

Irrational exuberance behind recent stock gains, says finance expert

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A second straight week of stronger-than-expected third quarter earnings from a broad cross section of U.S. industries has held the nation's Dow Jones Industrial Average above the psychological benchmark of 10,000 points for the week of Oct. 19, but the climb isn't likely to last, says a finance expert at the University of Alabama at Birmingham (UAB).

Assistant Professor of Finance Andreas Rauterkus, Ph.D., says the current levels of the major U.S. stock indices are unquestionably inflated. Rauterkus says the gains are a rubber band-like snap reaction from investors to the market lows of March.

"There is no doubt that the current market levels are the result of the irrational exuberance of investors who were stuck on the sidelines for many months while the country's economy collapsed," Rauterkus says. "Many investors now are back into the market and buying up shares on the kind of news that under more stable conditions would not justify a run up of stock buys."

Rauterkus says he expects the market to reset itself as early as the end of the current earnings season as investors look to take profits from the Dow's climb back to 10,000.

"I think it is wrong to interpret current earnings reports as great news because all that these companies have done in the third quarter is exceed extremely low expectations," he says. "It's like a student earning a grade of D instead of D-minus on a test, neither one is particularly good."

"So, I believe the [market](#) is likely to pull back," Rauterkus says.
"Certainly not to anywhere near the lows of earlier this year, but the adjustment could be a noticeable."

Rauterkus also expresses concern over the continued weak performance of the U.S. dollar and growing international worry about its role as the international reserve and commodities currency.

"The dollar has lost its one-time title as the world's most reliable currency, which is driving up the prices of commodities like oil at a time when consumers cannot take much higher prices on anything," he says.
"It is clear based on the performance of the dollar over recent months that the U.S. is slipping from its status as the world's lone dominant economy, and many up-and-coming nations like Brazil and China will have a growing voice and role in international finance."

Source: University of Alabama at Birmingham ([news](#) : [web](#))

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