

Stock Market Too Giddy for its Own Good

Posted by: Mara Der Hovanesian on June 24, 2009

Get real—pleads Mauro Guillen, director of the prestigious Lauder Institute at the Wharton School at the University of Pennsylvania. Guillen told me in a recent phone conversation that while the worst of this financial crisis is probably behind us, that doesn't mean we're out of the woods. "I don't want to become another Dr. Doom," he says. "But we are living in a fantasy. The stock market has gotten way ahead of itself."

For those of you who haven't noticed: The three major stock market indices have soared since March 6. The Dow Jones 30 is up 39%; the S&P 500 has risen 35% and tech stocks have gained 41%.

Those increases are predicated on an outlook that says happy days will be here again--and soon. But annual economic growth of 3% to 4% may not be in order for years, says Guillen, and unemployment is surely going to get worse. The financial system is still clogged with toxic assets and the plan to rid the banks of them with bailout funds and private capital hasn't been hammered out yet.

"It's unrealistic to say that events such as those that unfolded last September could repeat themselves, but we're lucky if we'll get to 1% growth by 2010," adds Guillen. "It's not going to be the end of the world, but we have to be realistic," he says, about pegging our expectations on either extreme. "GDP of 1% is not enough to bring about the economic performance that is going to make us happy."

In other words, the quick fix that the stock market seem to banking on just isn't going to happen. And government isn't going to solve all our ills. Guillen says the economic downturn will last longer than some bulls have been forecasting, and the recovery will be slower. In fact, he's also critical of political leaders worldwide for not communicating the depth of the crisis and that standards of living will decline before they rise again. Politicians, he says, should be asking citizens to "expect sacrifices."

Of course, that may be the most unrealistic notion of all: Since President Kennedy's inaugural speech, we've been waiting for Americans to search themselves and ask what they can do for their country. What this crisis seems to have underscored is that we have become a citizenry—both corporate and otherwise—that banks on what the country can do for us.