Dow closes above 15,000 for first time; what next?

BERNARD CONDON - AP Business Writers - Associated Press

The Dow Jones industrial average closed above 15,000 for the first time Tuesday.

An improving outlook for the economy and record corporate earnings are persuading investors to buy stocks. Federal Reserve stimulus is also helping.

The Dow has gained 15 percent this year. It has more than doubled since hitting a bottom at 6,547 on March 9, 2009 during the Great Recession.

Now that stocks have scaled these heights, what's next? Four market experts give their views.

THE BULL: James Paulsen, chief investment strategist at Wells Capital Management.

Paulsen thinks stocks can go a lot higher. Paulsen says investors are shedding their fear following the stock market slump that accompanied the Great Recession. He keeps a close watch on a key figure called the price-earnings ratio, a measure of how much investors are paying for stocks relative to a company's earnings per share.

Investors are now paying an average of 15.7 times earnings over the past 12 months. Paulsen says that ratio could climb as high as 20 times, as long as the economy doesn't fall into recession.

"We don't need rapid earnings growth, we just need more confidence," says Paulsen. "If the recovery persists, and we keep inflation under control, (price-earnings ratios) could continue to expand over the next five years."

"This is just one inning, in what might be a long game yet."

THE SKEPTIC: Michael Lewitt, chief investment officer of Credit Strategy Advisory Group, a money manager in Boca Raton, Florida

Lewitt is optimistic in the short run but bearish over a longer period. He worries that investors are just buying stocks because they expect the Fed to keep stimulating the economy and that they don't have as much fear as they should. One sign: They are borrowing 28 percent more than they did a year ago to finance their stock trades, and now have a near-record amount of debt, according to Bank of America Merrill Lynch figures.

"Valuations are not high, but they're fully valued. (Stocks) could very well keep going up. The economy is sluggish. We're growing at 2 percent. So the Fed will continue doing what it has been doing, and that frees investors from fear. But this isn't sustainable. ...I've told people they should be taking profits."

THE BEAR: Uri Landesman, president of Platinum Partners, a New York-based investment company.

Stocks are poised for a decline, having risen too far, too fast, says Landesman. Investors, encouraged by the ongoing stimulus efforts of the central bank, led by Fed Chairman Ben Bernanke, are starting to think that stocks are a one-way bet.

Landesman thinks investor confidence is more fragile than it appears. The catalysts for a sell-off, he says, could be anything from disappointing earnings news to weak economic data, either from the U.S. or overseas.

"You're getting to a point where there is too much bullishness," says Landesman. "This market is expensive. It's discounting no bad news and I think there's a reasonable chance that at least fifty percent of the news is going to be bad."

"There is just so much momentum behind this market, what I probably underestimated was just how much confidence people are gaining because the central bank is pumping so much liquidity into the market. There really is no reason to sell with Uncle Ben putting a safety net under you, and that's a very powerful force."

"You are going to be looking at five to six months of lean times, but I can't tell you honestly what day that is going to start."

THE ORACLE: Warren Buffett, chief executive of Berkshire Hathaway and stock market guru.

Warren Buffett said on CNBC Monday that he never knows where the stock market will go in the short term, but he remains confident stocks will continue moving higher in the long run.

"The retention of earnings by American industry, the growth of the country will cause stocks to go higher over time," Buffett said. "You're not getting everything out of stocks in terms of the dividends they pay compared to the earnings. That retention builds it up. It's exactly like if you had a savings account and you only took out part of your interest, your savings would grow."

Instead of paying attention to when stocks are rising to records, investors should pay attention to when stocks are falling past important milestones, Buffett says.

"That's when stocks are getting cheaper. That's when stocks are going on sale."

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