Up and Down Wall Street—BARRON'S

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Wait Till Next Year

By ALAN ABELSON |

Two respected readings of investor sentiment show the spread between bulls and bears is declining.

In numerous ways, it was a very instructive week. Not the least of the minor epiphanies it bestowed on us was how to stop cold a rally in the stock market -- just Google it. Something else we were unaware of but must credit Mitt Romney for is the proper place for women who are afflicted by the political itch -- put them in a binder where they can't scratch so much.

And with the Major League Baseball playoffs in full swing, it's uniquely timely to pass along a priceless dollop of advice from the field of dreams relayed to us by reader Edd McDermott: "Always go to other people's funerals. Otherwise, they won't come to yours." Oh, and a funny thing happened to the New York Yankees and their $200 million payroll: they overslept and missed the World Series.

Google (ticker: GOOG) earnings were disappointing, but what mightily magnified the shock and sent it some 68 points lower faster than you can say "oops!" was that they were inadvertently released early instead of as planned after the close. Kudos to the printer, R.R. Donnelley (RRD), which bravely raised its corporate hand when it was asked whose fault it was, citing that old culprit "human error," causing computers the world over to breathe a sigh of relief.

In case you're not a computer but just a plain-vanilla investor who happened to own a share or two of Google, you might take some comfort from the reassurance by one analyst who follows the company that the unexpected profits shortfall was not "thesis changing. " Or you might not. Thesis, shmethis, a more than $60-a-share loss, give or take a few bucks, still hurts.

In a market tutored to look on the bright side of everything no matter how gruesome, every mistake short of calamity tends to be rationalized away. And we suppose you might find a smidgen of consolation in the fact that the Street may have gagged over Google atop the soggy report from the likes of IBM (IBM) and Intel (INTC), to say nothing of Microsoft's (MSFT) uninspiring results, retreat by equities as a whole did not metamorphose into rout. Perhaps we should append to that last sentence a phrase that reads, "at least not yet."

Nothing about the stock market is written in stone, least of all the direction at any given time that notoriously fickle beast decides to go in. On that score, among the least unreliable indicators is the mood of investors. That admittedly slippery yardstick pretty much depends on the notion that the crowd is usually wrong (a logical premise, since otherwise most everyone would do nothing but invest and get rich).

One simple but not infallible way to determine investors' mood is by keeping an eye on the weekly readings of Investors Intelligence and the American Association of Individual Investors. In the latest soundings of advisory sentiment by Investors Intelligence, bulls still outnumbered bears by 42.6% to 26.6%, with the rest sitting on the fence. However, the spread between the optimists and the pessimists has been narrowing significantly from the 29.7% gap a month earlier, an encouraging trend. The latest AAII numbers (which are given to wide swings) weighed in at 44.6% bearish and 28.7% bullish.

While such soundings still haven't reached extreme levels and there's obviously still plenty of room for the market on the downside, let the blue chips fall as they may, sentiment argues that we're not on the cusp of Armageddon.

IN THE LATEST LEVY FORECAST, David Levy, who has been right on the money in his prediction of diminishing gains in corporate earnings this year, raises the possibility that profits will suffer an outright decline in this quarter and, in any case, are destined to dash Wall Street's inflated expectations. He's chary of next year because he fears that external risks and the threat of the fiscal cliff might prompt a slackening of inventory investment, deteriorating equipment outlays, and stagnating nonresidential construction.

The only improvement he can spot in the current outlook for 2013 is that the U.S "has not plunged into recession hand-in-hand with the rest of the world," so there just might still be hope (where have we heard that word before?) that "political and economic developments can spare the global economy another downturn." Recognizing that's a rather vague thing to hang hope on, David stresses that no one should feel at ease about next year.

Among the reasons for monitoring carefully what's happening in the world is that so much of this small planet we inhabit is in peril. Europe is still listing badly, struggling to achieve a degree of stability and making some effort to reduce deficits. Asia, he notes, shows no sign of an impending rebound, and that includes China (contrary to the usual dubious data cooked up by Beijing to put a good face on the new regime, we might interject), which indeed, David feels, may be mired in "a deeper and longer-lasting economic correction than at any time in its history."

Back home, we still face a fiscal drag, "albeit," David believes, "nowhere near the half-trillion in cuts at stake," at a time when some key segments in the private sector are dragging and consumers remain under pressure to continue to deleverage.

All the while, he avers, global economic conditions will subject the world population in 2013 to more duress. Unemployment, depressed income, and quite possibly higher food and energy costs will fan the flames of political instability in the emerging-market countries and, conceivably, in some of the weaker sisters in the euro zone as well.

After enumerating the daunting challenges facing us and just about everyone else on earth, David ends his analysis on an upbeat note as he gauges our longer-term outlook.

We're in a better position, he asserts, for the long run than are most other major economic powers. The U.S., he declares, "is improving its manufacturing competitiveness, containing its depression, cleaning up private balance sheets, developing greater energy independence. and enjoying a new advantage as it begins to exploit cheap natural gas. Furthermore, the people and government of the U.S. have withstood all kinds of military, political, and economic challenges without collapsing or losing their free markets or culture of innovation. The European Union, China, India, Russia, and Brazil have not proved to have the same resilience."

So now all we have to do is figure out how to get there from here.

CONSIDER THIS A RESPECTFUL APPRECIATION of another member of the talented Levy family, David's father, S. Jay Levy, who died earlier this month.

Over what was it? -- five? six decades? -- Jay graced the pages of *Barron's* with his extraordinary financial insights and his uncanny ability to call critical turning points in the economy. His unorthodox approach and his wonderfully oblique sense of humor moved the late Bob Bleiberg, *Barron's* formidable editor and the soul of the magazine for more years than we can remember, to dub Jay as the "doughty maverick," and he was that and so much more

Jay had the truly rare knack of making the dismal science graspable, even exciting to ordinary lugs like us.

He was blessed with a remarkable intelligence and an unfailing ability to expound his point of view without burdening it with the usual impenetrable mathematical formulae that served mostly to demonstrate that the economist doing the math had successfully completed a course in freshman algebra.

It was always fun to argue with Jay even when, as it was most of the time, he got the better of the argument. We recall, for example, taking issue with Jay about a report on productivity. With his usual smile, he slyly asked how we measured the productivity of a master violinist playing Beethoven. That still stumps us.

Jay launched the Industry Forecast (the original name of the Levy Forecast) back in 1949. That was a time when economists by the bushel were scaring the heck out of anyone who would listen with predictions that the Depression lurked right around the corner.

Jay had the bizarre notion of sizing up profits and then publicly exulting that the country was poised not for a return of the Depression but quite the opposite: a big postwar economic boom. And, of course, he was right.

Jay swapped info and perspective with his brother Leon, an old buddy of ours and a legendary investor. David officially took over the forecasting center in 1991 but until recently Jay continued in an active role as a sort of senior counsel.

We'll always remember him as someone who not only enriched our knowledge, but as one of the most generous and decent souls we've had the great good fortune to befriend.