Written by **Bob Adelmann** on June 9, 2015

Stock Market Wipes Out All Gains for the Year

On Monday, June 8, the Dow Jones Industrial Average (DJIA) declined by enough to wipe out all gains investors thought they had made in stocks since January 1. It was confirmed by action in the Dow Jones Transportation Index (DJTA), which is even older than the Dow and reflects the price performance of the stocks of 20 transportation companies such as Avis, Delta Airlines, and FedEx. On Monday that index fell by two percent, its worst day since January 6, bringing that index to a loss of nearly 11 percent from its high earlier in the year.

The decline in the Dow was further confirmed by the Dow Jones Utility Average (DJUA), which tracks the stock price performance of companies such as American Electric Power, Consolidated Edison, and PG&E. It is down more than 16 percent from its high earlier in the year.

Analysts such as Bruce Bittles, chief investment strategist at RW Baird, which manages more than $100 billion for its clients, are getting nervous. Said Bittles, “The technicals are deteriorating and monetary conditions are deteriorating.” He is specifically watching to see if the S&P 500 Index breaks below 2070 (at this writing it is at 2082), which would add further confirmation to the decline in the Dow.

To many analysts such as Bittles, the Dow is a “leading indicator” for the economy, as it anticipates the performance in the overall economy by about six months. But it is just one indicator. Robert Shiller, considered to be one of the top economists in the world, has created his own: the CAPE ratio. At the moment Shiller’s CAPE ratio is 27. The only times it has been this high or higher were in 1929 (just before the start of the Great Depression), 2000 (just before the Dot Com bubble burst), and in 2007 (just before the start of the Great Recession).

Doug Short, another highly regarded veteran who has been watching the markets for over 25 years, has also developed a proprietary index combining four valuation indicators, which shows stocks have been more overvalued only one other time in U.S. history than they are now.

Until the tumble, the market has been driven higher partly due to investors’ excessive exuberance, as measured by their willingness to borrow to buy stocks. Called margin debt, it has just set a brand new all-time record high. As Michael Snyder, blogger at the Economic Collapse Blog, explains:

> As margin debt grows, collective buying power grows. The borrowed money funds new stock purchases, which helps drive the prices of those stocks higher. The higher prices, in turn, allow traders to borrow more money to fund additional purchases…. It’s a self-reinforcing cycle.

But it’s not a one way street, says Snyder: “The trouble is that it’s a self-reinforcing cycle on the way down, too.”

Customers of Germany’s Deutsche Bank received this unnerving note in the last few days:

> At issue is whether or not the Fed in particular but the market in general has properly understood the nature of the economic problem. The more we dig into this, the more we are afraid that they do not. So aside from a data revision tsunami, we would suggest that the Fed has the outlook not just horribly wrong, but completely misunderstood.

This gloomy outlook has been punctuated in recent days with reports of sharp declines in factory and consumer goods orders that have never happened before outside of a recession. Corporate profits have fallen for two quarters in a row while the nation's Gross Domestic Product (GDP) declined by 0.7 percent in the first quarter of the year.

The average new car loan has now set a record of 67 months with nearly a third of them stretching payments out from 73 to 84 months. Used car loans are also setting similar unnerving records, with one out of six loans stretching payments out for six and seven years.

With the major stock, transportation, and utilities indexes wiping out whatever gains investors thought they had made this year, coupled with weak economic numbers coming in from across the board, the DJIA's reputation as a leading indicator for the economy is likely to remain firmly in place.

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