in Germantown, loggers are logging again in the North Woods and locomotives are pulling more freight on the Wisconsin & Southern Railroad, spending and hiring are muted.

"We don't see this real surge like we have seen in the past coming out of this recession," said Danny Goeman, chairman and CEO of Goeman's Wood Products in Hartford. "This is the third or fourth time I've gone through one of these. Other times when it spun around, man, you got busy and it grew by the month. It's not growing by the month. We came back to a certain level and now it's just sort of stagnant. There isn't that steady growth."

The company is a bit of a bellwether because it makes wooden pallets and specialty wood shipping crates. "Pallets move the world," Goeman said. "When people are buying pallets, they're building product."

And right now, business is mediocre.

"As far as I am concerned, and a lot of the people that I've talked to, they keep saying school is out on whether this is really a turnaround or not - if it's here to stay," he said. "Everybody's taking it very, very cautiously. We're not spending a lot of money. I'm not buying a lot of new equipment. I'm not hiring new people. We are making do with what we've got."

Large businesses are faring much better now, Walker said, because they have better access to credit and lower operating costs thanks to the cuts they've made. Among the companies in the S&P 500 that had reported quarterly earnings as of May 6, more than three-quarters exceeded analysts' expectations. On average, they made 51% more in the first quarter this year than in the same period last year.

"You don't see numbers like that," Walker said. "To have 77% beat those expectations is unbelievable.

"But then you have small businesses, which employ most of us - they're very nervous and they're not feeling the love big companies are feeling."

That nervousness is reflected in the ups and downs of the stock market, which in turn has an impact on the economy.

The S&P 500 index has seen swings this month, ranging from a 4.4% jump on Monday to a 3.24% drop May 6.

"To an extent, it does impact people's expectations," Jacobsen said.

It's called the wealth effect. If your 401(k) suddenly doubles in value, your confidence to spend grows. If it loses half its value, you rein things in.

"That's where you would expect to see the most impact from stock market volatility," Jacobsen said. The impact is seen more on "longer-lived assets like a boat, like a car, like a home - bigger-ticket items."

The good news is that someday this will all be over with.

"In hindsight, it never looks as bad as it did when you were going through it," Jacobsen said. "You do have to keep it in perspective. It's really easy to fixate on those day-to-day fluctuations and think that nothing will ever change."

Survival

In the meantime, survival has become the operative word for Jennifer Miller, vice president of Helsan Development.

"We know we'll be fine in the future," Miller said. "We just need to get through this period of time, just like everybody else.

"We're surviving," she said. "We're hoping it turns sooner than later. We're prepared for the fact that it will take a little while for people to get their confidence level up."

Like Goeman, her company has seen activity pick up.

"We had kind of an increase in phone calls maybe a couple months ago," Miller said. "None of them are actually pulling the trigger."

It's pretty much the same in the North Woods, said Henry Schienebeck, a third-generation logger and executive director of the Great Lakes Timber Professionals Association in Rhinelander.

"We're just struggling out here, just barely getting by," Schienebeck said. "We're not seeing the profit margins that we should be seeing to replace our equipment in a few years. It kind of keeps people on edge a little bit."

Uncertainty is a major part of the situation, he said.

"The lumber industry is picking up a fair amount, but we're not sure it's because everybody let their inventory get so doggone low or there is actually some movement out there in the building industry that's helping to pick things up a little bit," Schienebeck said.

At Kreilkamp Trucking in Allenton, "we're certainly adding people" to meet an uptick in demand, said company president Tim Kreilkamp, the fourth generation of the family to lead the company. "We're just happy that the phones are ringing again.

"It's not going to be an easy road, but it is improving," he said.

Once the uncertainty begins to ebb, things will turn around, Associated's Walker said.

Her advice to investors now?

"Don't do anything rash," she said. "Don't feel you have to do something just because of all this volatility. Quite often the best answer is to do nothing."