DJ Bull Market's Five-Year Anniversary, in Five Charts -- WSJ Blog

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By Steven Russolillo

With the bull market's five-year anniversary less than a week away, it's time to take stock of the rally and how much longer it can continue on its recent trajectory.

The S&P 500 surged 173% from the bear-market bottom on March 9, 2009 through Monday's close (it rose again Tuesday and is poised to close at another record high). When compared to other bull markets at their five-year points, the current rally is the second-best performer since World War II, according to Jeffrey Kleintop, chief market strategist at LPL Financial.

As Mr. Kleintop's chart below shows, the only rally that performed better was the S&P 500's 228% surge from August 1982 through August 1987, which ended that year on Black Monday.

Considering the magnitude by which stocks have rallied over the past five years, the big question confronting investors is how much longer will the bull market continue. For clues, Mr. Kleintop looks at a variety of measures, including to fund-flow data and valuations, which suggest the S&P 500 could keep rallying in the years ahead.

Investors tend to buy stock funds when they feel confident in the rally. As the chart below shows, inflows picked up last year, but they still have a long way to make up for all of the cash that poured out of the market from 2008 through 2012.

Then there's the phenomenon known as performance chasing, which could add further fuel to the rally. The five-year trailing annualized return for the S&P 500 had been weak up until the second half of last year, Mr. Kleintop said.

In August 2013, the difference between stocks and bonds with regard to their five-year annualized performances was only about 2%, Mr. Kleintop said. By November, that gap widened to double digits and recently ballooned to about 20%, "reflecting not only a strong recent gain in the stock market, but the dropping off of much of the horrific declines in the fall of 2008, when the financial crisis took hold," he said.

So, what's next? "Many investors who avoided stocks during much of the past five years did so because they thought stocks may not ever again produce gains like they did in the 20th century," Mr. Kleintop said.

Based on the chart below, he forecasts the S&P 500 will continue rising at a mid-to-high single-digit annualized pace over the next decade, not including dividends.

"Even though this is likely to come with volatility including a possible recession and bear market along the way, this performance would be substantially better than the next 10 years of low single-digit gains of 2% -- 3% suggested by current values for bonds," Mr. Kleintop says.

"New investors in the stock market and those that have participated for many years can take heart. While a great five years of stock market performance is now behind us, we have the potential for a good 10 years to look forward to based on predictive relationships that have withstood the test of time," Mr. Kleintop added.

More at The Wall Street Journal's MoneyBeat blog, http://blogs.wsj.com/moneybeat/

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